FY 2017
Economic & Revenue Outlook

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Receipts Overview

Receipts Overview

The Economic and Revenue Outlook is a volume designed to enhance the presentation and transparency of the FY 2017 Executive Budget. The book provides detailed information on the economic and receipt projections underlying the Executive Budget. The economic analysis and forecasts presented in this volume are also used in the development of the expenditure projections where spending trends are impacted by economic conditions.

Financial Plan receipts comprise a variety of taxes, fees, charges for State provided services, Federal grants, and other miscellaneous receipts. The Economic and Revenue Outlook includes receipt information required by Article VII of the State Constitution and Section 22 of the State Finance Law and provides information to supplement extensive reporting enhancements undertaken in recent years. The Division of the Budget (DOB) believes the information will aid the Legislature and the public in fully understanding and evaluating the economic assumptions and receipts estimates underlying the FY 2017 Executive Budget. The receipt estimates and projections have been prepared by the Division of the Budget with the assistance of the Department of Taxation and Finance and other agencies concerned with the collection of State receipts. To the extent they are material, sources of receipts not referenced in this volume are discussed in the presentations of the agencies primarily responsible for executing the programs financed by such receipts. The Economic, Revenue and Spending Methodologies are available at the Division of the Budget's website at www.budget.ny.gov. The Methodology volume provides a comprehensive review of the methods used in determining the economic and tax receipt projections.

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

- Financial Plan Receipts and Projections: Provides a summary of Financial Plan receipts for the current year and the FY 2017 Budget year by tax category and fund type.
- FY 2017 Revenue Actions: Summarizes the revenue actions proposed with the FY 2017 Executive Budget.
- Economic Backdrop: Provides a detailed description of the Division's forecast of key economic indicators for the national and New York State economies.
- Comparison of New York State Tax Structure to Other States: Compares the New York tax structure and burden to other states.
- Tax Receipts Explanation: Provides a detailed report for each tax and miscellaneous receipts source describing historical receipts and projections for the current and upcoming budget years, the impact of legislation proposed with the FY 2017 Executive Budget, and significant legislation that has been enacted.
- Dedicated Fund Tax Receipts: Provides a report on dedicated tax receipt estimates, with an emphasis on transportation-related dedicated taxes.
- Audit and Compliance Receipts: Provides data and analysis to better understand receipts collections.

Economic Outlook

At six and a half years old and counting, the U.S. economic expansion already clocks in as the fourth longest postwar expansion on record, with no end yet in sight. But despite its length, this expansion remains the weakest in recent history, a fact that is unlikely to be altered in 2016. The Budget Division outlook for this year calls for the same subpar pace of growth that has characterized this expansion from the start. The most recent high-frequency data indicate an extremely weak fourth quarter, which along with an inventory overhang, likely carried over into early 2016. Average annualized quarterly growth in real U.S. GDP of less than 2 percent is expected for the fourth quarter of 2015, with quarterly growth gradually improving over the course of this year, but remaining below 3 percent throughout the forecast period. The Budget Division projects growth of 2.3 percent for 2016 on an annual average basis, following growth of 2.5 percent for 2015.

As has been the case over the last few years, private domestic demand has outpaced that of both the public and foreign sectors. An improved labor market and rising home and equity prices all contributed to a strengthening in household spending. Real household spending growth of 2.7 percent is projected for 2016. The global economy outside of the U.S. remains weak despite the aggressive efforts of foreign central banks to stimulate growth. As a result, real export growth of less than 3 percent is projected for 2016. In addition, low oil prices are expected to continue to put pressure on the nation's domestic energy industry, which shed tens of thousands of jobs in 2015. Consequently, another year of tepid business investment in plant and equipment is expected this year.

With the recent decline in the price of oil now largely in the rearview mirror and domestic energy production starting to contract, prices are not expected to remain below $40 per barrel indefinitely, though weak global growth and geopolitical dynamics should prevent more than a modest rise in oil prices over the course the of year. Moreover, five years of average monthly private sector job gains of above 200,000 is finally translating into wage gains. Consequently, consumer price inflation is expected to tick up from 0.2 percent in 2015 to 1.8 percent this year. Against this backdrop of moderate growth and relatively low inflation, the Federal Reserve path toward interest rate normalization is expected to be quite gradual.

New York's private sector labor market continues to enjoy well-above historical average job growth. State job growth continues to be led by construction, professional and business services, leisure and hospitality, and education. Domestic and international tourism remain robust, while the State's commercial and residential real estate markets remain strong. The strong dollar remains a risk to the momentum in these sectors given the strong foreign participation in both markets, though any impact is likely to be concentrated in the luxury segment. Moreover, we expect much of that risk to be offset by the impact of lower energy costs on domestic purchasers. State private sector job growth of 1.5 percent is projected for 2016, following estimated growth of 2.1 percent in 2015. Virtually flat growth in government jobs results in slightly lower overall job growth of 1.3 percent for 2016.

Equity market prices ended 2015 close to where they began, contributing to relatively flat financial sector revenues. As a result, near flat finance and insurance bonus growth of less than 1 percent is projected for the State fiscal year in progress. But despite a second consecutive year of weak bonus payouts, the State's strong labor market is expected to lift overall State wage growth to 4.2 percent for FY 2016, followed by stronger growth of 4.5 percent for FY 2017. Overall personal income growth of 4.5 percent is projected for FY 2016, accelerating to 4.8 percent for the coming State fiscal year. Although the Budget Division's near-term forecast for State income growth assumes virtually flat financial sector bonuses for the fiscal year in progress and historically tepid growth for FY 2017, the equity market rout observed during the first week of the calendar year highlights the risk surrounding financial market activity and its impact on both the national and State economies.

For further details, please see the Economic Backdrop section on page 24 of this volume.

The Revenue Situation

All Funds estimated tax receipts growth of 5.7 percent in FY 2016 is attributable to:

- Withholding growth of 5.5 percent;
- A tax year 2014 personal income tax settlement characterized by a significant increase in extension payments, due to a prior year base deflated by tax year 2013 Federal tax law changes;
- Below trend sales tax growth resulting from two accounting shifts that served to reduce cash receipts;
- A decline in overall business tax receipts due to a decline in audit collections;
- Another strong year of real estate transfer tax receipts growth, fueled by a shift of real estate closings from FY 2017 into FY 2016 due to uncertainty surrounding the outcome of New York City property tax abatement legislation; and
- Strong estate tax growth due to an atypically large number of payments exceeding $25 million.

All Funds projected tax receipts growth of 3.5 percent in FY 2017 is attributable to:

- Personal income tax growth consistent with the estimated wage and personal income growth discussed above and extension payment growth unaffected by anticipated Federal tax law changes, as in recent years;
- Sales and use tax growth consistent with expected growth in taxable consumption;
- A decline in business tax receipts due to tax cuts;
- A decline in real estate transfer tax receipts resulting from the timing issue noted above; and
- A decline in estate tax receipts attributable to continued phase in of tax cuts enacted in 2014 and a decline in payments in excess of $25 million.

Overall base growth in tax receipts is dependent on many factors. In general, base tax receipts growth rates are determined by economic changes including, but not limited to, changes in interest rates, prices, wages, employment, nonwage income, capital gains realizations, taxable consumption, corporate profits, household net worth, real estate prices and gasoline prices. Federal law changes can influence taxpayer behavior, which often alters base tax receipts. State taxes account for approximately half of total All Funds receipts.

Receipts Overview

The following table displays growth rates for actual and base tax receipts for FY 1993 through FY 2020. The forecast growth rates assume continued economic growth. Should a recession occur prior to FY 2020, one or more of these forecast growth rates could be much lower or negative.

GOVERNMENTAL FUNDS
ACTUAL AND BASE TAX RECEIPTS GROWTH
(percent growth)

State Fiscal Year	Actual Receipts	Base Receipts	Inflation Adjusted Base Receipts
FY 1993	6.1	5.0	1.5
FY 1994	4.3	0.7	(2.0)
FY 1995	0.1	1.5	(0.9)
FY 1996	2.6	3.6	0.7
FY 1997	2.0	2.5	(0.3)
FY 1998	3.7	5.6	3.6
FY 1999	7.2	7.9	6.2
FY 2000	7.5	9.1	6.7
FY 2001	7.9	10.1	6.9
FY 2002	(4.9)	(4.2)	(6.5)
FY 2003	(6.7)	(8.0)	(10.5)
FY 2004	8.2	5.8	3.2
FY 2005	13.4	11.5	7.9
FY 2006	10.2	9.3	5.6
FY 2007	9.7	12.6	9.2
FY 2008	3.7	6.6	3.5
FY 2009	(0.8)	(3.2)	(6.3)
FY 2010	(3.2)	(12.7)	(13.2)
FY 2011	5.6	3.1	1.4
FY 2012	5.6	7.9	4.8
FY 2013	3.1	4.4	2.6
FY 2014	5.1	6.4	4.9
FY 2015	1.9	4.1	3.1
FY 2016*	5.7	5.6	4.8
FY 2017**	3.5	3.8	1.8
FY 2018**	3.6	4.9	2.5
FY 2019**	1.9	4.4	2.0
FY 2020**	4.4	5.2	2.8
	Actual Change	Base Change	Adjusted Base Change
Historical Average (FY 1993 to FY 2015)	4.0	3.9	1.4
Forecast Average (FY 2016 to FY 2020)	3.8	4.8	2.8
Forecast Average (FY 2017 to FY 2020)	3.3	4.6	2.3
Recessions	(3.9)	(7.0)	(9.1)
Expansions	5.7	6.2	3.6

*Estimated Receipts

**Projected Receipts

Receipts Overview

ALL FUNDS RECEIPTS
(millions of dollars)

	FY 2015 Results	FY 2016 Current	Change	FY 2017 Proposed	Change	FY 2018 Projected	Change	FY 2019 Projected	Change	FY 2020 Projected	Change
Personal Income Tax	43,709	47,093	7.7%	49,960	6.1%	51,743	3.6%	52,419	1.3%	54,873	4.7%
Consumption/Use Taxes	15,384	15,641	1.7%	16,194	3.5%	16,869	4.2%	17,469	3.6%	18,013	3.1%
Business Taxes	8,504	8,406	-1.2%	8,018	-4.6%	8,324	3.8%	8,450	1.5%	8,869	5.0%
Other Taxes	2,166	2,613	20.6%	2,124	-18.7%	2,116	-0.4%	2,134	0.9%	2,234	4.7%
Payroll Tax	1,271	1,331	4.7%	1,388	4.3%	1,455	4.8%	1,528	5.0%	1,609	5.3%
Total State Taxes	71,034	75,084	5.7%	77,684	3.5%	80,507	3.6%	82,000	1.9%	85,598	4.4%
Miscellaneous Receipts	29,438	26,035	-11.6%	24,159	-7.2%	24,475	1.3%	25,008	2.2%	24,595	-1.7%
Federal Receipts	48,636	52,328	7.6%	51,133	-2.3%	52,254	2.2%	52,883	1.2%	53,771	1.7%
Total All Fund Receipts	149,108	153,447	2.9%	152,976	-0.3%	157,236	2.8%	159,891	1.7%	163,964	2.5%

All Funds receipts in FY 2016 are projected to total $153.4 billion, an increase of 2.9 percent from FY 2015 results. State tax receipts are expected to increase 5.7 percent in FY 2016. The increase in PIT receipts is due to strong growth from a low prior year base that was influenced by 2013 Federal tax law changes, while the strong growth in other taxes is the result of an atypical number of large estate tax payments as well as strong growth in real estate transfer taxes. The miscellaneous receipts decline in FY 2016 is primarily due to the substantial decline in monetary settlement payments from financial institutions. In addition, the FY 2016 General Fund total includes a $250 million deposit from the SIF reserve release in connection with Workers' Compensation law changes included in the FY 2014 Enacted Budget, which is a decrease of $750 million from the amount of the reserve released in FY 2015. In other State funds, FY 2016 miscellaneous receipts are driven by year-to-year variations to health care surcharges and other HCRA resources, licensing fees associated with commercial gaming, bond proceeds, atypical fines and the phase-out of the temporary utility assessment.

Consistent with the projected growth in the New York economy over the multi-year Financial Plan period beyond FY 2016, the personal income and consumption/use tax categories are expected to grow. Business taxes and other taxes are expected to display near term declines due to tax cuts and reforms enacted in 2014, but resume growth in the long term.

After controlling for the impact of tax law changes, base tax revenue increased 4.1 percent in FY 2015, and is projected to increase by 5.6 percent for FY 2016 and 3.8 percent for FY 2017.

Change from Mid-Year Update

Revised Estimates and Projections

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

	FY 2016				FY 2017			
	Mid-Year Update	Executive Budget	Annual $ Change	Annual % Change	Mid-Year Update	Executive Budget	Annual $ Change	Annual % Change
GENERAL FUND[1]	51,499	52,029	530	1.0%	50,508	50,735	227	0.4%
Taxes	46,132	46,432	300	0.7%	47,961	48,093	132	0.3%
Miscellaneous Receipts	5,367	5,597	230	4.3%	2,547	2,642	95	3.7%
Federal Grants	0	0	0	0.0%	0	0	0	0.0%
ALL FUNDS	153,053	153,447	394	0.3%	154,102	152,976	(1,126)	-0.7%
Taxes	74,817	75,084	267	0.4%	77,895	77,684	(211)	-0.3%
Miscellaneous Receipts	25,937	26,035	98	0.4%	23,850	24,159	309	1.3%
Federal Grants	52,299	52,328	29	0.1%	52,357	51,133	(1,224)	-2.3%

[1]Excludes Transfers

- All Funds FY 2016 receipts estimates have been increased by $394 million from the Mid-Year Update. The increase is largely related to upward tax revisions of $267 million resulting from stronger than expected business and estate tax collections which are slightly offset by decreased personal income tax receipts.

- General Fund FY 2016 receipts have been revised upward by $530 million, reflecting the upward tax revisions noted above in addition to upward revisions in miscellaneous receipts largely associated with newly identified one-time proceeds from financial settlements related to Barclay's Bank, PLC. ($150 million) and Crédit Agricole ($74 million).

- All Funds FY 2017 receipts estimates have been reduced by $1.1 billion from the Mid-Year Update, largely the result of downward revisions to Federal grant projections associated with the timing of Federal Medicaid funding, including funding associated with Federal health care transformation initiatives.

- General Fund FY 2017 receipts have been revised upward by $227 million, largely associated with the tax law changes proposed with this Budget.

Proposed Law Changes

The FY 2017 Executive Budget includes changes to tax law that will:

- Provide tax relief proposals to continue improving New York's business climate;

- Strengthen the State's tax revenue enforcement efforts; and

- Provide simplification for taxpayers.

Receipts Overview

The tax, gaming, and fee policy changes proposed with this Budget are reported in the summary table below.

ALL FUNDS LEGISLATION ($ in millions)*	FY 2017	FY 2018	FY 2019	FY 2020
Personal Income Tax	**18**	**(556)**	**(1,009)**	**(1,108)**
Establish Education Tax Credits	0	0	(150)	(150)
Establish Thruway Toll Tax Credits	0	(113)	(113)	(114)
Provide a Corporate and Personal Income Tax Small Business Tax Cut	0	(276)	(276)	(276)
Extend the Clean Heating Fuel Credit for Three Years	0	0	(1)	(1)
Extend the Credit for Companies who Provide Transportation to Individuals with Disabilities for Six Years	0	0	(5)	(5)
Permanently Extend the Non-Custodial Earned Income Tax Credit	0	0	(4)	(4)
Permanently Extend Tax Shelter Reporting Requirements	18	18	18	18
Convert the STAR Benefit into a Tax Credit for New Homeowners - Credit Portion	0	(98)	(194)	(290)
Convert New York City Personal Income Tax STAR Credit into a State Personal Income Tax Credit - Credit Portion	0	(87)	(284)	(286)
Consumption/Use Taxes	**(2)**	**(3)**	**(3)**	**(3)**
Establish Additional Alcohol Beverage Tax Tasting Exemptions and Production Credits	(1)	(1)	(1)	(1)
Simplify the Taxation of Remarketed Rooms	0	0	0	0
Expand Jeopardy Assessments to the Cigarette and Tobacco Tax	0	0	0	0
Extend the Alternative Fuels Tax Exemptions for Five Years	(1)	(2)	(2)	(2)
Amend State and Local Tax Law for Consistency with Federal Tax Regulations on Aviation Fuel	0	0	0	0
Business Taxes	**(1)**	**(64)**	**(116)**	**(94)**
Establish Additional Alcohol Beverage Tax Tasting Exemptions and Production Credits	0	(2)	(2)	(2)
Enhance the Urban Youth Opportunity Program Tax Credit	0	(30)	(30)	0
Provide a Corporate and Personal Income Tax Small Business Tax Cut	0	(22)	(22)	(22)
Extend the Empire State Commercial Production Tax Credit for Two Years	0	0	(7)	(7)
Authorize Additional Credits of $8 Million for the Low-Income Housing Credit for Each of the Next Five Fiscal Years	0	(8)	(16)	(24)
Extend the Hire-A-Vet Credit for Two Years	0	0	(37)	(37)
Extend the Alternative Fuels Tax Exemptions for Five Years	(1)	(2)	(2)	(2)
Extend the Excelsior Jobs Program for Five Years	0	0	0	0
Amend the State and New York City Corporate Tax Reform Statutes for Technical Amendments	0	0	0	0
Conform to New Federal Tax Filing Dates	0	0	0	0
Other Actions	**6**	**27**	**27**	**27**
Make Permanent and Update Certain Modernization Provisions of the Tax Law	0	0	0	0
Extend Tax Preparer E-File Failure Penalties	0	0	0	0
Authorize Combative Sports	1	1	1	1
Eliminate Charitable Giving as a Factor in Determining Domicile for the Estate Tax	0	0	0	0
Extend Certain Tax Rates and Certain Simulcasting Provisions for One Year	0	0	0	0
Extend the Video Lottery Gaming (VLG) Vendor's Capital Awards Program for One Year	0	0	0	0
Extend Monticello Video Lottery Terminal Rates for One Year	(3)	0	0	0
Amend the Upstate New York Gaming and Economic Development Act for Technical Changes	0	0	0	0
Provide for an Additional Commission for Certain Video Lottery Terminal Facilities	0	0	0	0
Increase Purse Surcharge from 1.0% to 1.6% and Regulatory Fee from 0.5% to 0.6%	2	2	2	2
Adjust Timing of Reimbursement to Gaming Commission of Per Diem Costs for Harness Racing Judge and Starter	0	0	0	0
Remove Restriction for a Single Lab Testing Provider	0	0	0	0
Permanently Extend Waste Tire Fee	6	24	24	24
Redirect DMV Funds to Dedicated Highway and Bridge Trust Fund	0	0	0	0
Total All Funds Legislation Change	**21**	**(596)**	**(1,101)**	**(1,178)**

*Rounded to the nearest million, revenue proposals only.

Personal Income Tax

PERSONAL INCOME TAX (millions of dollars)	FY 2015 Results	FY 2016 Current	Change	FY 2017 Proposed	Change	FY 2018 Projected	Change	FY 2019 Projected	Change	FY 2020 Projected	Change
STATE/ALL FUNDS	43,709	47,093	7.7%	49,960	6.1%	51,743	3.6%	52,419	1.3%	54,873	4.7%
Gross Collections	52,248	56,419	8.0%	59,494	5.5%	62,180	4.5%	63,858	2.7%	67,590	5.8%
Refunds (Incl. State/City Offset)	(8,539)	(9,326)	-9.2%	(9,534)	-2.2%	(10,437)	-9.5%	(11,439)	-9.6%	(12,717)	-11.2%
GENERAL FUND[1]	29,485	31,983	8.5%	34,242	7.1%	35,891	4.8%	36,510	1.7%	38,459	5.3%
Gross Collections	52,248	56,419	8.0%	59,494	5.5%	62,180	4.5%	63,858	2.7%	67,590	5.8%
Refunds (Incl. State/City Offset)	(8,539)	(9,326)	-9.2%	(9,534)	-2.2%	(10,437)	-9.5%	(11,439)	-9.6%	(12,717)	-11.2%
STAR	(3,297)	(3,337)	-1.2%	(3,228)	3.3%	(2,916)	9.7%	(2,804)	3.8%	(2,696)	3.9%
RBTF	(10,927)	(11,773)	-7.7%	(12,490)	-6.1%	(12,936)	-3.6%	(13,105)	-1.3%	(13,718)	-4.7%

[1]Excludes Transfers.

All Funds personal income tax receipts for FY 2016 are projected to be $47.1 billion, an increase of $3.4 billion (7.7 percent) from FY 2015 results. This increase is primarily due to growth in withholding, estimated payments attributable to the 2015 tax year, and extension payments attributable to the 2014 tax year, partially offset by a modest decline in delinquency collections and a substantial increase in total refunds due to a combination of payment timing and the increased cost of the Real Property Tax Freeze credit compared to FY 2015.

Withholding in FY 2016 is estimated to be $1.9 billion (5.5 percent) higher than FY 2015, due mainly to moderate wage growth. Extension payments are estimated to increase by $1.2 billion (34.6 percent), primarily due to strong growth in tax year 2014 nonwage income compared to a weak tax year 2013 base (resulting from 2013 Federal tax law changes). Estimated payments for tax year 2015 are projected to be $768 million (7.4 percent) higher. Final return payments and delinquencies are projected to be $427 million (19.4 percent) higher and $100 million (7.2 percent) lower, respectively.

The following table summarizes, by component, actual receipts for FY 2015 and forecast amounts through FY 2020.

PERSONAL INCOME TAX FISCAL YEAR COLLECTION COMPONENTS ALL FUNDS (millions of dollars)						
	FY 2015 Results	FY 2016 Current	FY 2017 Proposed	FY 2018 Projected	FY 2019 Projected	FY 2020 Projected
Receipts						
Withholding	34,907	36,816	38,675	40,038	41,970	44,333
Estimated Payments	13,743	15,678	16,741	17,854	17,397	18,568
Current Year	10,367	11,135	12,045	12,783	11,880	12,989
Prior Year[1]	3,376	4,543	4,696	5,071	5,517	5,579
Final Returns	2,206	2,633	2,720	2,891	3,034	3,168
Current Year	254	274	280	292	292	292
Prior Year[1]	1,952	2,359	2,440	2,599	2,742	2,876
Delinquent	1,392	1,292	1,358	1,397	1,457	1,521
Gross Receipts	52,248	56,419	59,494	62,180	63,858	67,590
Refunds						
Prior Year[1]	4,961	5,140	5,622	6,877	7,350	8,330
Previous Years	458	648	718	669	694	724
Current Year[1]	1,950	2,250	1,750	1,750	1,750	1,750
Advanced Credit Payment	579	600	756	453	957	1,324
State/City Offset[1]	591	688	688	688	688	589
Total Refunds	8,539	9,326	9,534	10,437	11,439	12,717
Net Receipts	43,709	47,093	49,960	51,743	52,419	54,873

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

The projected increase in total refunds of $787 million (9.2 percent) reflects increases of $179 million (3.6 percent) in prior (tax year 2014) refunds, $190 million (41.5 percent) in previous (tax year 2013 and earlier) refunds, $300 million (15.4 percent) in current (tax year 2015) refunds (due to an increase in the January to March 2016 administrative refund cap to $2.25 billion), $21 million (3.6 percent) in accelerated credit payments related to tax year 2015, and $97 million (16.4 percent) in state-city offsets. The increase in prior (tax year 2014) refunds includes payments attributable to the first year of the Enhanced Real Property Tax Circuit Breaker credit. The increase in advanced credit payments is attributable to the first year of the municipal tax component and the second year of the school tax component of the Real Property Tax Freeze credit, partially offset by the change in payment timing of the Family Tax Relief credit from an advanced payment credit to a "standard" credit.

General Fund PIT receipts are net of deposits to the STAR Fund, which provides property tax relief, and the Revenue Bond Tax Fund (RBTF), which supports debt service payments on State PIT revenue bonds. General Fund PIT receipts for FY 2016 of $32 billion are estimated to increase by $2.5 billion (8.5 percent) from FY 2015 results, mainly reflecting the increase in All Funds receipts noted above. RBTF deposits are projected to be $11.8 billion and the STAR transfer is projected to be $3.3 billion.

All Funds PIT receipts for FY 2017 of $50 billion are projected to increase by $2.9 billion (6.1 percent) from the FY 2016 estimate. This primarily reflects increases of $1.9 billion (5 percent) in withholding, $910 million (8.2 percent) in estimated payments related to tax year 2016, and

$153 million (3.4 percent) in extension payments related to tax year 2015, partially offset by a $208 million (2.2 percent) increase in total refunds. The growth in withholding is the result of projected wage growth of 4.5 percent. The modest growth in extension payments reflects tax year 2015 nonwage income growth that is projected to be substantially weaker than in tax year 2014. The growth in total refunds is largely driven by Family Tax Relief credit payments which, unlike tax year 2014 payments, will not be paid as accelerated credits but as part of the taxpayers' final return. Payments from final returns are expected to increase $87 million (3.3 percent), while delinquencies are projected to increase $66 million (5.1 percent) from the prior year. The FY 2017 Executive Budget proposal to extend tax shelter reporting will increase projected receipts from estimated payments related to tax year 2016 by $18 million.

General Fund PIT receipts for FY 2017 of $34.2 billion are projected to increase by $2.3 billion (7.1 percent). RBTF deposits are projected to be $12.5 billion, and the STAR transfer is projected to be $3.2 billion.

All Funds PIT receipts of $51.7 billion in FY 2018 are projected to increase $1.8 billion (3.6 percent) from the prior year. Gross receipts are projected to increase 4.5 percent, reflecting withholding that is projected to grow by $1.4 billion (3.5 percent) and estimated payments related to tax year 2017 that are projected to grow by $738 million (6.1 percent). The relatively weak growth in withholding is attributable to the scheduled sunset of the current income tax bracket structure at the end of 2017, which includes a decline in the top marginal tax rate from 8.82 percent to 6.85 percent. Payments from extensions for tax year 2016 are projected to increase by $375 million (8 percent) and final returns are expected to increase $171 million (6.3 percent). Delinquencies are projected to increase $39 million (2.9 percent) from the prior year. Total refunds are projected to increase by $903 million (9.5 percent) from the prior year. Legislative proposals included in the FY 2017 Executive Budget reduce current estimated payments related to tax year 2017 by $258 million, and increase total refunds by $298 million.

General Fund PIT receipts for FY 2018 are projected to increase by $1.6 billion (4.8 percent) to $35.9 billion.

All Funds PIT receipts are projected to increase by $676 million (1.3 percent) in FY 2019 to reach $52.4 billion, while General Fund PIT receipts are projected to total $36.5 billion. Projected tempered growth in FY 2019 receipts is due to the aforementioned expiration of the current income tax bracket structure at the end of 2017. The All Funds PIT receipts projection for FY 2019 includes Executive Budget proposals that reduce collections by $1 billion.

Consumption/Use Taxes

CONSUMPTION/USE TAXES (millions of dollars)	FY 2015 Results	FY 2016 Current	Change	FY 2017 Proposed	Change	FY 2018 Projected	Change	FY 2019 Projected	Change	FY 2020 Projected	Change
STATE/ALL FUNDS	15,384	15,641	1.7%	16,194	3.5%	16,869	4.2%	17,469	3.6%	18,013	3.1%
Sales Tax	12,991	13,318	2.5%	13,877	4.2%	14,578	5.1%	15,199	4.3%	15,790	3.9%
Cigarette and Tobacco Taxes	1,314	1,224	-6.8%	1,226	0.2%	1,192	-2.8%	1,151	-3.4%	1,105	-4.0%
Motor Fuel Tax	487	491	0.8%	488	-0.6%	483	-1.0%	478	-1.0%	475	-0.6%
Highway Use Tax	140	155	10.7%	143	-7.7%	144	0.7%	157	9.0%	147	-6.4%
Alcoholic Beverage Taxes	251	254	1.2%	258	1.6%	263	1.9%	268	1.9%	273	1.9%
Medical Marihuana Excise Tax	0	1	0.0%	4	0.0%	4	0.0%	4	0.0%	4	0.0%
Taxicab Surcharge	82	72	-12.2%	70	-2.8%	70	0.0%	70	0.0%	70	0.0%
Auto Rental Tax	119	126	5.9%	128	1.6%	135	5.5%	142	5.2%	149	4.9%
GENERAL FUND[1]	6,691	6,781	1.3%	7,089	4.5%	7,424	4.7%	7,712	3.9%	7,983	3.5%
Sales Tax	6,084	6,220	2.2%	6,483	4.2%	6,816	5.1%	7,109	4.3%	7,386	3.9%
Cigarette and Tobacco Taxes	356	307	-13.8%	348	13.4%	345	-0.9%	335	-2.9%	324	-3.3%
Alcoholic Beverage Taxes	251	254	1.2%	258	1.6%	263	1.9%	268	1.9%	273	1.9%

[1]Excludes Transfers.

All Funds consumption/use tax receipts for FY 2016 are estimated to exceed $15.6 billion, an increase of $257 million (1.7 percent) from FY 2015 results. Sales tax receipts are estimated to increase $327 million (2.5 percent) from FY 2015, resulting from 3.7 percent base (i.e., absent law changes) growth, stemming from moderate projected disposable income growth. Cash results are reduced by (1) an accounting shift from State to local sales tax ($238 million) and (2) agreements between certain mobile telecommunications providers and the State to allow such providers to remit less sales tax for a period in lieu of receiving State refunds due to them under Tax Law Section 184 ($47 million). These agreements resulted from acknowledgement by the Department of Taxation and Finance that a mobile telecommunications provider was not subject to the Tax Law Section 184 franchise tax imposed on them between 2005 and 2014. Cigarette and tobacco tax collections are estimated to decline $90 million (6.8 percent), primarily reflecting large declines in taxable cigarette consumption (particularly in New York City) and cigar tax refunds resulting in part from a nonbinding Administrative Law Judge Determination (Matter of Davidoff of Geneva, Inc.). Motor fuel tax collections are expected to increase $4 million (0.8 percent), reflecting an expected decline in refunds combined with minor growth in gasoline and diesel consumption, partially offset by an expected decline in audit collections. Taxicab receipts are estimated to decline by $10 million (12.2 percent) as the result of consumers choosing alternative transportation services not subject to the tax.

General Fund sales and use tax receipts are net of deposits to the Local Government Assistance Tax Fund (25 percent), and the Sales Tax Revenue Bond Fund (25 percent), which support debt service payments on State sales and use tax revenue bonds. Receipts in excess of the debt service requirements of the funds and the local assistance payments to New York City, or its assignee, are transferred back to the General Fund.

General Fund consumption/use tax receipts for FY 2016 are estimated to total $6.8 billion, an increase of $90 million (1.3 percent) from FY 2015 results. This increase largely reflects the all funds sales, cigarette, and tobacco tax trends noted above.

All Funds consumption/use tax receipts for FY 2017 are projected to be $16.2 billion, an increase of $553 million (3.5 percent) from the prior year. The projected $559 million (4.2 percent) increase in sales tax receipts reflects sales tax base growth of 3.8 percent. Cash receipts are reduced by $178 million due to the agreement noted in the FY 2016 discussion.

General Fund consumption/use tax receipts are projected to total $7.1 billion in FY 2017, a $308 million (4.5 percent) increase from the prior year. The projected increase in sales tax receipts reflects the All Funds trends noted above. The projected increase in cigarette and tobacco tax receipts is the result of an artificially low FY 2016 base created by the cigar tax refunds mentioned earlier.

All Funds consumption/use tax receipts are projected to increase to nearly $16.9 billion (4.2 percent growth) in FY 2018 and to nearly $17.5 billion (3.6 percent growth) in FY 2019, largely representing base growth in sales tax receipts, offset slightly by trend declines in cigarette tax collections.

General Fund consumption/use tax receipts are projected to total over $7.4 billion (4.7 percent growth) in FY 2018 and $7.7 billion (3.9 percent growth) in FY 2019, reflecting the All Funds trends noted above.

Business Taxes

BUSINESS TAXES
(millions of dollars)

	FY 2015 Results	FY 2016 Current	Change	FY 2017 Proposed	Change	FY 2018 Projected	Change	FY 2019 Projected	Change	FY 2020 Projected	Change
STATE/ALL FUNDS	8,504	8,406	-1.2%	8,018	-4.6%	8,324	3.8%	8,450	1.5%	8,869	5.0%
Corporate Franchise Tax	3,548	5,069	42.9%	4,487	-11.5%	4,764	6.2%	4,806	0.9%	5,206	8.3%
Corporation and Utilities Tax	728	767	5.4%	762	-0.7%	757	-0.7%	770	1.7%	783	1.7%
Insurance Tax	1,533	1,557	1.6%	1,484	-4.7%	1,579	6.4%	1,708	8.2%	1,791	4.9%
Bank Tax	1,536	(92)	-106.0%	203	320.7%	190	-6.4%	143	-24.7%	71	-50.3%
Petroleum Business Tax	1,159	1,105	-4.7%	1,082	-2.1%	1,034	-4.4%	1,023	-1.1%	1,018	-0.5%
GENERAL FUND	6,265	6,202	-1.0%	5,776	-6.9%	6,087	5.4%	6,165	1.3%	6,551	6.3%
Corporate Franchise Tax	2,990	4,325	44.6%	3,703	-14.4%	3,945	6.5%	3,944	0.0%	4,307	9.2%
Corporation and Utilities Tax	577	589	2.1%	579	-1.7%	573	-1.0%	578	0.9%	587	1.6%
Insurance Tax	1,375	1,388	0.9%	1,321	-4.8%	1,407	6.5%	1,521	8.1%	1,597	5.0%
Bank Tax	1,323	(100)	-107.6%	173	273.0%	162	-6.4%	122	-24.7%	60	-50.8%
Petroleum Business Tax	0	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%

All Funds business tax receipts for FY 2016 are estimated at $8.4 billion, a decrease of $98 million (1.2 percent) from FY 2015 results. The estimate primarily reflects a decline of $54 million (4.7 percent) in petroleum business tax (PBT) receipts, due to declines in the PBT index rates for 2015 and 2016, and a combined decrease of $44 million among all other taxes.

Corporation franchise tax receipts are estimated to increase $1.5 billion (42.9 percent) in FY 2016, reflecting corporate tax reform, which repealed the bank tax and imposed the corporation franchise tax on former bank taxpayers beginning in tax year 2015. An increase in audit collections accounts for $251 million of this increase.

Corporation and utilities tax receipts are expected to increase $39 million (5.4 percent) in FY 2016. Both gross receipts and audits are expected to increase from the prior year, while refunds are expected to return to historical trends.

Insurance tax receipts are expected to increase $24 million (1.6 percent) in FY 2016. Premium growth from authorized insurers is partially offset by taxpayers incorporating the first year of the tax credit for assessments paid into the Life Insurance Guaranty Corporation (LIGC) into their tax year 2015 final returns/extensions. The LIGC exists to protect policyholders from the insolvency of their insurers. Audits and refunds are also expected to reflect historical trends.

Bank tax receipts are estimated to decrease by $1.6 billion (106 percent) in FY 2016. The decline stems from the movement of tax year 2015 liability payments to the corporate franchise tax and lower audit receipts. Audit receipts are estimated to decline $525 million as several large FY 2015 bank tax cases are not expected to be repeated in FY 2016.

PBT receipts are expected to decrease $54 million (4.7 percent) in FY 2016, primarily due to the 3.2 percent decrease in the PBT rate index effective January 2015 and the 5 percent decrease effective January 2016. These declines are partially offset by minor growth in both estimated gasoline and diesel consumption.

General Fund business tax receipts for FY 2016 of $6.2 billion are estimated to decrease $63 million (1 percent) from FY 2015 results, reflecting the All Funds trends discussed above.

All Funds business tax receipts for FY 2017 of $8 billion are projected to decrease $388 million (4.6 percent) from the prior year. The decline in corporation franchise tax receipts of $582 million (11.5 percent) is the result of the decrease in the business income tax rate from 7.1 percent to 6.5 percent, the first year of the capital tax base phase-out (both effective for tax year 2016) and the anticipated use of prior period adjustments in liability year 2016 for the overpayment of tax year 2015 liability. Many former bank taxpayers that are now taxed under the corporation franchise tax have overpayments that are available to use toward current year liability. The corporation and utilities tax receipts decline of $5 million (0.7 percent) reflects lower telecommunications receipts partially offset by a modest increase in utility tax revenue. Insurance tax receipts are projected to decline $73 million (4.7 percent). Projected growth in insurance tax premiums is more than offset by the first full year impact of the tax credit for assessments paid to the LIGC. Bank tax receipts are projected to increase by $295 million, primarily the result of a reduced number of prior period adjustments. PBT receipts are expected to decline $23 million (2.1 percent) in FY 2017, primarily due to the 5 percent decrease in the PBT rate index effective January 2016 and the projected 5 percent decline effective January 2017. These declines in the PBT rate index are partially offset by projected slight growth in taxable motor fuel consumption and growth in diesel fuel consumption.

General Fund business tax receipts for FY 2017 of $5.8 billion are projected to decrease $426 million (6.9 percent), reflecting the All Funds trends discussed above.

All Funds business tax receipts for FY 2018 and FY 2019 reflect projected trends in corporate profits, taxable insurance premiums, electric utility consumption and prices, the consumption of

taxable telecommunications services, and automobile fuel consumption and fuel prices. All Funds business tax receipts are projected to increase to $8.3 billion (3.8 percent growth) in FY 2018, and increase to $8.5 billion (1.5 percent growth) in FY 2019. General Fund business tax receipts are expected to increase to $6.1 billion (5.4 percent growth) in FY 2018 and $6.2 billion (1.3 percent growth) in FY 2019.

Other Taxes

OTHER TAXES (millions of dollars)											
	FY 2015 Results	FY 2016 Current	Change	FY 2017 Proposed	Change	FY 2018 Projected	Change	FY 2019 Projected	Change	FY 2020 Projected	Change
STATE/ALL FUNDS	2,166	2,613	20.6%	2,124	-18.7%	2,116	-0.4%	2,134	0.9%	2,234	4.7%
Estate Tax	1,109	1,446	30.4%	965	-33.3%	891	-7.7%	855	-4.0%	905	5.8%
Real Estate Transfer Tax	1,038	1,147	10.5%	1,138	-0.8%	1,204	5.8%	1,258	4.5%	1,308	4.0%
Pari-Mutuel Taxes	18	18	0.0%	18	0.0%	18	0.0%	18	0.0%	18	0.0%
All Other Taxes	1	2	100.0%	3	50.0%	3	0.0%	3	0.0%	3	0.0%
GENERAL FUND[1]	1,128	1,466	30.0%	986	-32.7%	912	-7.5%	876	-3.9%	926	5.7%
Estate Tax	1,109	1,446	30.4%	965	-33.3%	891	-7.7%	855	-4.0%	905	5.8%
Pari-Mutuel Taxes	18	18	0.0%	18	0.0%	18	0.0%	18	0.0%	18	0.0%
All Other Taxes	1	2	100.0%	3	50.0%	3	0.0%	3	0.0%	3	0.0%

[1]Excludes Transfers.

All Funds other tax receipts for FY 2016 are estimated to be more than $2.6 billion, a $447 million (20.6 percent) increase from FY 2015 results. This reflects a $337 million (30.4 percent) increase in estate tax receipts and a $109 million (10.5 percent) increase in real estate transfer tax receipts. The estate tax increase is primarily the result of a higher than anticipated number of super large payments (payments greater than $25 million) partially offset by the impact of the FY 2015 Enacted Budget legislation that raises the filing threshold from $1 million to the Federal exemption (currently $5.43 million) over a four-year period. The real estate transfer tax estimate reflects both an increase in the volume of transactions in New York City in the face of uncertainty surrounding the extension of New York City property tax abatement legislation and modest price growth compared to the prior year.

General Fund other tax receipts are expected to be nearly $1.5 billion in FY 2016, a $338 million (30 percent) increase from FY 2015 results, reflecting the increase in estate tax receipts noted above.

All Funds other tax receipts for FY 2017 are projected to be just over $2.1 billion, a $489 million (18.7 percent) decrease from FY 2016. This largely reflects a projected decline in estate tax receipts of $481 million (33.3 percent) due to the continued phase-in of the increased filing threshold, and an expected return to historically normal levels of super large payments. Additionally, real estate transfer tax receipts are projected to decrease by $9 million (0.8 percent) due to a small projected decrease in the volume of transactions in New York City, partially offset by year-over-year price growth. The transaction decline is partially due to a building permit shift caused by the legislation noted above.

General Fund other tax receipts are projected to be just under $1 billion in FY 2017, reflecting the decline in estate tax receipts noted above.

All Funds other tax receipts for FY 2018 and FY 2019 reflect projected trends in household net worth, housing starts and housing prices. All Funds other tax receipts are projected to remain slightly over $2.1 billion in both FY 2018 and FY 2019. General Fund other tax receipts for FY 2018 and FY 2019 are projected to decrease by 7.5 percent and 3.9 percent, respectively, due to the projected decline in estate tax receipts noted above.

Miscellaneous Receipts Federal Grants

MISCELLANEOUS RECEIPTS
(millions of dollars)

	FY 2015 Results	FY 2016 Current	Change	FY 2017 Proposed	Change	FY 2018 Projected	Change	FY 2019 Projected	Change	FY 2020 Projected	Change
ALL FUNDS	29,438	26,035	-11.6%	24,159	-7.2%	24,475	1.3%	25,008	2.2%	24,595	-1.7%
General Fund	8,410	5,597	-33.4%	2,642	-52.8%	2,522	-4.5%	2,561	1.5%	2,390	-6.7%
Special Revenue Funds	16,557	15,365	-7.2%	15,680	2.1%	15,815	0.9%	16,152	2.1%	15,921	-1.4%
Capital Projects Funds	3,961	4,585	15.8%	5,382	17.4%	5,673	5.4%	5,834	2.8%	5,825	-0.2%
Debt Service Funds	510	488	-4.3%	455	-6.8%	465	2.2%	461	-0.9%	459	-0.4%

All Funds miscellaneous receipts include moneys received from HCRA financing sources, SUNY tuition and patient income, lottery receipts for education, assessments on regulated industries, tribal-state compact revenue, monetary settlements and a variety of fees and licenses.

All Funds miscellaneous receipts are projected to total $26 billion in FY 2016, a decrease of 11.6 percent from FY 2015 results. This decrease is primarily due to the loss of one-time monetary settlements described earlier in this Financial Plan. Additionally, the SIF reserve release in connection with Workers' Compensation law changes included in the FY 2014 Enacted Budget decreased by $750 million from the amount received during the prior year. In other State funds, FY 2016 miscellaneous receipts are driven by year-to-year variations to health care surcharges and other HCRA resources, bond proceeds, and the phase-out of the temporary utility assessment.

All Funds miscellaneous receipts are projected to continue to decrease in FY 2017 and remain relatively flat in FY 2018, mainly due to the further loss of one-time monetary settlements, the loss of payments from SIF, and the phase-out of the temporary utility assessment.

FEDERAL GRANTS (millions of dollars)											
	FY 2015 Results	FY 2016 Current	Change	FY 2017 Proposed	Change	FY 2018 Projected	Change	FY 2019 Projected	Change	FY 2020 Projected	Change
ALL FUNDS	48,636	52,328	7.6%	51,133	-2.3%	52,254	2.2%	52,883	1.2%	53,771	1.7%
General Fund	2	0	-100.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Special Revenue Funds	46,531	49,779	7.0%	49,087	-1.4%	50,181	2.2%	50,795	1.2%	51,603	1.6%
Capital Projects Funds	2,030	2,476	22.0%	1,973	-20.3%	2,000	1.4%	2,015	0.8%	2,095	4.0%
Debt Service Funds	73	73	0.0%	73	0.0%	73	0.0%	73	0.0%	73	0.0%

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

All Funds Federal grants are expected to grow to $53.8 billion by FY 2020, reflecting the continuation of growth in Federal Medicaid spending, partly offset by the projected phase-down of Federal disaster assistance aid. All Federal receipts are subject to continuing administration and Congressional authorization, appropriations and budget action.

Revenue Actions

Revenue Actions

The FY 2017 Budget includes a net positive increment of $21 million in FY 2017 All Funds receipts reflecting the revenue actions contained in this budget. The accompanying table summarizes the revenue proposals by type of action required and provides a short description of the proposal, the date that the proposal will become effective, the Fund type where revenue will be deposited, and the incremental revenue gain or loss from the proposed action. This table represents gross revenue adds and reductions without any adjustments for associated spending changes, movements across funds or General Fund spending offsets. For more detailed explanations on these actions, please see The Revenue Actions and STAR section of the Executive Budget Briefing Book.

REVENUE ACTIONS LIST
(millions of dollars)

			General Fund		All Funds	
Agency	Description and Effective Date	Fund Type	FY 2017	FY 2018	FY 2017	FY 2018
Tax Credits						
DTF	Establish Education Tax Credits - 1/1/2017	GFTX	-	-	-	-
DTF	Establish Additional Alcohol Beverage Tax Tasting Exemptions and Production Credits - 1/1/2016	GFTX	(1)	(3)	(1)	(3)
DTF	Establish Thruway Toll Tax Credits - 4/1/2017	GFTX	-	(113)	-	(113)
DTF	Enhance the Urban Youth Opportunity Program Tax Credit - 1/1/2016	GFTX	-	(30)	-	(30)
DTF	Provide a Corporate and Personal Income Tax Small Business Tax Cut - 1/1/2017	GFTX	-	(298)	-	(298)
Tax Simplification Actions						
DTF	Simplify the Taxation of Remarketed Rooms - 6/1/2016	GFTX	-	-	-	-
Enforcement Initiatives						
DTF	Expand Jeopardy Assessments to the Cigarette and Tobacco Tax - 4/1/2016	GFTX/SFTX	-	-	-	-
Tax Law Extenders						
DTF	Extend the Empire State Commercial Production Tax Credit for Two Years - 1/1/2017	GFTX	-	-	-	-
DTF	Authorize Additional Credits of $8 Million for the Low-Income Housing Credit for Each of the Next Five Fiscal Years - 4/1/2016	GFTX	-	(8)	-	(8)
DTF	Extend the Hire-A-Vet Credit for Two Years - 1/1/2016	GFTX	-	-	-	-
DTF	Extend the Clean Heating Fuel Credit for Three Years - 1/1/2017	GFTX	-	-	-	-
DTF	Extend the Alternative Fuels Tax Exemptions for Five Years - 9/1/2016	GFTX/CFTX /SFTX	(1)	(1)	(2)	(4)
DTF	Extend the Excelsior Jobs Program for Five Years - 4/1/2016	GFTX	-	-	-	-
DTF	Extend the Credit for Companies who Provide Transportation to Individuals with Disabilities for Six Years - 1/1/2017	GFTX	-	-	-	-
DTF	Permanently Extend the Non-Custodial Earned Income Tax Credit - 1/1/2017	GFTX	-	-	-	-
DTF	Permanently Extend Tax Shelter Reporting Requirements - 4/1/2016	GFTX	18	18	18	18
DTF	Make Permanent and Update Certain Modernization Provisions of the Tax Law - 4/1/2016	GFTX	-	-	-	-
DTF	Extend Tax Preparer E-File Failure Penalties - 1/1/2017	GFMR	-	-	-	-

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

Revenue Actions

Agency	Description and Effective Date	Fund Type	General Fund FY 2017	General Fund FY 2018	All Funds FY 2017	All Funds FY 2018
School Tax Relief (STAR) Program Actions						
DTF	Convert the STAR Benefit into a Tax Credit for New Homeowners - Credit Portion - 1/1/2016	GFTX	-	(98)	-	(98)
DTF	Convert the STAR Benefit into a Tax Credit for New Homeowners - Spending Savings - 4/1/2016	GFTX	98	194	-	-
DTF	Convert New York City Personal Income Tax STAR Credit into a State Personal Income Tax Credit - Credit Portion - 1/1/2016	GFTX	-	(87)	-	(87)
DTF	Convert New York City Personal Income Tax STAR Credit into a State Personal Income Tax Credit - Spending Savings - 1/1/2016	GFTX	87	284	-	-
DTF	Cap Annual Growth in Basic and Enhanced Exemption Benefit at Zero Percent - 4/1/2016	GFTX	56	112	-	-
DTF	Allow Late Filing of Enhanced STAR Renewal Applications and Senior Exemptions for Cases of Hardship - 4/1/2016	GFTX	(1)	(1)	-	-
DTF	Make Participation in Income Verification Program (IVP) Mandatory - 4/1/2016	GFTX	-	5	-	-
DTF	Authorize the DTF Commissioner to Make Direct Payments of STAR Tax Savings to Property Owners in Appropriate Cases - 4/1/2016	GFTX	-	-	-	-
Technical Corrections						
DTF	Amend the State and New York City Corporate Tax Reform Statutes for Technical Amendments - 1/1/2015	GFTX	-	-	-	-
Other Revenue Actions						
DOS	Authorize Combative Sports - 6/1/2016	GFTX	1	1	1	1
DTF	Amend State and Local Tax Law for Consistency with Federal Tax Regulations on Aviation Fuel - 12/1/2017	SFTX/CFTX	-	-	-	-
DTF	Conform to New Federal Tax Filing Dates - 1/1/2016	GFTX	-	-	-	-
DTF	Eliminate Charitable Giving as a Factor in Determining Domicile for the Estate Tax - 4/1/2016	GFTX	-	-	-	-
Gaming Initiatives						
Gaming	Extend Certain Tax Rates and Certain Simulcasting Provisions for One Year - 4/1/2016	SFMR	-	-	-	-
Gaming	Extend the Video Lottery Gaming (VLG) Vendor's Capital Awards Program for One Year - 4/1/2016	SFMR	-	-	-	-
Gaming	Extend Monticello Video Lottery Terminal Rates for One Year - 4/1/2016	SFMR	-	-	(3)	-
Gaming	Amend the Upstate New York Gaming and Economic Development Act for Technical Changes - 1/1/2014	SFMR	-	-	-	-
Gaming	Provide for an Additional Commission for Certain Video Lottery Terminal Facilities - 4/1/2016	SFMR	-	-	-	-
Gaming	Increase Purse Surcharge from 1.0% to 1.6% and Regulatory Fee from 0.5% to 0.6% - 4/1/2016	SFMR	-	-	2	2
Gaming	Adjust Timing of Reimbursement to Gaming Commission of Per Diem Costs for Harness Racing Judge and Starter - 4/1/2016	SFMR	-	-	-	-
Gaming	Remove Restriction for a Single Lab Testing Provider - 4/1/2016	SFMR	-	-	-	-
Fee Actions						
ENCON	Permanently Extend Waste Tire Fee - 4/1/2016	SFMR	-	-	6	24
DMV	Redirect DMV Funds to Dedicated Highway and Bridge Trust Fund - 4/1/2016	CFMR/SFMR	-	-	-	-
	TOTAL TAX REFORM, REVENUE ACTIONS, and STAR		257	(25)	21	(596)

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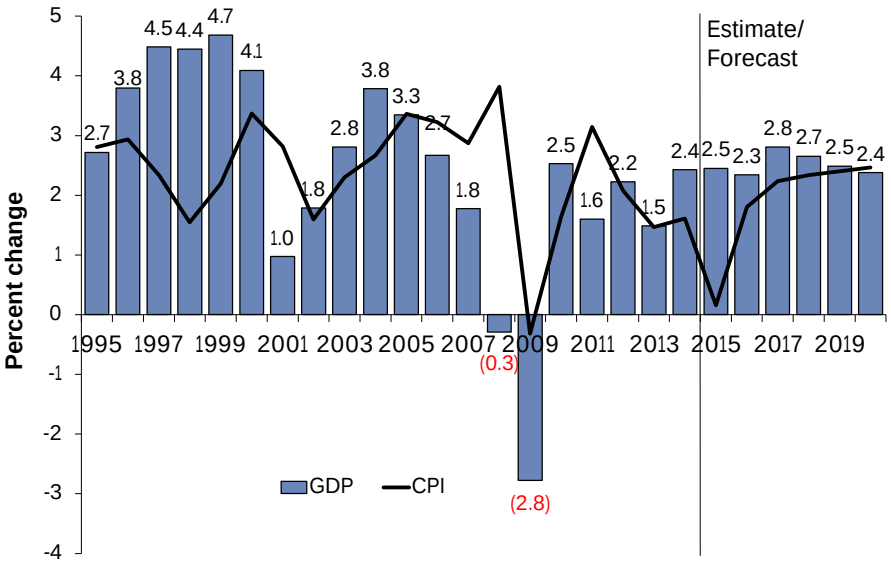
Economic Backdrop

Overview

At six and a half years old and counting, the U.S. economic expansion already clocks in as the fourth longest postwar expansion on record, with no end yet in sight. But despite its length, this expansion remains the weakest in recent history, a fact that is unlikely to be altered in 2016. The Budget Division outlook for this year calls for the same subpar pace of growth that has characterized this expansion from the start. The most recent high-frequency data indicate an extremely weak fourth quarter which, along with an inventory overhang, likely carried over into early 2016. Average annualized quarterly growth in real U.S. GDP of less than 2 percent is expected for the fourth quarter of 2015, with quarterly growth gradually improving over the course of this year, but remaining below 3 percent throughout the forecast period. The Budget Division projects growth of 2.3 percent for 2016 on an annual average basis, following growth of 2.5 percent for 2015, though the implied relatively smooth forecast path will undoubtedly be disrupted by volatility induced by weather and other unforeseeable events.

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



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

As has been the case over the last few years, private domestic demand has outpaced that of both the public and foreign sectors. An improved labor market and rising home and equity prices all contributed to a strengthening in household spending, with average quarterly spending growth doubling to 3.1 percent over the most recent eight quarters for which data are available (through 2015Q3) from 1.5 percent for the prior eight. Real household spending growth of 2.7 percent is projected for 2016. The global economy outside of the U.S. remains weak despite the aggressive efforts of foreign central banks to stimulate growth. In addition, low energy prices are expected to continue to put pressure on the nation's domestic energy industry, which has

already shed close to 90,000 jobs since the industry's employment peak in October 2014. Consequently, another year of tepid business investment in plant and equipment is expected this year.

With the recent decline in the price of oil now largely in the rearview mirror and pressure on domestic energy production remaining on the downside, prices are not expected to remain below $40 per barrel indefinitely, though weak global growth and geopolitical dynamics should prevent more than a modest rise in oil prices over the course of the year. Moreover, five years of average monthly private sector job gains of above 200,000 is finally translating into wage gains as well. Consequently, consumer price inflation is expected to tick up from 0.2 percent in 2015 to 1.8 percent this year. With gasoline prices down by about $1.70 per gallon since the middle of 2014, households are expected to both spend more and save more, with higher spending providing a boost to economic growth over the short-term, and higher saving ensuring healthier household balance sheets and thus continued solid growth over the longer term. Against this backdrop of moderate growth and relatively low inflation, the Federal Reserve path toward interest rate normalization is expected to be a plodding one.

New York's private sector labor market continues to enjoy well-above historical average job growth. State job growth continues to be led by construction, professtional and business services, leisure and hospitality, and education. Domestic and international tourism remain robust, while the State's commercial and residential real estate markets remain strong. The strong dollar remains a risk to the momentum in these sectors given the strong foreign participation in both markets, though any impact is likely to be concentrated in the luxury segment. Moreover, we expect much of that risk to be offset by the impact of lower energy costs on domestic purchasers. State private sector job growth of 1.5 percent is projected for 2016, following estimated growth of 2.1 percent in 2015. Virtually flat growth in government jobs results in slightly lower overall job growth of 1.3 percent for 2016.

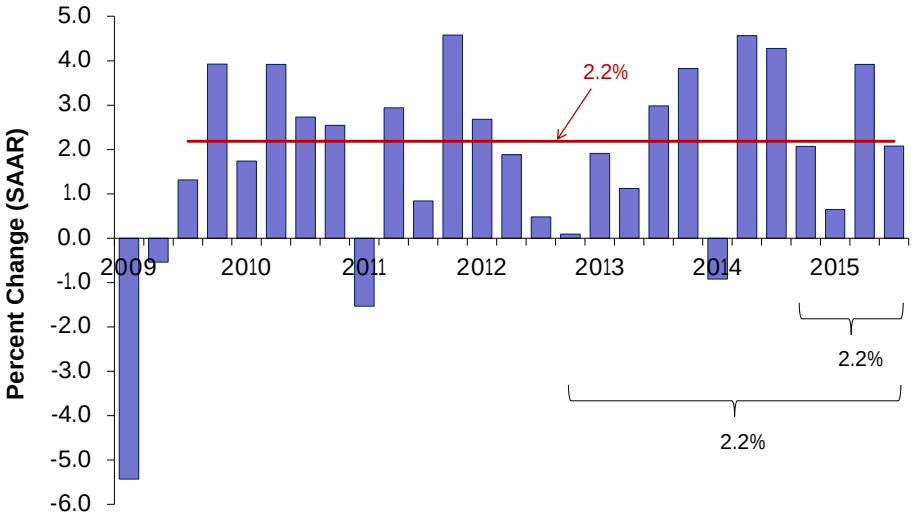
Equity market prices ended 2015 close to where they began, contributing to relatively flat financial sector revenues. As a result, nearly flat finance and insurance bonus growth of less than 1 percent is projected for the State fiscal year in progress. But despite a second consecutive year of weak bonus payouts, the State's strong labor market is expected to lift overall State wage growth to 4.2 percent for FY 2016, followed by stronger growth of 4.5 percent for FY 2017. Overall personal income growth of 4.5 percent is projected for FY 2016, accelerating to 4.8 percent for the coming State fiscal year. Although the Budget Division's near-term forecast for State income growth assumes virtually flat financial sector bonuses for the fiscal year in progress and historically tepid growth for FY 2017, the equity market rout observed during the first week of the new calendar year highlights the risk surrounding financial market activity and its impact on both the national and State economies.

The National Economy

The Great Recession was engendered in part by a collapse in home prices that brought down a highly overleveraged banking system. Recent research has demonstrated that recoveries from financial crises can be slow, particularly in the wake of a home price collapse. Ken Rogoff and Carmen Reinhart (2009) famously make the claim that recessions associated with banking and finance crises are universally deeper and longer, while additional research postulates that economic recoveries from recessions associated with housing slumps tend to be significantly weaker.[1] The dynamics of the nation's ongoing recovery from the worst recession since the 1930s continues to prove these theses correct. Since the technical end of the recession in mid-2009, the U.S. economy has been stuck at just above stall speed. As illustrated in Figure 2, average annualized quarterly growth over the life of the expansion has failed to rise above 2.2 percent. Six and a half years in, household balance sheets have substantially improved and the unemployment rate has fallen to 5.0 percent, and though household spending represents two thirds of the economy, the long-awaited acceleration in output growth has failed to materialize.

Figure 2

Real US GDP Growth Remains Stuck in Low Gear



Source: Moody's Analytics.

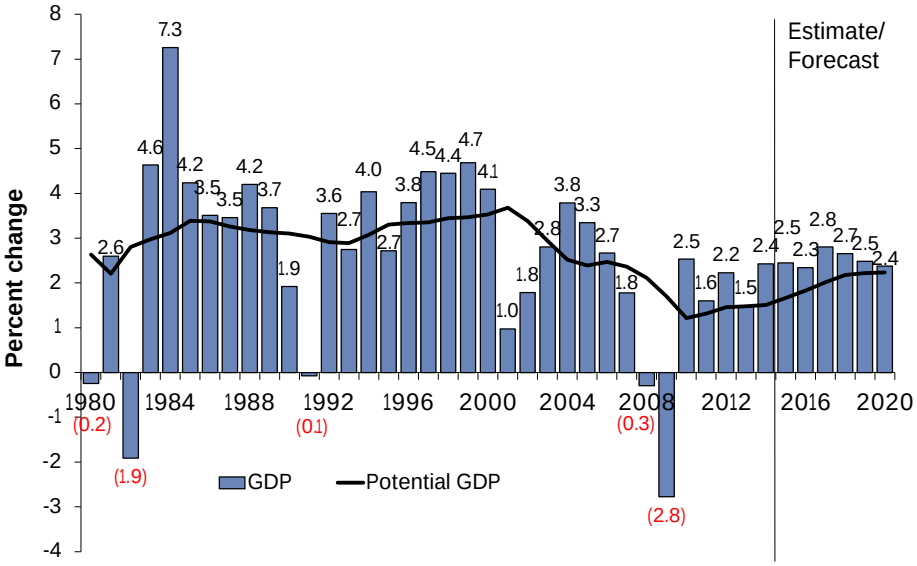
[1] Carmen M. Reinhart and Kenneth S. Rogoff (2009), This Time is Different: Eight Centuries of Financial Folly, Princeton University Press; Greg Howard, Robert Martin, and Beth Anne Wilson (2011), "Are Recoveries from Banking and Financial Crises Really So Different?" International Finance Discussion Papers 2011-1037, Board of Governors of the Federal Reserve System, Washington, D.C. For a more detailed discussion, see 2012-13 Executive Budget Economic and Revenue Outlook, Box 2, Financial Crises, Housing, and the Business Cycle, page 73 <http://www.budget.ny.gov/pubs/archive/fy1213archive/eBudget1213/economicRevenueOutlook/economicRevenueOutlook.pdf>.

Neither of the above hypotheses addresses the ongoing integration of the global economy and the possibility that the U.S. cannot consistently grow at rates above 3 percent while the rest of the world is losing momentum. Although the U.S. economy has been on the mend since mid-2009, the same cannot be said for many of the world's advanced and emerging economies. Indeed, as Figure 27 on page 63 indicates, both global growth and growth in U.S. exports experienced a V-shaped recovery from the steep declines engendered by the global financial crisis. But while U.S. growth has consistently averaged just above 2 percent, albeit with some volatility, Figure 27 shows a steady deterioration in global momentum over the life of the recovery. The euro area and China are struggling to gain ground, and aggressive efforts to stimulate the economies of those two areas have helped to produce a stronger U.S. dollar. As a result, U.S. export growth has deteriorated in lockstep with global trends, and with earnings from abroad accounting for about 30 percent of U.S. corporate profits just prior to the Great Recession, the nation's corporate sector has felt the sting. As the Federal Reserve tries to wean financial markets from its historically accommodative monetary policy, the heady days of double-digit equity market growth may have ended for some time.

Adding to the nation's low growth syndrome is the mystery of how growth below 2.2 percent can be compatible with average monthly employment gains of 200,000 to 250,000 jobs per month. Figure compares the cumulative job growth experienced thus far during the current expansion with that of the previous five. With the exception of the 2000s expansion, the current labor market recovery has been the weakest, with the implication that the business sector can go just so long without hiring. In addition, with the manufacturing sector outside of the auto industry virtually in recession, the composition of growth has shifted over the course of the recession away from the relatively high productivity manufacturing/goods sector and toward the services sectors. On the eve of the Great Recession, value added in the private goods producing sector accounted for 24.1 percent of total private sector value added, but that share had dropped to 21.8 percent by the third quarter of 2015, the most recent quarter for which data are available.

Just as the consumer and residential housing sectors were gaining ground, a precipitous decline in energy prices cast a shadow over the nation's burgeoning energy producing sector. Low energy prices simply added to the list of disincentives for firms to invest. Real quarterly growth in non-residential investment has averaged 5.2 percent over the life of the current expansion and 4.9 percent over the most recent eight quarters of available data. These weak rates of investment growth imply slow growth in the business sector's stock of plant and equipment, which in turn reduces growth in the economy's long-run production capacity, a concept known as "potential GDP growth." The economy can only grow faster than its potential for short periods before inflationary pressures build. The essential components of potential GDP growth are the size of the labor force, the capital stock, and productivity, as they determine the economy's long-run capacity to produce.

Figure 3
Real Growth in Actual and Potential U.S. GDP



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

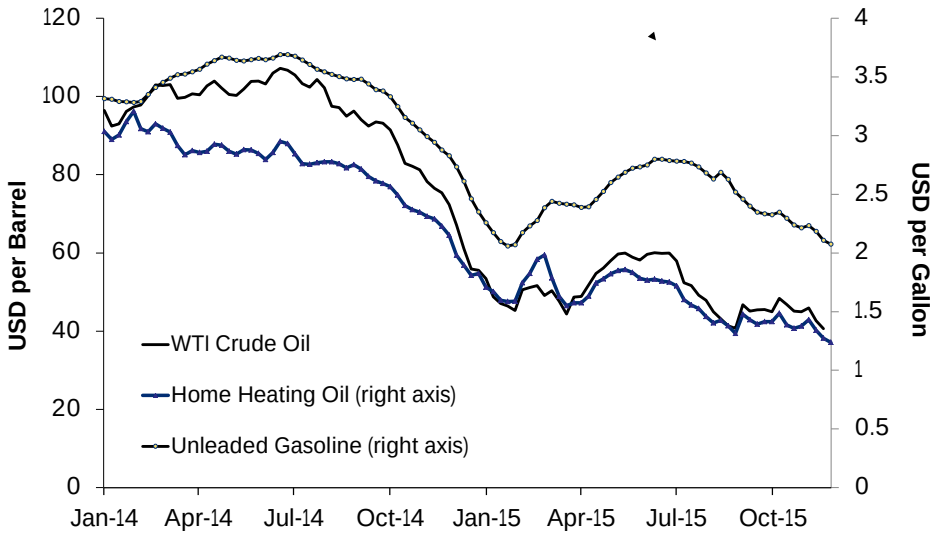
As illustrated in Figure 3, which plots actual real US GDP growth against its potential growth, the latter tends to fall during recessions as discouraged workers drop out of the labor force and investment falls. Weak growth, including low rates of private business investment, caused potential GDP growth to continue to fall even after the end of the 2001 recession. Potential growth took yet another steep dive during the 2008-09 crisis, with investment falling by more than 16 percent over a two-year period. Figure 3 indicates that potential GDP growth is expected to gradually rise over the course of the expansion, plateauing at a long-run annual rate of only 2.2 percent. Real US GDP growth is projected to accelerate in 2017 and 2018 with the recovery of the global economy and a strengthening of domestic demand. But the economy's growth rate must eventually converge to its potential growth rate, keeping the economy on a relatively modest growth path, with inflation well within the Federal Reserve's target range. As a result, this expansion could soon rival the historically long expansions of the 1980s and 1990s.

The Energy Conundrum

Crude oil prices are in the midst of one of the longest price declines in history that, in defiance of all forecasts, shows no sign of reversing any time soon. Oil prices appeared to be stabilizing in the early part of 2015, but as global economic concerns continued to mount, prices fell below $40 a barrel and have failed to show signs of advancing. As illustrated in Figure 4 gasoline and home heating oil prices have followed suit.

Figure 4

Recent Trends in Energy Prices



Source: Moody's Analytics.

The supply of oil started increasing as the result of a number of factors that includes the shale oil boom in the U.S. stemming from the development of horizontal drilling and hydraulic fracturing technologies. The United States is now the world's largest producer of oil and natural gas liquids, having surpassed Saudi Arabia and Russia in 2013 (see Table 1). U.S. oil production grew a brisk 65.7 percent between 2007 and 2014, increasing the U.S. share of world production from 9.9 percent in 2007 to 15.1 percent in 2014. As prices began to fall in the second half of 2014, the Organization of the Petroleum Exporting Countries (OPEC), led by Saudi Arabia, took the unusual step of increasing production rather than keeping prices from dipping further by cutting production. That decision may represent an ongoing strategy to maintain market share by forcing higher-cost producers such as shale drillers in the U.S. to curb production. That strategy may also be directed at preventing higher production in a sanction-free Iran, in order to constrain that country's geopolitical ambitions.

Table 1

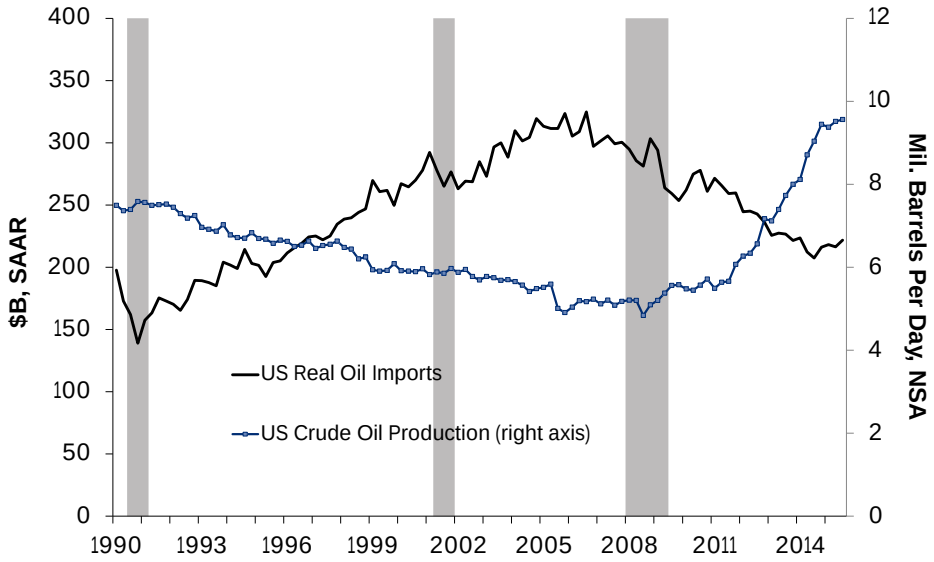
RECENT TRENDS IN GLOBAL OIL PRODUCTION
(Thousands of Barrels per Day)

	2007	2008	2009	2010	2011	2012	2013	2014	2007-2014 Percent Growth	2007 Share	2014 Share
Russia	9,938	9,875	10,048	10,294	10,409	10,595	10,763	10,853	9.2%	11.7%	11.6%
		-0.6	1.8	2.4	1.1	1.8	1.6	0.8			
Saudi Arabia	10,748	11,428	10,314	10,906	11,465	11,841	11,698	11,624	8.2%	12.6%	12.5%
		6.3	-9.7	5.7	5.1	3.3	-1.2	-0.6			
United States	8,468	8,562	9,128	9,696	10,124	11,118	12,360	14,035	65.7%	9.9%	15.1%
		1.1	6.6	6.2	4.4	9.8	11.2	13.6			
World Total	85,114	86,516	85,703	88,104	88,546	90,454	90,858	93,228	9.5%	100.0%	100.0%
		1.6	-0.9	2.8	0.5	2.2	0.4	2.6			

Note: Oil includes crude oil plus lease condensate, natural gas plant liquids, and other liquid fuels.
Source: U.S. Energy Information Administration.

Figure 5

U.S. Oil Import and Oil Production



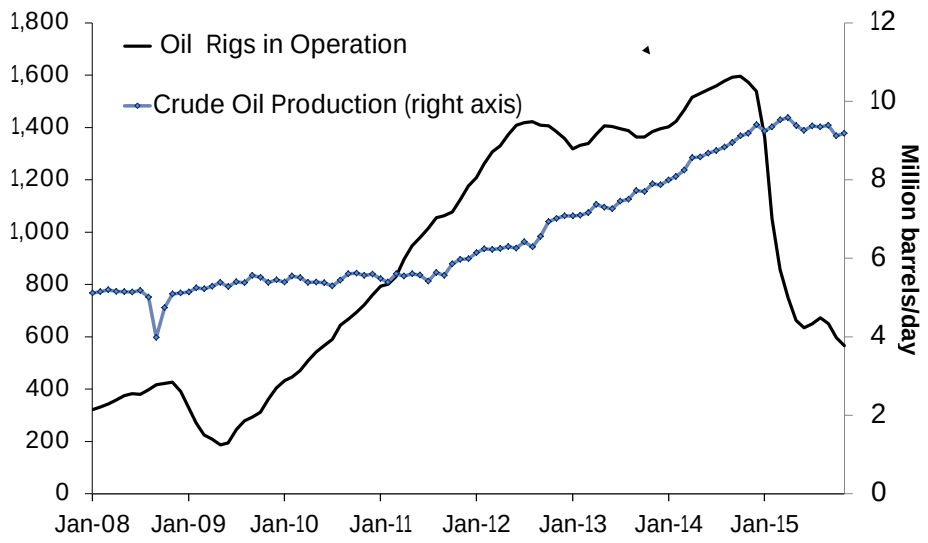
Note: Shaded areas represent US recessions.
Source: Moody's Analytics.

Figure 5 shows how domestic oil production soared and oil imports plunged during the U.S. shale boom and may also suggest that OPEC's strategy of flooding the market to enhance its market power has begun to bear fruit. As U.S. oil production has slowed, crude oil imports have started to pick up. Moreover, the supply of oil is expected to remain high in the foreseeable future. OPEC just voted to continue its high production levels; despite recent production cuts, U.S. production remained at very high levels in 2015; both Iraq and Kuwait are moving to return producton to pre-Gulf War levels; and Canada, Russia, China and Norway all exhibited higher production levels in 2015 than in 2014, according to estimates by the U.S. Energy Information Administration.

While the supply has increased substantially in recent years, growth in oil demand has slowed, and is expected to remain low in 2016 in light of continued slow global economic growth. But recent downward revisions to growth by the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD) suggest that the forecast risks for 2016 are to the downside. China continues to confront challenges in managing its slowdown, Europe and Japan are struggling to grow, Russia finds itself in a recession that is only now stabilizing, and many emerging markets, as important commodities producers, are feeling the headwinds of low commodities prices.

Figure 6

Crude Oil Rotary Rigs and Production



Source: Moody's Analytics.

In the past, falling crude oil prices have had an unambiguously positive impact on the U.S. economy, but that positive impact has been much more difficult to detect during this most recent spell. This seeming conundrum is in part explained by the historic expansion of the nation's domestic energy industry. Recent price declines have made it unprofitable for a subset of oil and gas drillers to maintain production. As indicated in Figure 6 the number of oil rigs in operation fell more than 60 percent between October 2014 and November 2015, and as a result domestic crude oil production started to decline. Equity valuations among oil and gas companies collapsed in 2015, dragging the S&P 500's energy sector down over 30 percent since its most recent June 2014 peak. Data from the the U.S. Energy Information Administration (EIA) show that oil producers' debt service as a share of operating cash flow has increased to over 80 percent, and the number of U.S. energy producers that have filed for bankruptcy or bankruptcy protection has grown, wreaking havoc in the high-yield debt market. The oil rig and production declines were accompanied by an 8.0 percent decline in employment in oil and gas extraction between October 2014 and November 2015, a loss of 16,100 jobs. These job losses pale in comparison to the additional 70,800 jobs lost in support activities for oil and gas operations, a 21.1 percent

decline over the 13 months. Declines in energy-related investment in such items as drilling equipment are estimated to have subtracted about half a percentage point from economic growth during the first half of 2015, according to Goldman Sachs estimates.

Although declining prices have taken a particularly large toll in those regions where the energy sector is key, at the national level they are relatively small, and the widespread longer-term positive effects of lower oil prices should outweigh the more immediate negative effects on energy companies and energy producing regions. Thus, the remainder of the solution to the energy conundrum rests with the U.S. consumer. American households have paid an estimated $770 per household less on average for energy in 2015 compared with 2014, money that can spent on other goods and services or saved. But the boost afforded by this $90 billion economy-wide windfall to consumption has been slow to materialize, in part because consumers have been increasing their savings instead of spending the windfall gains. Between October 2014 and October 2015 the savings rate increased from 4.5 percent to 5.6 percent, suggesting that household balance sheets are healthier than they've been in years, supporting stronger consumer spending in the future, but implying less of a contribution today. Likewise, lower energy costs help producers and businesses outside of the energy sector by lowering their input costs. However, that benefit has thus far been dwarfed by those other factors that have recently negatively affected business spending such as the strong dollar and weak global growth.

The result of growing oil supply and slowing oil demand has been continued low and falling crude oil prices. Box 1 presents a model originated by James Hamilton to help quantify the relative impacts of supply and demand forces on the recent trends in the price of crude oil. The results imply that about 56 percent of the decline in oil prices since June 2014 are the result of lower global demand for crude oil. As discussed above, current supply conditions are likely to persist for some time to come. Consequently, until global economic growth takes a decisive upward turn, low energy prices could be here to stay.

Box 1

NOT MUCH THREAT TO DOMESTIC PRICE STABILITY FROM GLOBAL PRICE SHOCKS

Crude oil prices have dropped precipitously since the end of June 2014 due to both expanding supply and weakened demand. In order to assess the size of the impacts of supply and demand factors, we follow James Hamilton in constructing a demand-side model that incorporates three proxies for the health of the global economy: the price of copper, the trade-weighted value of the dollar, and the 10-year Treasury yield. The price of copper is highly correlated with global growth, particularly in emerging markets, while the safe haven status of both the U.S. dollar and the 10-year Treasury yield make those two indicators good proxies for the health of the global economy. The dependent variable is the price of West Texas Intermediate Crude. To avoid spurious results, we first difference the natural logarithm of all variables, except for the Treasury yield where we first difference the level directly. Since supply side factors are assumed to be uncorrelated with the demand side variables, their exclusion is assumed not to bias the results, which appear below.

$$\Delta p_{oil,t} = \underset{(0.070)}{0.182}\ \Delta p_{copper,t} - \underset{(0.343)}{1.712}\ \Delta p_{dollar,t} + \underset{(0.028)}{0.109}\ \Delta r_{10y,t}$$

$\bar{R}^2 = 0.31$ DW = 1.91 April 2007 – June 2014

$\Delta p_{oil,t}$ = Weekly Changes in the Natural Logarithm of WTI Crude Oil Price.

$\Delta p_{copper,t}$ = Weekly Changes in the Natural Logarithm of Copper Price (NYMEX, dollars per pound).

$\Delta p_{dollar,t}$ = Weekly Changes in the Natural Logarithm of Trade Weighted Exchange Value of U.S. Dollar (Major Currencies).

$\Delta r_{10y,t}$ = Weekly Changes in the 10-year U.S. Treasury Yield.

Note: Standard errors are in parentheses.

The model is estimated using weekly data from April 2007 through June 2014 although the model parameters are stable if the estimation period is extended to include data through mid-December 2015. All variables are statistically significant at the 1 percent level. Results imply that of the $69 decline in the price of oil between late June 2014 and mid-December 2015, $39 would have come down based on weakness in global demand alone, i.e., in the absence of any supply-related factors. Thus, demand factors account for 56 percent of the observed decline, while supply factors the remaining 44 percent.

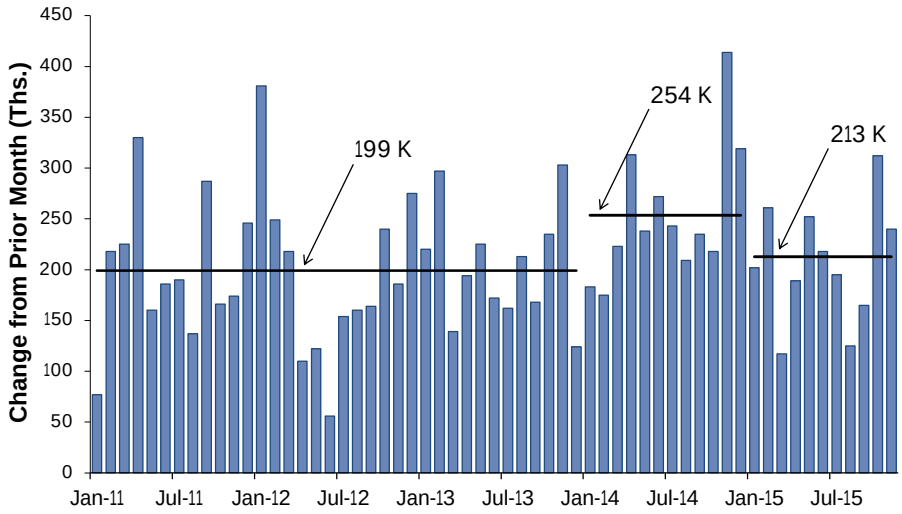
James Hamilton (2014) <http://econbrowser.com/archives/2014/12/oil-prices-as-an-indicator-of-global-economic-conditions>, viewed January 9, 2016.

The Labor Market Hits Its Stride

As of this writing, the U.S. labor market has become the most compelling indicator that the U.S. economic expansion remains firmly on track, while the world's other major economies stagnate. Employment continued to improve in 2015 though at a more subdued pace than in 2014. Private employment grew at an annual rate of 2.4 percent, with monthly gains that averaged 212,600, compared with an average monthly gain of 253,500 in 2014 (Figure 7). Government employment also added an average of 8,250 jobs each month in 2015, an improvement over the monthly average gain of 6,167 in 2014.

Figure 7

U.S. Private Sector Employment Gains



Source: Moody's Analytics.

Initial claims have been pointing in the direction of strong continued employment growth in 2016. The four-week moving average of initial claims has remained below the benchmark 300,000 level for 43 consecutive weeks, the longest stretch since the early 1970s (see Figure 8). Total employment growth of 1.7 percent is projected for 2016 on an annual average basis, following growth of 2.1 percent in 2015. Slower job growth in 2016 is consistent with slowing output growth going into the new year. The 2016 projection reflects private sector growth of 1.9 percent for this year, following growth of 2.4 percent in 2015, while government employment is expected to grow 0.5 percent in 2016, compared with 0.4 percent last year.

Employment gains in 2015 were widespread, led by construction; professional and technical services; health care and social assistance services; management, administrative support, and waste services; and leisure, hospitality, and other services (see Table 2). In contrast, growth was held down by those sectors most closely connected with energy extraction and production and with foreign trade, including the natural resources and mining sector, manufacturing, and wholesale trade. Growth in these latter industries will remain weak in 2016 as the energy sector continues to adjust to new price levels, the dollar continues to strengthen, and trade continues to

flounder. Government employment growth was still relatively weak in 2015, though improved from 2014, and is expected to remain so in 2016.

Although the demand for professional and business services will remain strong in 2016, it will moderate with an anticipated weakening in U.S. corporate profits growth. Construction sector employment is expected to advance a strong 3.1 percent over the course of 2016, following even stronger growth of 4.2 percent last year, due to continuing strength in the housing market.

Figure 8
Initial Claims
4-Week Moving Average

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

1

Table 2

STEADY JOB GROWTH TO CONTINUE INTO 2016

	2014	2015	2016	
	%Change	%Change	Jobs Added	% Change
Total Private	2.3	2.4	2,325	1.9
Natural Resources and Mining	3.9	(6.6)	(34)	(4.1)
Utilities	0.2	1.9	9	1.6
Construction	4.8	4.2	196	3.1
Manufacturing	1.4	1.2	59	0.5
Wholesale Trade	1.6	1.5	82	1.4
Retail Trade	1.9	2.0	239	1.5
Transportation and Warehousing	3.2	2.8	86	1.8
Information	1.3	1.9	25	0.9
Finance and Insurance	0.8	1.9	72	1.2
Real Estate, Rental, and Leasing	2.3	2.0	32	1.5
Professional and Technical Services	2.8	3.7	276	3.2
Management, Admin. Support, and Waste Servic	3.4	3.3	280	2.5
Education Services	1.9	1.4	71	2.1
Health Care and Social Assistance Services	1.8	3.0	467	2.5
Leisure, Hospitality, and Other Services	2.8	2.6	465	2.2
Government	0.0	0.4	112	0.5
Total	1.9	2.1	2,437	1.7

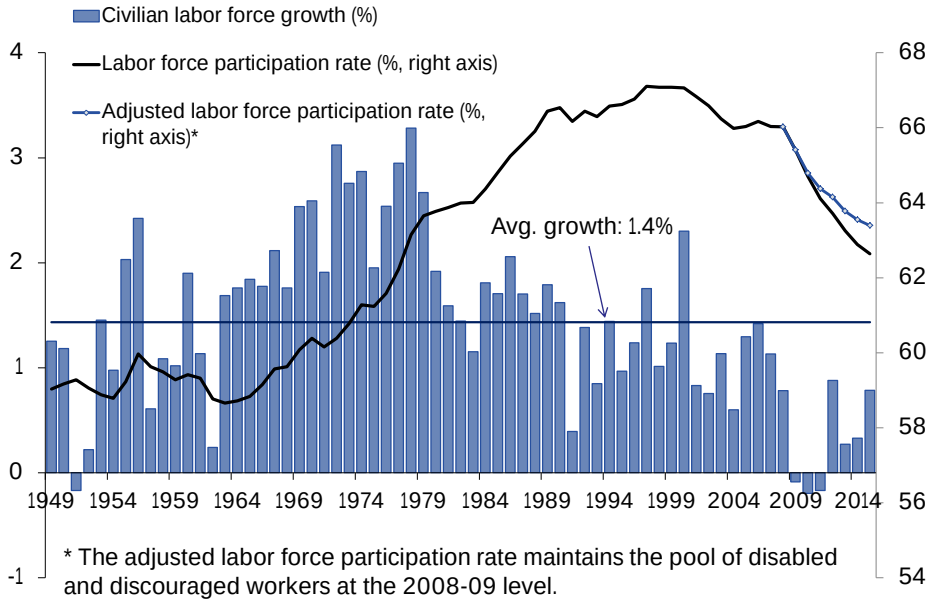
Note: 2015 actuals and 2016 forecast are based on employment data through November, 2015.

Source: Moody's Analytics; DOB staff estimates.

With continued though more moderate growth in private and public employment, the Budget Division projects the national unemployment rate to continue its downward path to an average of 4.9 percent for 2016 from 5.3 percent in 2015. The pace at which the nation's unemployment rate can improve will slow as it gets close to the non-accelerating inflation rate of unemployment, or NAIRU, i.e., the unemployment rate below which inflationary pressures begin to build. However, there is no consensus as to exactly what the NAIRU currently is. The Congressional Budget Office (CBO) estimates that the NAIRU has held steady at 5.2 percent since 2010, but others, including presumably the Chair of the Federal Reserve, put it lower.[2] Nevertheless, at 5.0 percent, the current unemployment rate is higher than the prerecession low of 4.6 percent, and well above the 3.9 percent low of the late 1990s, suggesting that there may still be some slack in the labor market.

[2] Other estimates of NAIRU are several tenths of one percentage point lower. In early 2015, for example, Allen Sinai of Decision Economics estimated NAIRU to be at 4.3 percent.

Figure 9
U.S. Labor Force Trends



Source: Moody's Analytics.

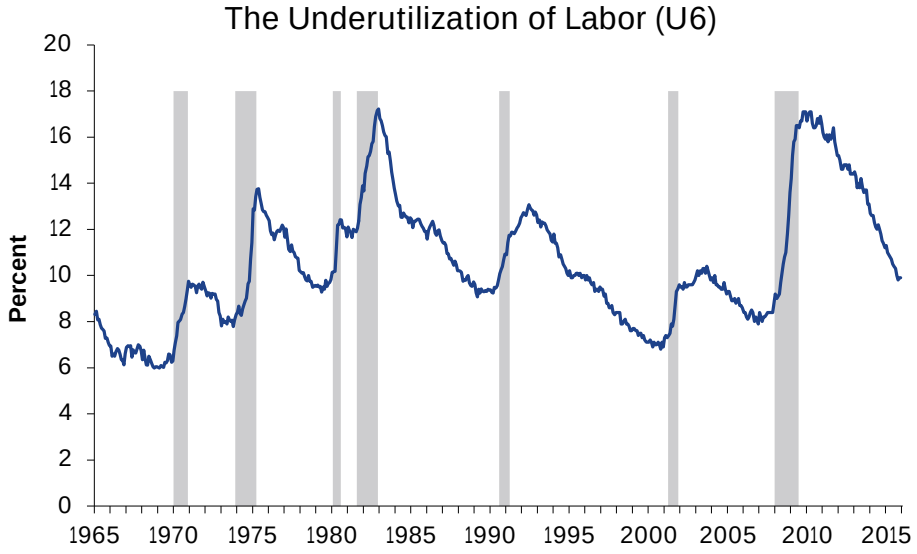
The labor force participation rate (LFPR) is defined as the percentage of the population 16 and older who are either employed or seeking employment. As illustrated in Figure 9, the LFPR has fallen precipitously since the start of the Great Recession. At the end of 2015, the labor force participation rate stood at 62.6 percent, down 4.6 percentage points from its peak in 1997 and down 3.5 percentage points from the beginning of the recession in 2008. Research points to both structural, long-term trends and cyclical responses to the recent recession as reasons for the declines in the labor force participation rate that started in the late 1990s but clearly accelerated after 2007. Understanding these reasons are critical to assessing the degree of slack that exists in the labor market and, in turn, how much room there is for the unemployment rate to fall before the inflation rate can be expected to accelerate.

Cyclical factors are associated with an economy that is operating above or below its full potential. During economic downturns, nonparticipants are less likely to enter the labor force, and the long-term unemployed leave the labor force, either temporarily or permanently. The Bureau of Labor Statistics publishes a measure of underutilization of labor that shows the number of unemployed and marginally attached for economic reasons as a percent of the labor force plus the marginally attached known as U6.[3] The history of U6 is presented in Figure 10; the extended period during which U6 remained elevated is evidence of the severity of the last recession, while post-recession, the extent of the series' decline is plainly visible. However, as of December 2015, U6

[3] More precisely, U6 measures the total number of people who are unemployed, who are marginally attached to the labor force (not currently looking for work but willing and able to work and have looked in the past 12 months), and those who work part time for economic reasons,i.e. because they could not find full-time employment, as a percentage of the labor force plus the marginally attached workers.

was still 1.5 percentage points higher than it was on the eve of the recession, supporting the notion of some remaining slack in the labor market due to less than robust growth. As the economy continues to strengthen, those potential workers who are now only marginally attached to the labor force will start actively looking for jobs, driving the LFPR rate higher.

Figure 10



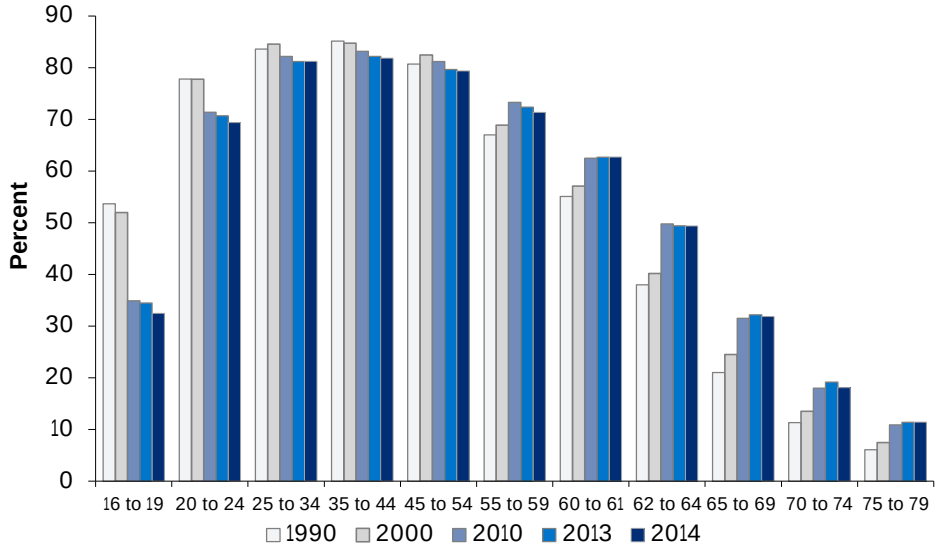
Note: The underutilization of labor (U6) is the number of unemployed and marginally attached for economic reasons as a percent of labor force plus marginally attached; shaded areas represent U.S. recessions.
Source: Moody's Analytics.

But the aging of the baby boomer generation has also contributed to the decline in the LFPR, and many of these older workers who have left the labor force are unlikely to return no matter how strong the economy. As demonstrated in Figure 11, labor force participation rates decline substantially for the older cohorts. While the participation rate for those aged 55 to 59 is above 70 percent, only just above 30 percent of those aged 65 to 69 still participate in the labor force. Thus, as the very large baby boom generation moves through those age cohorts with declining labor force participation rates, overall labor force participation rates will fall, all else constant. Research by CBO and the Council of Economic Advisors (CEA) both conclude that about half of the decline in labor force participation after the fourth quarter of 2007 can be attributed to the aging of the population.[4] Baby boomers will continue to reach retirement age in elevated numbers until 2029; correspondingly, the decline in labor force participation attributable to the aging trend is expected to continue, potentially at a more rapid pace in the coming years.

[4] Congressional Budget Office "The Slow Recovery of the Labor Market", Congress of the United States, February 2014; Council of Economic Advisers, "The Labor Force Participation Rate Since 2007: Causes and Policy Implications." July 2014.

Figure 11

Labor Force Participation Rates
by Age Group



Source: U.S. Bureau of Labor Statistics.

Other trends are also visible in Figure 11. Over the decades, participation rates of younger cohorts have declined as more young people attend school, and participation rates among the older cohorts have increased as better health and higher life expectancy increased both the ability and the need for a longer work life. Participation by those aged 55 to 59 has fallen in recent years, most likely because this group found it difficult to find a job during and following the recession. Over the decades, however, the participation rate of male prime age workers has fallen slightly while the female labor force participation has increased significantly.

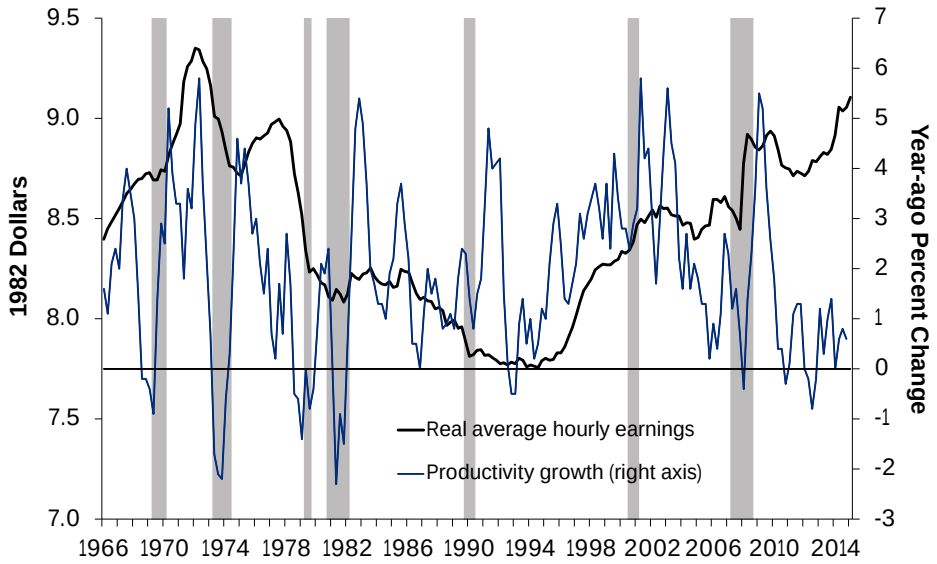
About a quarter to a third of the decline in labor force participation since the last recession is not explained by either the trend from an aging population or cyclical factors. The CEA notes that the severity of the last recession caused a sustained elevation of the long-term unemployed, those unemployed for 27 weeks or more, which may have lowered the participation rate more than would otherwise be the case. The stigma associated with long-term unemployment, together with the erosion of job skills over time, can make it difficult for the long-term unemployed to find new work, leading them to drop out of the labor force permanently. CBO estimates that about one sixth of the decline in labor force participation between 2007 and 2013 was due to this unusual aspect of the slow recovery. A recent study by the Federal Reserve Bank of St. Louis shows that women over 50 were particularly affected, accounting for half of those unemployed for more than six months by 2012-13, compared to less than a quarter prior to the Great Recession.[5]

[5] Alexander Monge-Naranjo and Faisal Sohail. "Age and Gender Differences in Long-Term Unemployment: Before and After the Great Recession", Economic Research, Federal Reserve Bank of St. Louis, 2015.

Another cause for the unexplained "residual" is an increase in the number of working-age people in the U.S. who are not in the labor force for reasons of disability, which may explain some of the decrease in the LFPR for prime age workers that appears in Figure 11. Since 2010 more than three million working-age people have left the labor force due to disability, lowering the participation rate each year by an additional 0.24 percentage points per year on average. If the number of disabled workers had remained at its 2008-2009 levels, the labor force participation rate would have been an estimated 0.75 percentage points higher in 2015 (see Figure 9).

Figure 12

Productivity Growth and Real Private Average Hourly Earnings



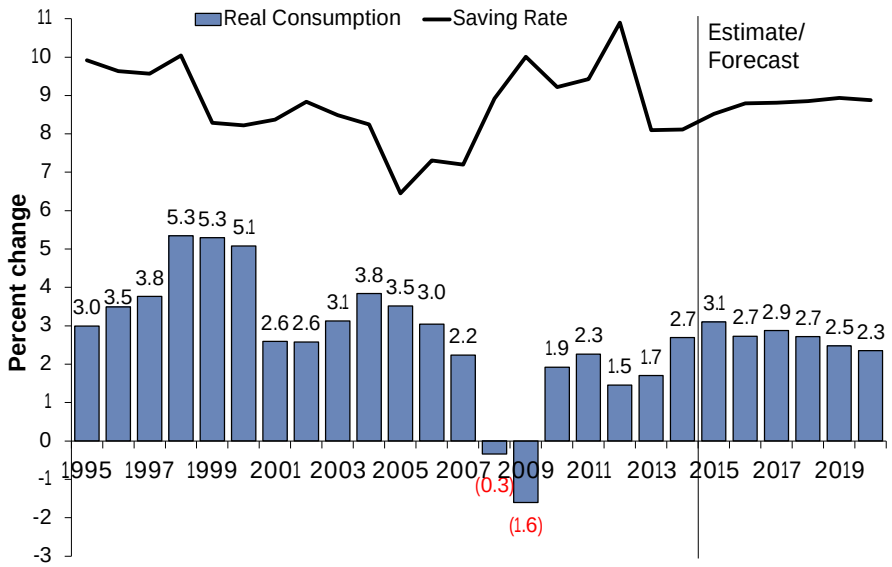
Note: Shaded areas represent U.S. recessions.
Source: Moody's Analytics.

With unemployment in the neighborhood of the NAIRU and job opportunities more plentiful, wage rates will be under upward pressure. Historically, wages also align with productivity. Labor productivity was strong coming out of the recession as employment continued to fall even as output rose, but then declined sharply in line with weak output and investment growth (see Figure 12). Throughout the slow but steady expansion of the past years, productivity growth has remained unexpectedly weak, mustering only 0.5 percent growth on average since the first quarter of 2011. Despite the lack of improvements in labor productivity, real average hourly earnings have been trending upward. The Budget Division projects a slight moderation in wage growth of 4.6 percent for 2016, following growth of 4.8 percent for 2015. Total personal income growth is projected to be to 4.7 percent for 2016 versus 4.6 percent in 2015. These growth rates represent a substantial improvement from the earlier phase of the recovery, particularly after adjusting for inflation.

Household Spending, the Slow Housing Recovery, and the Energy Boost

A strong labor market and healthier household balance sheets are finally translating into stronger household spending growth. Real consumption growth of 2.7 percent is projected for 2016, following 3.1 percent in 2015. However, these growth rates are still far below pre-recession rates of growth (see Figure 13). The Budget Division projects that real growth in consumption spending will remain below 3 percent over the remainder of the forecast horizon.

Figure 13
Household Spending and Saving Rate



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

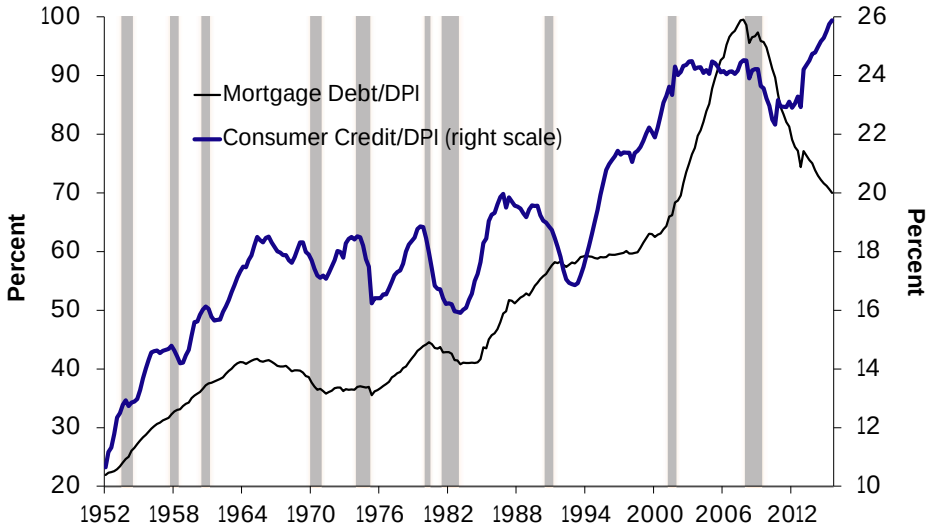
The decline in crude oil prices since June 2014 has translated into a decline in gasoline prices to-date of about $1.70 per gallon. As of December 18, 2015, heating oil prices were down 70 percent from their winter 2014 peak at the end of January 2014. Cheaper fuel has given consumers and businesses more money to spend on other goods and services, in particular on products that are complementary to energy use, such as automobiles, transportation services, and leisure activity. Energy price declines will particularly benefit low-income earners because they spend so much of the next dollar earned, rather than save. The Budget Division estimates that plummeting prices saved consumers about $90 billion overall in 2015, or approximately $770 per household, although not all of that windfall is estimated to have been spent, as the rise in the saving rate evident in Figure 13 appears to indicate.

As discussed above, there is evidence that recoveries from recessions associated with housing slumps tend to be significantly weaker. This should be no surprise since, for many middle-class households, homes are the most important and in many cases only asset. As illustrated in Figure 13, household spending growth began to decelerate after the collapse of housing prices starting in 2005 and has been the weakest of any postwar recovery, averaging only 2.2 percent to-date.

But Figure 14 shows that much progress has been made in the reduction of mortgage debt as a share of disposable personal income, even as other consumer debt began to rise. This pattern distinguishes the current expansion from virtually all other postwar expansions, and illustrates the large impact that the housing bubble is still having on household spending. Figure 14 shows that even with the rise in non-mortgage types of consumer credit, the overall share of debt to personal income is continuing to fall. That decline implies continued improvement in the health of household balance sheets and support for the expansion of the economy longer-term.

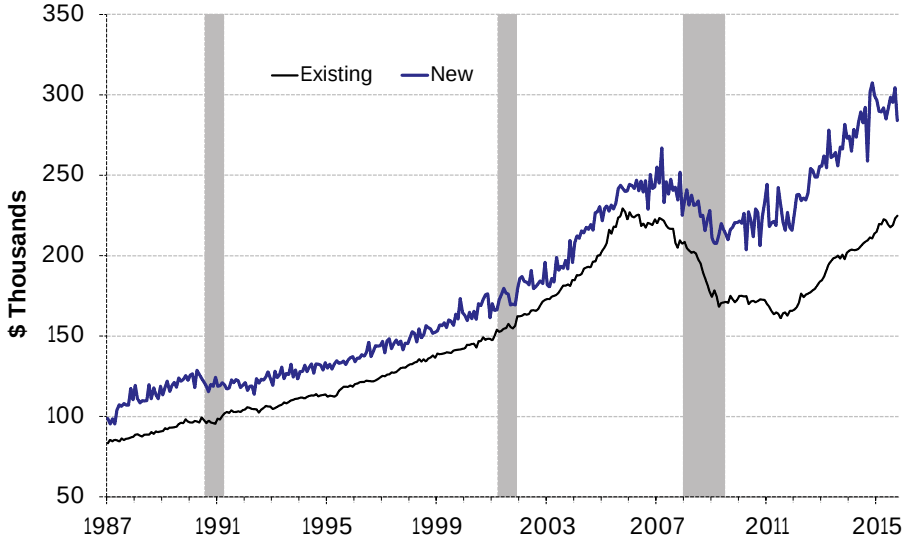
Figure 14

Home Mortgage Debt and Consumer Credit
Relative to Disposable Income



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

Figure 15
U.S. Median Home Prices Rebounding



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

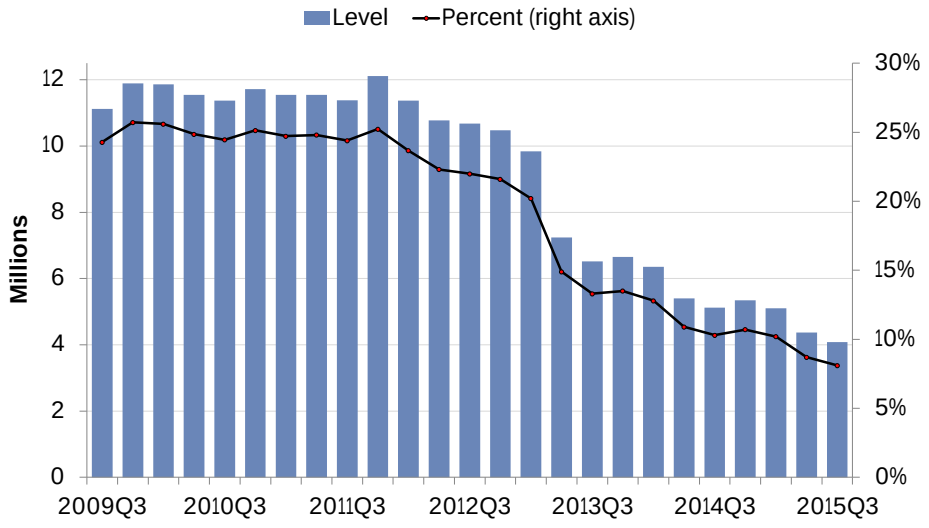
The recovery in home prices is playing a major role in the repair of household balance sheets, but that recovery has been uneven. Figure 15 depicts the disparity between the rates of recovery of existing home prices versus new home prices. By October 2015, the median existing home price had recovered only $64,000 of the $68,000 lost between the October 2005 peak of $229,000 and the July 2011 trough of $161,000. But the median price of new homes, which represents a much smaller share of the residential housing market, has surpassed its pre-recession peak. There is evidence that the new home market has been dominated by large expensive homes purchased by wealthier households for whom it is still easier to obtain a mortgage. The slow financial recovery of low-income households has likely been a critical factor explaining the weakness in household spending growth during this expansion.

Figure 16 illustrates that despite their limited recovery, rising existing home prices have still dramatically reduced the number of residential properties with negative equity, i.e. properties where mortgage debt exceeds the market value. The number of mortgages "underwater" fell from 12.1 million at the end of 2011 to 4.1 million by the third quarter of 2015, reducing the share of underwater mortgages from 25.2 percent to 8.1 percent. Thus, more homeowners looking to sell their homes are able to do so without incurring a loss, increasing the inventory of homes for sale. However, there is evidence that a large proportion of the homes still underwater are owned by lower-income households.

The continued recovery of the housing market will be critical to strengthening the momentum of the economic recovery. As suggested above, real estate is the main source of wealth for many households in the United States. Households lost $12 trillion in total net worth between the second quarter of 2007 and the first quarter of 2009 as the value of both their financial asset and

real estate wealth fell as the housing bubble collapsed.[6] By the third quarter of 2015, households had gained $28.7 trillion in net worth, or $16.4 trillion more than the previous peak. But this buildup was almost entirely based on the recovery of financial wealth. Financial assets bottomed out in the first quarter of 2009 and by the third quarter of 2011 exceeded their prior peak in 2007. In contrast, real estate wealth declined continuously through the third quarter of 2011 and, by the third quarter of 2015, had only recovered $6.5 trillion of the $6.7 trillion lost between 2006 and 2011. By the time real estate wealth finally turned the corner in the fourth quarter of 2011, financial asset wealth had already recovered all its losses.

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



Source: Corelogic.

The strong recovery of financial wealth is a tide that has not lifted all boats. Indeed, there is evidence that financial wealth has become even more concentrated than prior to the Great Recession and this disparity is likely still having an impact on the strength of the expansion six and one-half years in. Table 3 provides some evidence of how various types of asset holdings are distributed across the population by income. The ratios of top-decile median holdings to those of the bottom quintile give an indication of how relatively concentrated a given type of wealth is among the top 10 percent of households. Thus, in 2013 financial assets are the most concentrated, as the top decile's median family holdings are 567 times the value of those of the bottom 20 percent. Changes in financial asset values are seen to accrue disproportionately to high-income households. Moreover, this ratio of top decile to bottom quintile was only 238 in 2007, indicating that financial assets became even more concentrated among high-income households after the financial crisis.

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

Table 3

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

							Ratio of top decile to bottom quintile		
Asset type	Less than 20	20-39.9	40-59.9	60-79.9	80-89.9	90-100	2013	2010	2007
Financial assets	$1	$4	$16	$51	$132	$567	567	501	238
Nonfinancial assets	$23	$61	$110	$197	$304	$705	31	32	20
Primary residence	$80	$106	$125	$170	$250	$475	6	5	5

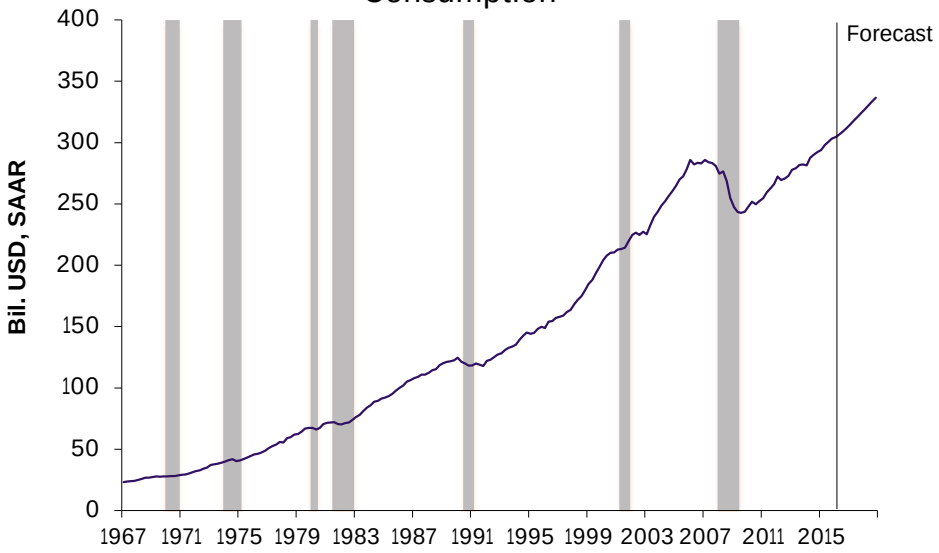
Source: *2007, 2010, 2013 Survey of Consumer Finances Chartbook* , Federal Reserve Board.

In contrast, holdings related to home ownership appear relatively more evenly distributed, with a ratio of top-decile median holdings to those of the bottom quintile of only six in 2013 and five in 2007. Thus, declines in home values, and the resulting destruction of real estate wealth, is likely to have had its greatest impact on households with the lowest incomes and, thus, the highest marginal propensity to consume. Correspondingly, the rise in equity market values would not fully compensate for the loss of real estate wealth since financial assets tend to be much more concentrated among those households with the highest marginal propensities to save.

The disparity in wealth holdings has profound implications for the strength of the recovery and is a reminder of how critical a full recovery of the housing market is to the continued recovery of household spending. In tandem with an improving labor market, the upturn in housing is expected to fuel consumption growth not only through the wealth effect but also by increasing the demand for complementary durable goods, such as furniture, appliances and autos. Figure 17 shows the steep decline in nominal consumption of furnishings and durable household equipment following the housing market crisis. This spending has trended upward since the third quarter of 2009 and returned to its pre-crisis level by the second quarter of 2014.

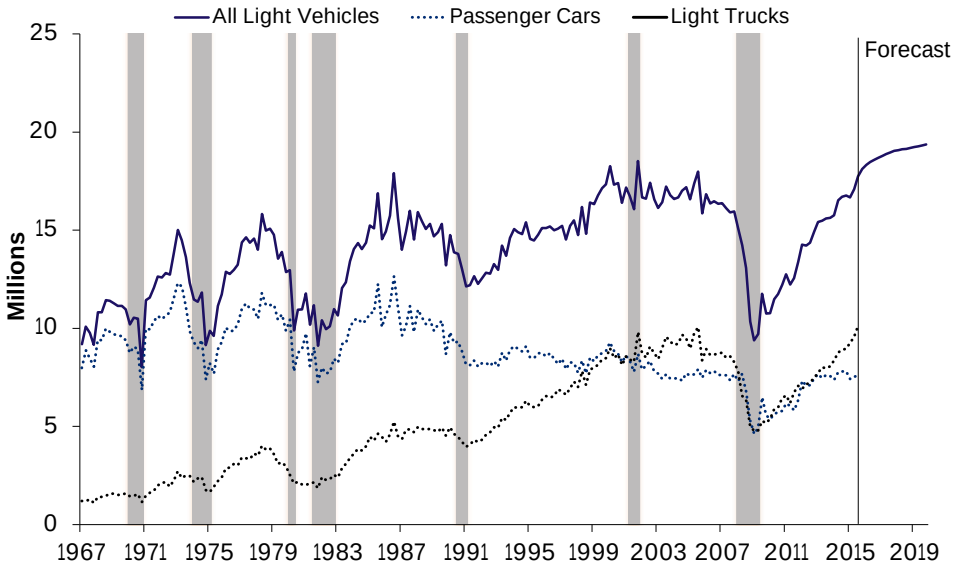
Similarly, Figure 18 shows the steep decline in light passenger car and light truck sales following the housing market decline, during which the average age of light vehicles on the road lengthened, rising from 9.5 years in 2005 to 10.8 years in 2011. Light vehicle sales have risen significantly over the past three years, almost returning to pre-recession highs. Light truck sales are particularly strong in 2015, thanks to rising housing starts that stimulated truck purchases by construction workers, who may have been delaying the replacement of aging vehicles in the wake of the housing collapse and the resulting lull in building activity. By the third quarter of 2015, light truck sales have surpassed its pre-recession highs. Despite the strongest selling rate for new cars and light trucks in more than a decade, the average age of vehicles on American roads rose to a record 11.5 years in 2015. This development should provide support for the Budget Division outlook for continued strong light vehicle sales going forward.

Figure 17
Furnishings and Durable Household Equipment Consumption



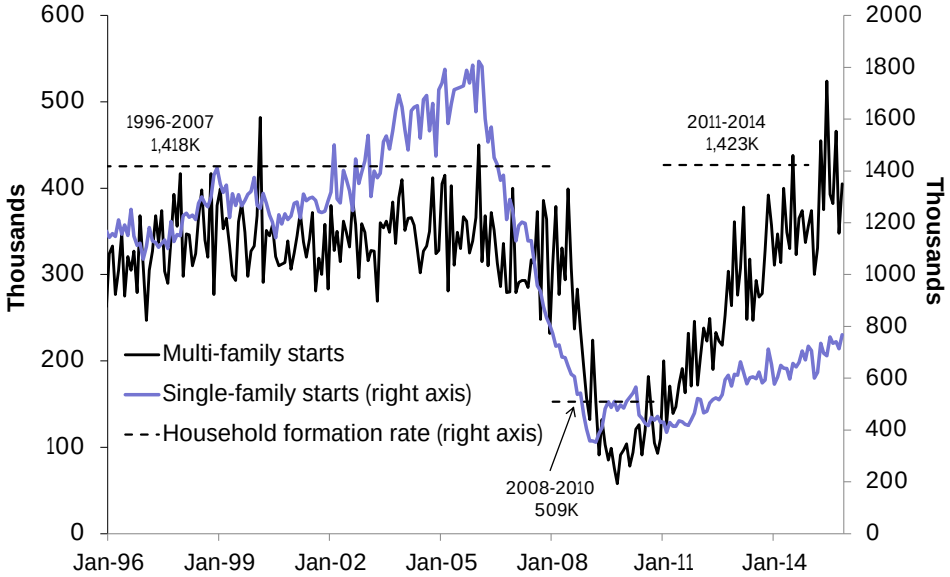
Note: Shaded areas represent U.S. recessions.
Source: Moody's Analytics; DOB staff estimates.

Figure 18
Passenger Car and Light Truck Sales



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

Figure 19
Household Formation Recovering But Multi-families Still Outpacing Single-family Construction



Source: Moody's Analytics.

A key trend supporting continued strength in residential housing is the rise in the household formation rate since the depths of the recession, illustrated in Figure 19. The average rate of household formation for the period from 2011 through 2014, the most recent period for which data is available, is above the pre-recession period and the recovery of single family starts is finally accelerating. While much of the housing bubble originated from a building boom in single-family homes, the collapse and the ensuing tight market for mortgage credit resulted in a significant decrease in both single-family and multi-family starts. The recovery, however, has been substantially stronger for multi-family housing, indicating a shift in household preferences away from home ownership toward renting. But as single-family home buying continues to accelerate, consumer spending on furniture and household equipment is likely to strengthen further since homeowners are likely to spend more on home improvement than are renters.

The Budget Division's outlook for an improvement in both household spending and the demand for new residential construction is predicated on a sustained rise in home prices, a diminishing volume of negative equity, and significantly higher real disposable income and wealth. The Budget Division projects growth in real private residential investment of 7.0 percent for 2016, following 8.5 percent growth in 2015. As employment and income prospects improve, household formation is expected to remain well above the recession lows, fueling the demand for new home construction. These factors are expected to easily outweigh whatever negative impact the Federal Reserve's slow pace of interest rate might have. For an assessment of the possible impact of central bank policy on the near-term health of the housing market, see Box 2

Box 2

WILL THE FEDERAL RESERVE DAMAGE THE HOUSING RECOVERY?

One potential caution regarding the continuing recovery of the single-family housing market could arise from the Federal Reserve's monetary policy normalization process. While the Federal Reserve can influence strongly short-term interest rates through the federal funds rate target, the effects of monetary policy changes are felt throughout the interest-rate spectrum, based on the expectations theory of interest rates under which long-term securities can be decomposed into a series of much shorter securities, assuming that these are perfect substitutes. Mortgage rates of course are a long-term interest rate, so as the Fed raises short-term rates longer-term rates can be expected to follow.

But there are several reasons for believing that this is not an immediate concern for the housing market. In the first place the first move by the Federal Reserve was very modest, an increase of just 25 basis points in the federal funds rate target range. Secondly the central bank has taken pains to tell the financial markets that the increases are expected to be gradual (although since they will also be data dependent that introduces some uncertainty as to how "gradual" gradual will be). Finally, long-term interest rates are influenced by a wide range of factors, including actual and expected inflation and global financial forces. With weak global growth and low inflation rates, the near-term environment does not appear favorable for other forces that may pull long-term rates higher.

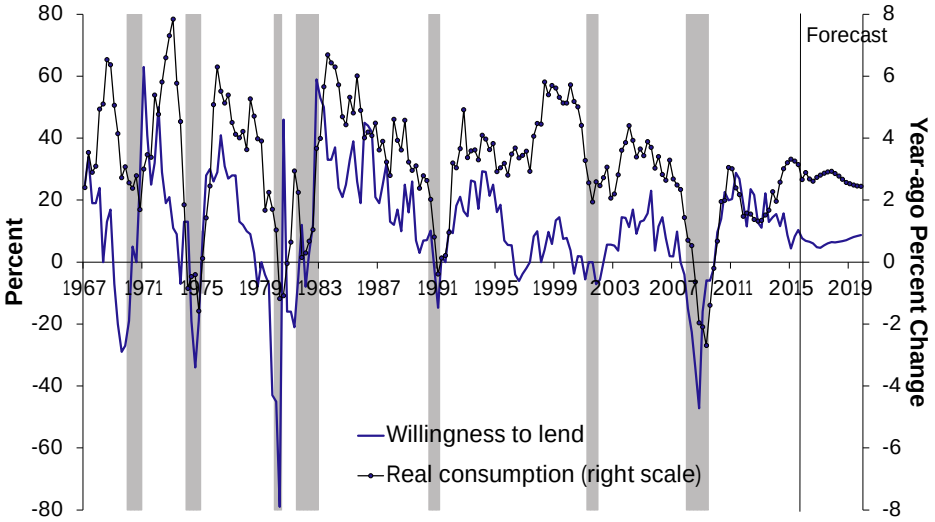
In addition, research done by the Federal Reserve Bank of San Francisco indicates that long-term rates do not respond in a one-to-one fashion to fluctuations in short-term interest rates. In fact, only about one-half of the short-run fluctuations pass through to longer-term rates.[1] Thus the effects of currently anticipated Fed policy moves are expected to be muted, with respect to the residential housing market.

One caveat to the above might be with respect to the market for less-expensive "starter" houses. Newer households whose members might be just starting on their career paths likely will already be carrying debt in the form of student loans from their higher education. With housing prices continuing to rise we would expect that such households might exhibit much more sensitivity to increases in mortgage interest rates, since the student debt burden and rising house prices already make affordability an issue. But this segment of the market is unlikely to be large enough to crimp an ongoing recovery in housing.

[1] Oscar Jorda, Moritz Schularick and Alan M. Taylor, "Interest Rates and Housing Prices: Pill or Poison?" in FRBSF Economic Letter, August 3, 2015.

Consistent with a pickup in the single family housing market, the Budget Division is projecting quarterly growth in real residential fixed investment of above 6.5 percent through the end of 2017. This growth is from extremely low levels of investment. At the height of the housing boom in 2005, real private residential construction represented 6.1 percent of total real GDP. This share is only 3.2 percent based on the most recent four quarters of available data through 2015Q3. Given the delay with which the housing market has joined the recovery, this critical market can be expected to continue to provide future stimulus to the expansion as it matures, creating upside risk to the longer-term forecast.

Figure 20
Improvement in Credit Conditions Slowing



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

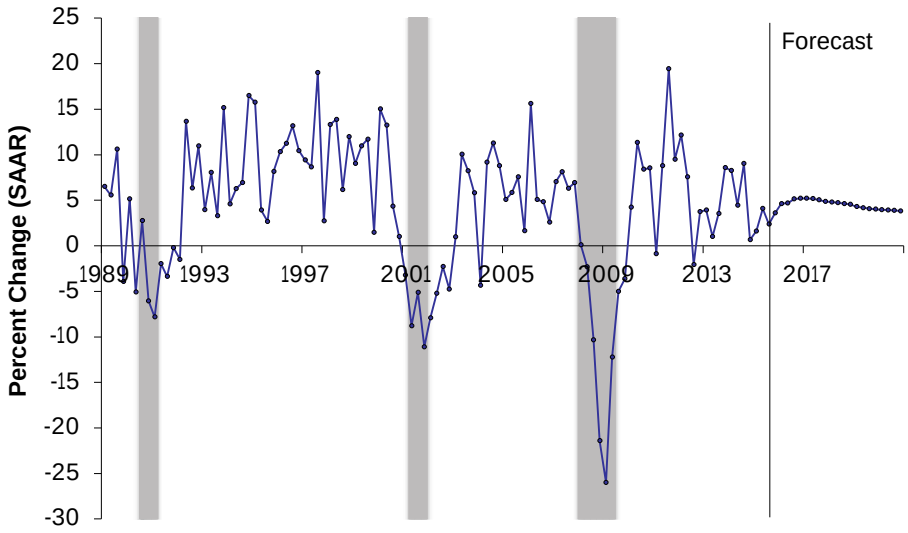
As credit markets are the life-blood of any economy, their health is critical to the advance of the current expansion. Figure 20 compares real consumption growth to bank willingness to lend to consumers, as measured by the Federal Reserve Board's Senior Loan Officer Survey. As indicated in Figure 20, credit market conditions are improving but still tight for consumers when compared to earlier expansions. Banks' desire to lend to households improved in 2013 and 2014, but the pace significantly slowed in 2015 and we expect this trend to continue into 2016. The two most important determinants of banks' willingness to extend consumer credit are short-term interbank borrowing costs, which is expect to increase now that the Federal Reserve Bank has started to normalize the federal funds rate, and default risk, which tends to be inversely related to economic growth. As the recovery progresses, interbank borrowing costs will be higher as the Federal Reserve slowly raises its target federal funds rate, but default rates are expected to continue falling. On balance, credit conditions may continue to be looser in 2016, but the rate of improvement is not expected to be as brisk as before.

With all of these supports in place, household spending is expected to continue to grow at a more robust pace than earlier in the recovery. Real spending for services and nondurable goods is projected to rise 2.5 percent in 2016, following growth of 2.8 percent for 2015. Real growth of 4.7 percent is projected for the more cyclical durable goods component for 2016, following a 5.9 percent increase in 2015.

Business Spending Remains Tepid

Figure 21 shows the dramatic fall-off in business investment spending during the depth of the recession when credit markets were virtually frozen and equity prices were in a nosedive. Investment staged a partial comeback in the early phase of the recovery, but since then, business investment has been weak, failing to regain its pre-recession peak until the first quarter of 2013. The Budget Division continues to expect only modest growth in total nonresidential fixed investment 2016. Real growth of 4.2 percent is projected for 2016, up from an estimated 3.2 percent for 2015. Real growth in structures is expected to increase to just 0.8 percent in 2016 after falling 1.2 percent in 2015, while real growth in equipment moves up to 5.6 percent in 2016 from 3.5 percent in 2015. Real growth in intellectual property products is expected to slow to 4.6 percent in 2016 from 5.9 percent growth in 2015.

Figure 21
Real Nonresidential Fixed Investment Remains Subdued



Source: Moody's Analytics; DOB staff estimates.

The relatively slow increase in investment has not been for lack of resources. Strong earnings growth early in the recovery allowed large businesses to accumulate funds that potentially could have been used for capital spending. However, the financial environment is only one component of the complex array of factors that firms consider when contemplating investment in factories, department stores, and other structures, as well as equipment and software. Standard economic theory posits that profit-maximizing firms are assumed to choose a level of investment that achieves an optimal long-run relationship between the expected level of sales and the stock of plant and equipment for a given set of current and expected future input and output prices. In addition, decreases in the cost of acquiring and using capital goods (the "user cost of capital") also induce firms to increase investment spending. Factors that reduce the user cost of capital include a decline in the prices of new investment goods, falling inflation-adjusted borrowing

costs, increasing equity prices, and changes in the tax code, such as the creation of investment tax credits.

Thus, low interest rates and favorable tax treatment programs support investment growth, and have existed in abundance since early in the recovery. However, anticipated growth in sales is also necessary to induce investment. This helps to explain the relatively tepid growth of real investment recently – with weak and uneven growth coming out of the Great Recession, real investment has also generally been sluggish. In the absence of a reliable customer base, no business can be induced to spend, tax incentives notwithstanding.

The link between real output growth and real investment growth was demonstrated empirically in recent research at the Federal Reserve Bank of St. Louis based on use of the Granger causality test.[7] Generally, one variable is said to "Granger cause" another variable if past values of the first variable are useful in predicting the second variable. Wen (2007) used quarterly real U.S. GDP minus inventory investment for output; real business fixed investment as the investment concept; and real consumption of nondurable goods and services for real consumption. Using quarterly data from 1966 to 2015, the Budget Division finds that Wen's results continue to hold, namely that 1) real consumption growth in the previous period "causes" current output growth in the Granger sense; 2) growth of real output in the previous period "Granger causes" real investment in the current period; 3) therefore, since the relationships are transitive, they imply that past real consumption growth also "Granger causes" contemporaneous real investment growth. Thus, anticipated lukewarm growth in consumption bolsters the case for slow growth in real investment.

Additional testing also reaffirmed Wen's assessment that the Granger causation is one-way, i.e., investment does not Granger cause consumption. Applying Wen's methods to real consumption of durable goods finds that the same relationships hold for that series as well. While the decision to invest in nonresidential structures and equipment is a complex one, involving considerations of tax policy, interest rates, profitability and other factors, these results indicate that the macroeconomic environment also plays a key role in real business fixed investment growth.

Another indicator of weak incentive for investment is the recent run-up in the inventories/sales ratios of both retailers and wholesalers. High levels of inventories relative to sales implies weak demand and represents a disincentive for businesses to invest further. The retail ratio, at an all-time low of 1.34 in November 2011 and from January to March 2012, reached 1.48 by September and October 2015, about where it was near the close of the Great Recession in May 2009 (1.50). The wholesale inventories/sales ratio has also increased since tying its record low of 1.12 in April 2010 and stood at 1.31 in September and October 2015, also the highest since 1.33 in May 2009.

Statistical tests also indicate that real interest rates Granger cause real investment; thus, it can also be expected that with the Federal Reserve having begun its monetary policy normalization

[7] Li Wen, "Granger Causality and Equilibrium Business Cycle Theory," Federal Reserve Bank of St. Louis Review, volume 89, number 3, 195-205, May/June 2007. Available at <http://research.stlouisfed.org/publications/review/07/05/Wen.pdf>

process, which will bring interest rates up to more "usual" levels, a further restraining influence will be in place.

Real fixed business investment in structures has failed to attain a new peak during the recovery. For 2014, the most recent full year of data available, real business investment in structures remained 14.1 percent below the recent peak it attained in 2008, and quarterly growth was stagnant over 2014 and into 2015, leaving its level as of 2015's third quarter about where it was six years earlier.

In part this likely reflects a certain amount of "payback" for overbuilding associated with the real estate boom just prior to the Great Recession. Economists at the Federal Reserve Bank of Cleveland estimate that overbuilding of nonresidential structures accelerated in the first half of the 2000s and began to decline just before the start of the recession.[8] They obtain an estimate of the overhang of structures as the percentage difference between the actual stock of structures and their optimal level. As discussed above, the optimum stock of structures is based on the idea that a firm should construct a new building only if it expects that the cost of doing so will be smaller than the discounted value-added the building will be likely to generate in the future. Disaggregating by industry sectors the authors show that by 2008 the overhang in retail trade was close to 50 percent (in other words that the actual stock of retail buildings was nearly 50 percent higher than what economic conditions and growth prospects called for) and about 25 percent in manufacturing. While they also show that these overhangs tended to fall during and after the Great Recession, the high pre-recession levels of investment in structures are not likely to reappear anytime soon, given their relatively long lives, which the authors estimate at 24 years on average.

The recent collapse of oil prices has also taken a toll on investment in structures because the mining exploration, shafts and wells category is a component of real structures investment. Mining exploration, shafts and wells, which made up nearly 30 percent of real nonresidential investment in structures in the third quarter of 2014, fell to just 16.6 percent by 2015's third quarter. It made essentially no contribution to growth in structures investment in the second half of 2014 and contributed negatively during the first three quarters of 2015.

In addition to the effects on structures, oil price declines have also affected real investment in equipment. The value of manufacturers' shipments of mining, oilfield and gas field machinery, which reached an unadjusted series peak of $3.2 billion in December 2013 had fallen 52.7 percent by October 2015 to $1.5 billion. These shipments, which enter into the real GDP computations, increased 17.7 percent on a year-over-year basis as recently as April 2014, only to turn negative by October of that year; in October 2015, the most recent data available show oil- and gas-related machinery shipments down 39.6 percent on a 12-month basis. With global oil prices not expected to rebound quickly there are no expectations that the energy sector will be a source of increased investment.

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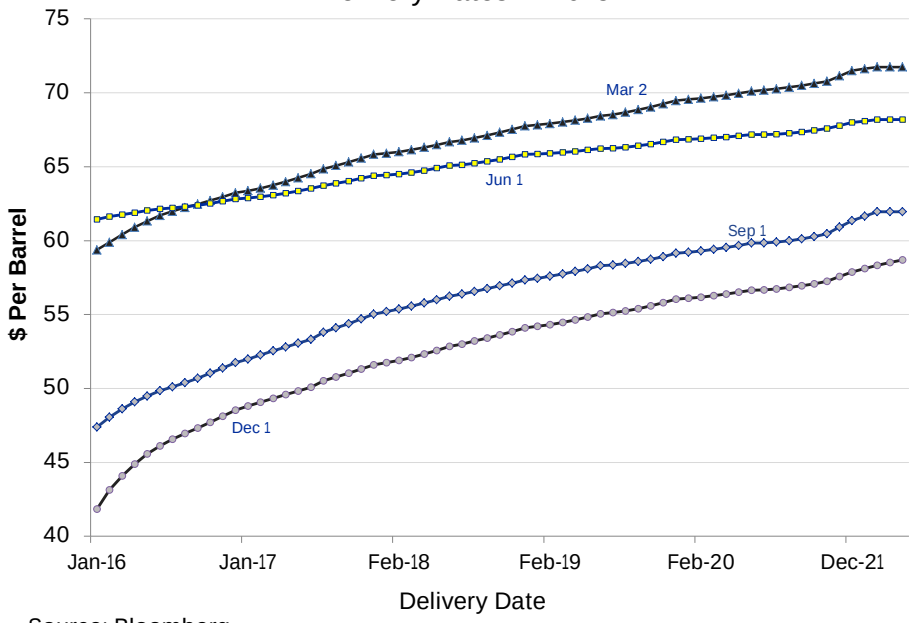
[8] Filippo Occhino and Margaret Jacobson, "The Overhang of Structures before and since the Great Recession," Economic Commentary, 2014-04, Federal Reserve Bank of Cleveland. Available at https://www.clevelandfed.org/Newsroom%20and%20Events/Publications/Economic%20Commentary/2014/The%20Overhang%20of%20Structures%20before%20and%20since%20the%20Great%20Recession.aspx>

Outlook for Inflation

While there was some energy price volatility during the year, inflation subsided further, falling to an annual rate of 0.2 percent, down from 1.6 percent in 2014. A more subdued outlook for global growth, a stronger dollar and lower commodity prices are all expected to keep inflation in check over the medium term. Increases in wage rates have also remained subdued. All these forces should help give the Federal Reserve space in which to slowly move away from its highly accommodative policies. The Budget Division projects inflation will rise to 1.8 percent in 2016 following by an increase to 2.2 percent in 2017.

Energy prices have remained extremely restrained, despite some volatility during the past year, with crude oil prices in late 2015 at their lowest levels since early 2009. The seasonally adjusted Consumer Price Index (CPI) for gasoline saw a run-up of 20.2 percent from January to July, but fell 14.4 percent by November 2015. Meanwhile the index for fuel oil and other fuels was 17.3 percent lower than it was at its recent peak in March by November, also seasonally adjusted.

Figure 22
WTI Crude Oil Futures Prices for Selected Contract Delivery Dates in 2015



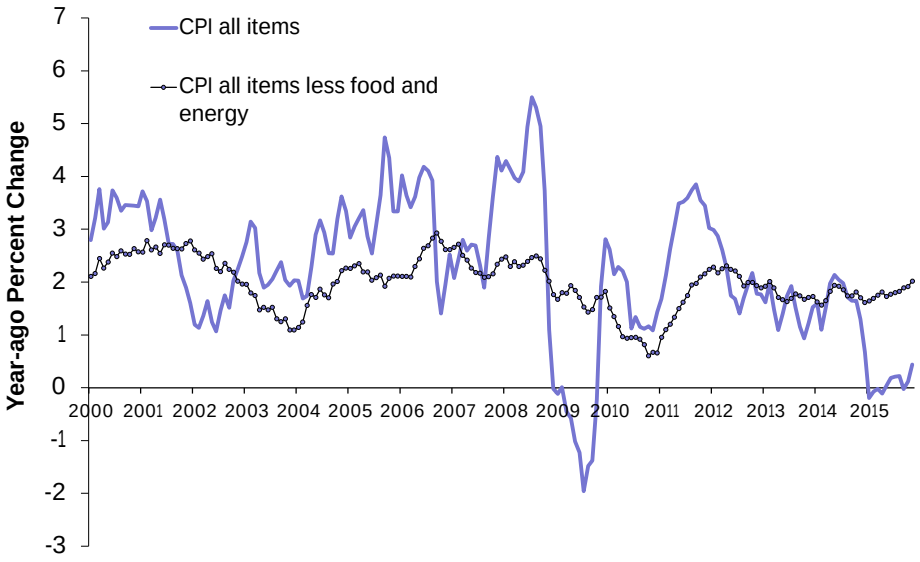
Source: Bloomberg.

Oil prices appeared to be stabilizing in the first half of 2015, as the oil price futures contract curve from June 1, 2015, in Figure 22 indicates. But as global economic concerns mounted, prices continued to slide and, as of this writing, have been unable to maintain any upward momentum. Due to the extreme volatility in global energy prices, the Budget Division uses the most recent futures contract curve to guide its oil price forecast. The Division of the Budget anticipates that oil prices, as represented by the refiners' acquisition price for a barrel of imported oil, will average $44.73 in 2016, down from $47.23 in 2015, with a recovery to an average of $49.15 by 2017.

According to the federal Energy Information Administration (EIA), a $1-per-barrel change in the price of crude oil translates into a change of about 2.4 cents per gallon of gasoline. The EIA says that in addition to the price of crude oil, retail gasoline prices also reflect refining costs and profit margins; retail and distribution costs and associated profit margins; and taxes. The latter two factors reflect the retail contribution and are more stable relative to the first two more-volatile factors, which the EIA says cause most of the variation in gasoline prices at the pump. Thus while gasoline prices move with crude oil prices the effect is not as pronounced. The EIA's latest Short-Term Energy Outlook, issued in early December 2015, anticipated an average regular gasoline price of $2.36 per gallon at the pump nationwide in 2016, down from an average of $2.43 per gallon in 2015.

Figure 23

General vs. Core Inflation



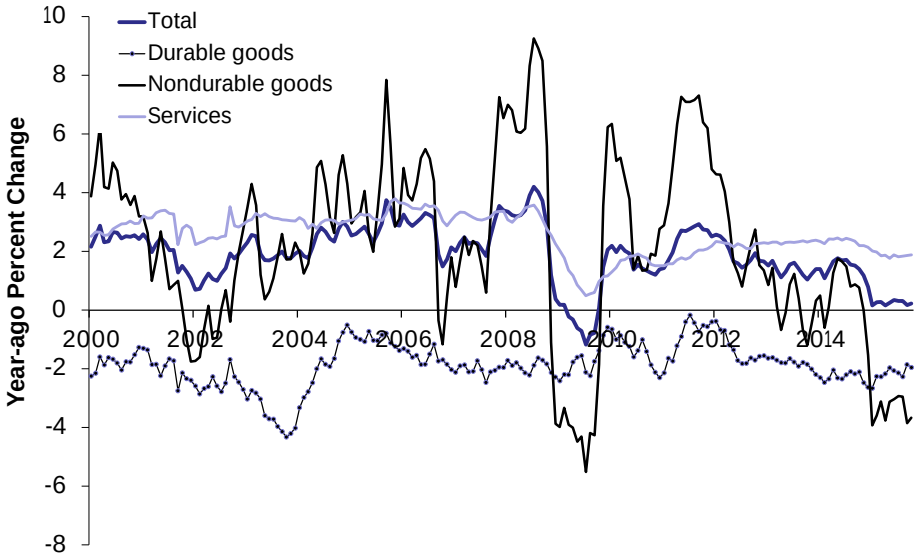
Source: Moody's Analytics.

Yet energy prices alone do not explain the continued low inflation. The seasonally adjusted all-item CPI, which posted year-ago growth of 2.1 percent in May 2014, its highest 12-month growth since October 2012, was below 2.0 percent growth by August of that year and had year-over -year declines in five of the first 11 months of 2015 (see Figure 23). Core CPI – the all-items index minus the energy and food components – fared somewhat better though it remained below 2 percent growth for all of 2014. Core CPI shows accelerating growth in 2015 as year-over-year growth sped up from 1.6 percent in January to 2.0 percent by November. A closer look at the core CPI components indicates that slower growth (if not outright declines) in prices for new and used motor vehicles and apparel offset faster growth of prices in shelter and in medical care commodities and medical care services. Recent values for the price index for personal consumption expenditures (PCE), a measure of inflation closely watched by the Federal Reserve, likewise show a similar trend (see Figure 24).

Several factors appear to have contributed to the declining trend in inflation. An analysis of recent trends in PCE inflation of the U.S. by the Federal Reserve Bank of St. Louis shows quite different behaviors among the three major PCE categories: consumer durable goods, consumer nondurable goods and services (see Figure 24). Consumer durable goods prices have been falling since the mid-1990s. Prices of nondurables have been much more volatile than either durable goods or services prices, with the current oil price drop imposing large downward pressure on this component. Services, which account for some two-thirds of total PCE, have also seen their stable price growth downshift recently.

Figure 24

Price Index for Personal Consumption Expenditures (PCE)



Source: Moody's Analytics.

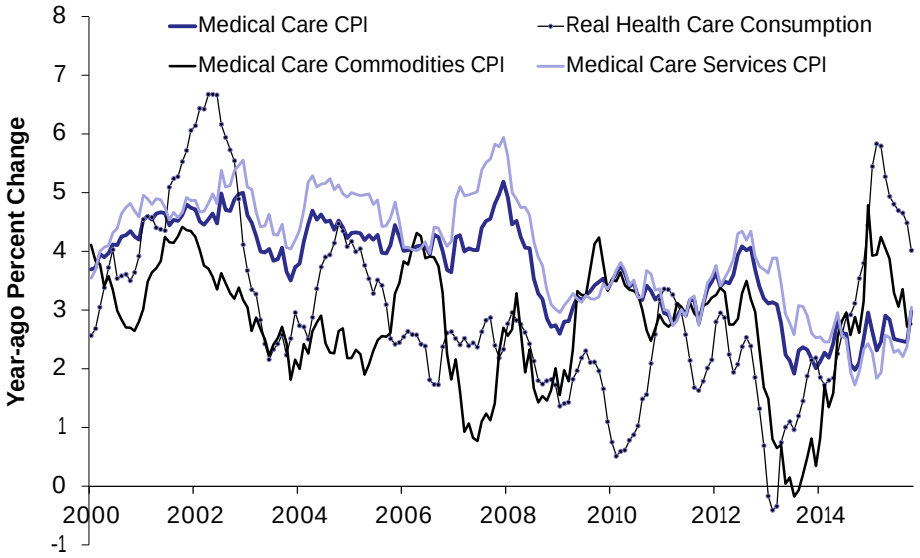
Outside of special factors that have affected the supply of energy, general weakness in the global economy likely remains one of the most important factor keeping inflation low, in spite of the Federal Reserve's efforts at spurring inflation. A stronger dollar, which results in lower import prices, has also been an important factor, as has continuing slack in the labor market that has tamped down wage increases.

Prior to the Great Recession there were concerns that the medical component of the CPI was growing at a rapid pace, straining the budgets of both consumers and governments. But growth in the medical CPI became much more restained during the recession -- as shown in Figure 25, the decline in price growth was accompanied by a decline in utilization, as represented by the inflation-adjusted health care component of personal consumption expenditures (PCE). But this trend has been reversing. Real health care spending growth increased at a 2.7 percent average (year-over-year monthly rates) in 2014, rising to 4.9 percent during the first 11 months of 2015. At the same time the medical CPI averaged 2.4 percent growth in 2014 and 2.6 percent growth in the first 11 months of 2015. Some of this was no doubt due to the slow implementation of the

ACA, combined with uncertainty stemming from legal challenges to the law and political backlash against it, as well as the effects of the recession. The Budget Division projects the medical component of the CPI to rise just 2.3 percent in 2016, but accelerating to an increase of 2.8 percent in 2017.

Figure 25

Medical Care Spending and Prices



Source: Moody's Analytics.

Between the two components of medical care CPI, commodities and services, the former (which includes medicinal drugs, medical equipment and supplies) has recently accelerated more significantly (see Figure 25). While medical care services inflation averaged 2.4 percent in both 2014 and 2015, commodities inflation increased to 3.4 percent, up from 2.5 percent in 2014. The latter increase is partly due to a combination of short supply and reduced competition as pharmaceutical companies have pursued acquisitions. But in addition to changes in the structure of the industry, there has been an upsurge in approvals by the federal Food and Drug Administration (FDA) of so-called "specialty drugs" in recent years, which the federal Centers for Medicare and Medicaid Services defines as drugs costing more than $600 per month.

In conclusion, while some acceleration in the services component of the CPI is expected for 2016, the upward pressure coming from continued employment and wage growth on inflation is expected to be limited. Box 3 contains an analysis of the relative size of the impacts of labor market tightening, inflation expectations, productivity growth, and energy and non-energy import prices on core inflation. Results indicate that the impact from a tight labor market is trivial in comparison with other factors. At this writing, energy prices have continued their downward slide, with the implication that the risks to the Budget Division forecast for 1.8 percent inflation for 2016 are most likely to the downside.

Box 3

IS LOW UNEMPLOYMENT A THREAT TO DOMESTIC INFLATION?

With the national economic expansion now in the middle of its seventh year, the unemployment rate has fallen from its October 2009 peak of 10.0 percent to 5.0 percent, which is believed to be very close to the so-called non-accelerating inflation rate of unemployment, or NAIRU. Capacity utilization is up 10.1 percentage points from its June 2009 trough, though it is still 4.0 points below its pre-recession peak. With real earnings starting to pick up, domestic prices should rise in theory. However, with the U.S. far more integrated into the global economy, global prices now play a larger role in determining the domestic price level than ever before. With global energy inventories in excess supply, global economic growth relatively weak, and the dollar significantly strengthened, both energy and non-energy import prices have fallen precipitously. With a statistical model that accounts for all of these factors, we examine how much of a threat a tightening labor market may be to core inflation.

The following model estimates the impact of both domestic and global factors on core price inflation. When the economy is expanding, it should be easier for firms to pass along higher costs to consumers than during a slowdown. Similarly, with employment and wages growing, consumers would be willing to pay more as well. Thus, when the unemployment rate falls below NAIRU, core inflation should be higher. In addition, if firms expect high future inflation, they may feel more comfortable raising prices today without risking market share, since with wages growing, consumers, who presumably are also expecting future prices to be higher, are willing to pay those higher prices. In contrast, when productivity growth is high, firms can absorb higher costs without sacrificing profits, removing the necessity of raising output prices and possibly risk losing market share. When the prices of the imported goods that compete with domestically produced products grow at a pace below that of core inflation, core inflation can be expected to decelerate. Statistical model results appear below:

$$INF_t^C = \underset{(0.09)}{0.01}\left(U_t - U_t^{NAIRU}\right) - \underset{(0.16)}{0.72}\left(U_t - U_t^{NAIRU}\right)D1983Q4_t + \underset{(0.02)}{0.03}\left(INF_{t-1}^{IM} - INF_{t-1}^{C}\right) + \underset{(0.07)}{0.30}\ INF_{t-1}^{C} + \underset{(0.10)}{0.82}\ \hat{INF}_{t+4}$$

$$+ \underset{(0.02)}{0.18}\ PDL(24,2,INF_{t-1}^{E} - INF_{t-1}^{C}) - \underset{(0.02)}{0.20}\ PDL(24,2,(INF_{t-1}^{E} - INF_{t-1}^{C})D1980Q2_t) - \underset{(0.04)}{0.12}\ PDL(12,2,PROD_t)$$

$\bar{R}^2 = 0.84$ DW = 1.97 $\quad 1957Q2 - 2015Q3$

INF_t^C = Core CPI inflation, current qtr.

U_t = Unemployment rate, current qtr.

U_t^{NAIRU} = NAIRU, current qtr.

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

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

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

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

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

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

$D1980Q2_t$ = Break point dummy {= 1 for $t \geq$ 1980Q2; 0 otherwise}

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

(continued on next page)

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The results above indicate that if non-oil import price growth drops below core inflation, then core inflation will be negatively affected, though the effect is small and statistically indistinguishable from zero. A similar drop in energy price growth will put downward pressure on core inflation as well, though the size of that impact has fallen since 1980Q1, consistent with the economy becoming more energy efficient since the oil shocks of the 1970s. Model results also show a negative impact of labor market slack on core inflation, but based on a test for a change in the structure of that relationship, the impact appears to have become statistically indistinguishable from zero after 1983Q4. This result suggests that tight labor markets have a much smaller impact on core inflation than in the past and suggest that any future upward pressure on core inflation is likely to arise from either rising non-oil import prices or rising energy prices. Finally, the large coefficient on inflation expectations highlights the critical role of expectations in keeping core inflation in check. Since we do not expect a significant acceleration in either energy or non-oil import prices anytime soon, the Federal Reserve can afford to take a gradual path toward interest rate normalization, as long as the central bank succeeds in keeping inflation expectations securely anchored.

Monetary Policy: Slow Normalization Ahead

Despite inflation not only generally running below the Federal Reserve's 2 percent target but also further decelerating during the past year, monetary policy normalization finally got under way as 2015 came to a close. The Federal Reserve's policy-setting Federal Open Market Committee (FOMC) unanimously voted to increase the target range for the federal funds rate to 25 to 50 basis points after keeping the range at the crisis level of zero to 25 basis points since December 2008. It was the first increase in the federal funds target since June 2006.

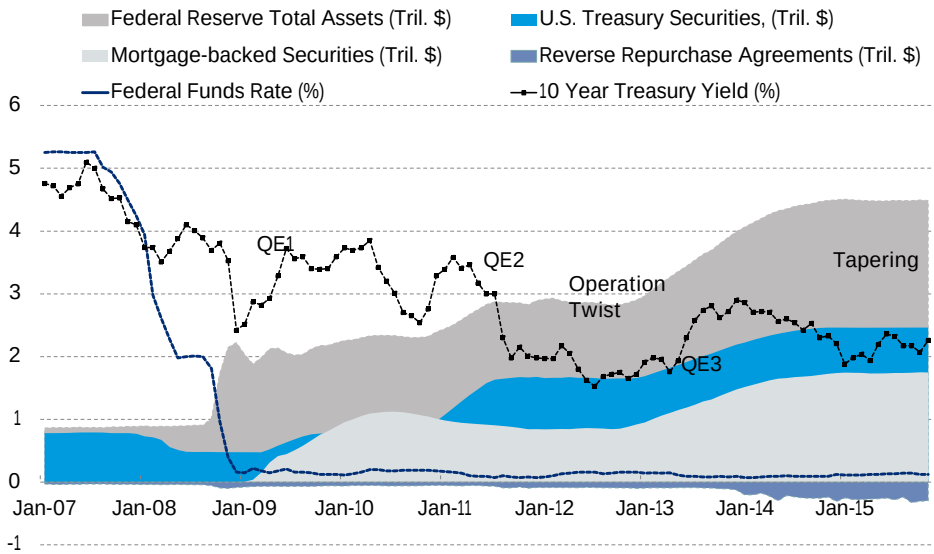
However, the Fed's "dual mandate" to achieve maximum employment and price stability, required by federal law, has only been partly achieved: November's unemployment rate of 5.0 percent is very close to the Fed's longer run projection of 4.9 percent but the 12-month change in the price index for personal consumption expenditures (PCE) was 0.4 percent for the same month, up from a new recent low of 0.2 percent in September and October. The 12-month increase in November was the largest such increase since December 2014. Note that the core PCE index (PCE minus food and energy) increased 1.3 percent on the same basis for the 11th straight month, a hopeful sign since the PCE index would be expected to converge toward the core.

With the FOMC having taken its long awaited first step toward policy normalization, the Budget Division expects that with a relatively benign outlook for inflation over the near-term, the effective federal funds rate will average 0.8 percent in 2016, rising to 2.1 percent in 2017. Meanwhile, an average 10-year Treasury yield of 2.7 percent is projected for 2016, up from the 2.1 percent average for 2015. The Budget Division expects the yield to climb to 3.4 percent, on average, for 2017.

The Budget Division's expectations for the federal funds rate over the next two years are less aggressive than what the Federal Reserve Board members and Federal Reserve Bank presidents themselves project for the median. According to the "Summary of Economic Projections" (SEP) released at the end of that meeting, meeting participants foresaw a median federal funds rate of 1.4 percent in 2016 and a 2.4 percent median for 2017. Meanwhile the range of expected federal funds rates for 2016 varied from 0.9 percent to 2.1 percent while the range for 2017 was between 1.9 percent and 3.4 percent. The SEP shows movements of 100 basis points between the 2015 and 2016 medians and between the 2016 and 2017 medians, which is roughly consistent with the Budget Division forecast. The December SEP shows 3.5 percent as the "longer run" (i.e., beyond 2018) median level for the federal funds rate, which is again roughly consistent with the Budget Division long-run outlook for 3.3 percent

Figure 26

Monetary Policy, Federal Reserve Balance and Interest Rates



Source: Moody's Analytics.

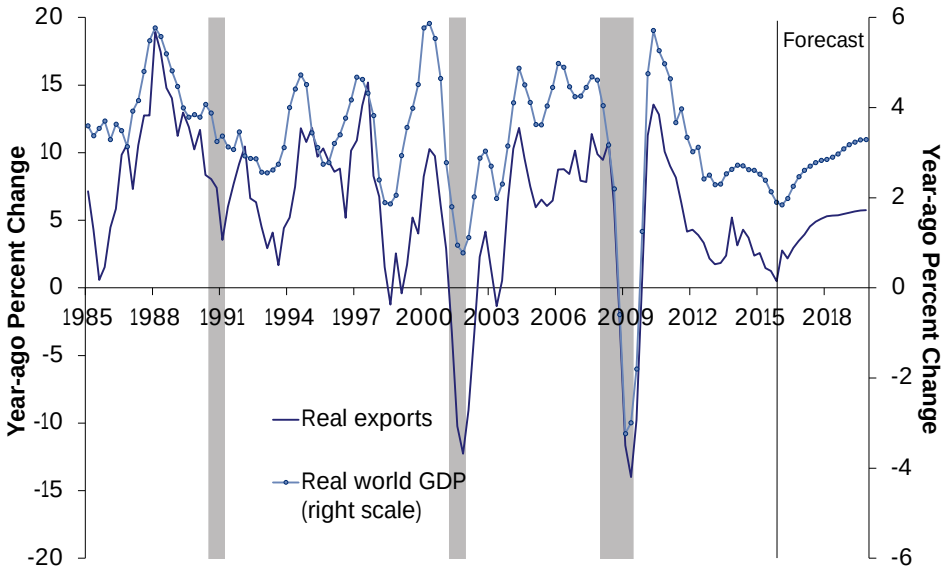
Raising the level of the federal funds rate target is only one aspect of monetary policy normalization. As Figure 26 indicates, in an effort to provide maximum accommodation given that nominal interest rates can fall no lower than zero, the central bank resorted to multiple applications of less conventional policy tools commonly referred to as quantitative easing, or QE. The Federal Reserve has communicated that it will unwind its massive balance sheet gradually in a manner that is minimally disruptive to financial markets and that is consistent with its intended degree of policy accommodation.

While the current expansion has not been a strong one, as of the end of 2015 it became the fourth-longest out of 12 post-World War II expansions at 78 months. Since recent history has shown an association between monetary policy tightening and the end of expansions, some concerns on this score have arisen. Caution about the continuation of the expansion have also come from the yield curve, that is the spread between longer-term and shorter-term securities. Measured by the difference between the 10-year Treasury yield and the yield on a three-month Treasury bill, this spread has decreased from 2.34 percent in June to 2.01 percent in December, indicating a flattening of the yield curve. While an inverted yield curve (when the Treasury bill rate is greater than the 10-year rate) is associated with a recession some four to six quarters after the inversion, the current yield curve is far from inverting. Further, the Fed has only just taken a small step toward normalizing its policy stance – overall policy remains very accommodative and cannot be characterized as "tightening" now or in the near term. Any risks to the economy from the Federal Reserve's monetary policy appear to lie in the future, barring an unforeseen surge in inflation or unexpected financial crisis.

The International Economy

The health of the global economy remains a serious risk to the U.S. economy in light of deteriorating oil and commodities markets that negatively affect commodity-exporting countries, an economic slowdown with currency devaluation and stock market turmoil in China, an underperforming Eurozone and Japan despite quantitative easing in both areas, and geopolitical upheavals in the Middle East that are threatening to spread further. Weakness in the rest of the world has resulted in an appreciation of the U.S. dollar with negative implications for U.S. exports. Year-ago growth in real world GDP fell from a local peak of 5.7 percent in the second quarter of 2010 to 2.1 percent by the third quarter of 2015 (see Figure 27). Correspondingly, real U.S. export growth fell from 13.6 percent to 1.2 percent over the same period. Assuming the Eurozone and Japan gain some traction and barring any continued deterioration of economic conditions in China or escalation of unrest and violence in the Middle East, the Budget Division expects real world GDP and U.S. exports growth to be on the upswing, though still subdued, going forward.

Figure 27
Real Export and World GDP Growth

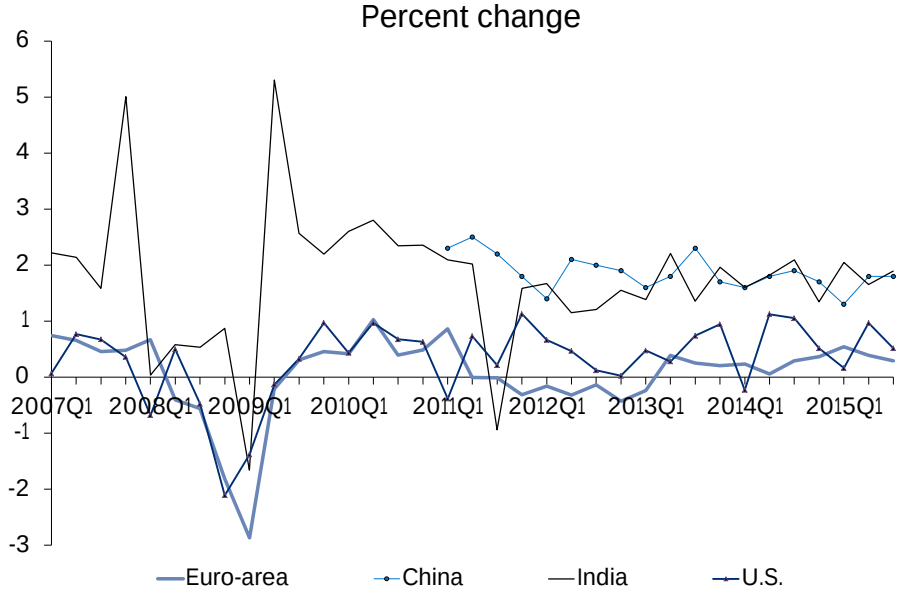


Note: Shaded areas represent U.S. recessions.
Source: Moody's Analytics; IHS Economics; DOB staff estimates.

The U.S. trade balance depends primarily on the economic conditions of its largest trading partners, Canada, the Eurozone, Mexico, China and Japan. Among those, China probably poses the largest risk to global growth and U.S. trade at this time. In the absence of reliable data, falling equity markets that were met by the government with large injections of money have increased uncertainty about the underlying economic growth prospects of the second largest economy in the world, and its global repercussions. China and India, due to their sheer size and past brisk rates of growth, have been engines of global economic growth. Recent structural changes in the Chinese economy have resulted in slowing economic growth over the past few years, as can be

seen in Figure 28, which illustrates co-movements in real GDP growth for the euro-zone, the U.S., China, and India. While India has been able to sustain growth, China's growth has struggled, and recent developments have cast doubt on whether China will be able to maintain even these lower recent GDP growth rates going forward. China's struggle has resulted in reduced demand for commodies and contributed to tumbling commodities prices across the board with grave consequences for economic growth in commodity-exporting emerging markets.

Figure 28
Quarterly GDP Growth for Selected Areas
Percent change



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

The Eurozone's growth in the aftermath of the recession has been anything but robust. To keep the Eurozone from sliding back into recession, the European Central Bank (ECB) has engaged in easy monetary policy by cutting its main interest rates and expanding its asset purchasing program with some success. Manufacturing in the eurozone accelerated at the fastest pace in 20 months in December 2015, with every member country, even Greece, experiencing output growth and job creation. According to the October outlook by the International Monetary Fund (IMF), the Eurozone is expected to grow at a 1.5 percent pace in 2015 and the prospects for continued growth in 2016 are good, suggesting little need for additional stimulus by the ECB, which, in turn, should help stabilize the euro against the dollar. The impact of the large influx of refugees from Syria and other war-torn countries in the Middle East and North Africa remains a major source of uncertainty.

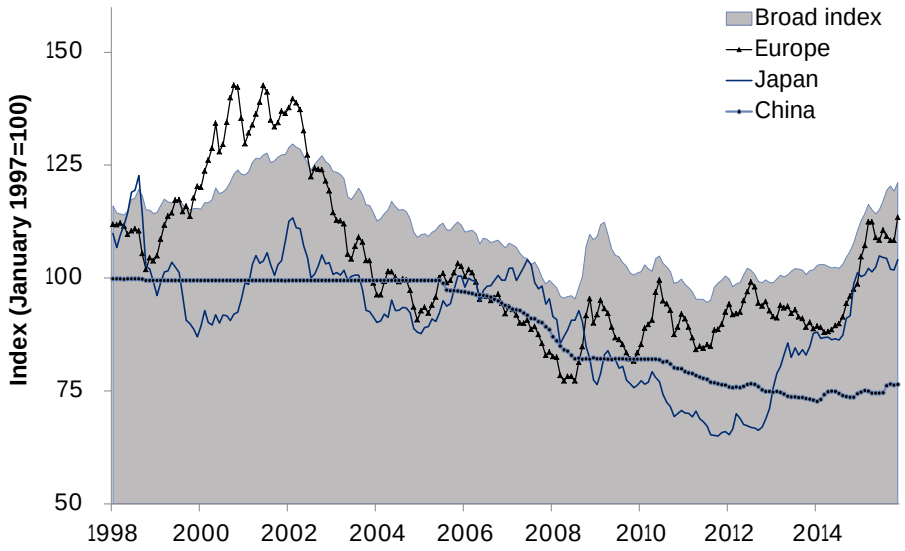
Japan, the fourth largest U.S. trading partner, has been struggling to avoid a recession for several years. Despite quantitative easing by the Japanese Central Bank, Japan experienced a slight 0.1 percent output decline in 2014. However, easy monetary policy appears to have had some impact recently with IMF expected 0.6 percent growth in 2015 and stronger growth expected going forward.

Economic conditions in Canada and Mexico, America's neighbors and first and third largest trading partners, are favorable for continued, albeit subdued, growth in U.S. exports. Canada's economy is expected to expand at a slower pace, with projected 2015 growth of 1.0 percent following 2.4 percent growth in 2014, due to weakness in oil prices. The IMF exptects output growth to pick up momentum again with 1.7 percent growth expected for 2016. While the Mexican economy slowed substantially in 2013, GDP growth has picked up with 2.1 and 2.3 percent growth in 2014 and 2015, respectively, as the country has benefited from a stronger U.S. economy and a weaker peso. Even stronger GDP growth of 2.8 percent is expected for 2016.

Solid economic growth in the U.S. stands in contrast to the rather lackluster performance of much of the rest of the world. As a consequence, the dollar has been appreciating against other currencies (see Figure 29). The Broad Index, a trade-weighted index of the nation's major trading partners, shows that the dollar has risen 17.8 percent since January 2014 alone, and an even stronger 27 percent compared to the euro and 18.0 over the Japanese yen in the same 23 months. Even compared to the yuan, the dollar appreciated 5.2 percent. With continued easy monetary policy possible in China, Japan and the Eurozone and the start of interest rate hikes by the U.S. Federal Reserve Board, the dollar is expected to appreciate further in 2016. The rising dollar and sluggish growth abroad present risks to the forecast for U.S. exports.

Figure 29

Foreign Exchange Value of U.S. Dollar



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

Table 4 illustrates how demand for U.S. exports has shifted proportionately away from the developed world toward the large emerging economies. Between 2007 and 2015, exports to China grew 85.9 percent, compared to overall export growth of 41.1 percent, and China's share of total U.S. exports increased by 1.7 percentage points. Though that share is still small compared

to the export shares of Canada or the European Union, those shares have experienced considerable declines of 4.4 percentage points for Canada and 4.6 percentage points for the European Union.

Weak economic growth globally and among its main trading partners impacts U.S. exports though the export sector of the United States is one of the smallest as a share of gross domestic product (GDP) among the major world economies. U.S. exports of goods and services were 13 percent of GDP in 2014, according to the latest data available from the World Bank; among the major global economies only Japan, at 16 percent, had a share nearly that small. In contrast South Korea's export sector was 51 percent of its GDP while Germany's was 46 percent. That share for the United Kingdom was at 28 percent, Canada and Mexico were just over 30 percent, while China's share was 23 percent. Nevertheless, the importance of the export sector to large segments of the U.S. economy, particularly the high-productivity manufacturing sector, cannot be overstated. Moreover, it is estimated that roughly half of the earnings of S&P 500 firms stem from their overseas operations. As a result, depressed global demand can impact the U.S. household sector indirectly through the wealth effect.

Table 4

THE CHANGING FACE OF US EXPORTS

	2007-2015 Percent Growth	2007 Share	2015 Share
Brazil	30.3%	2.1%	1.9%
Canada	12.9%	21.7%	17.3%
China	85.9%	5.5%	7.2%
European Union	10.9%	21.3%	16.7%
Mexico	74.0%	11.8%	14.6%
Total	41.1%	-	-

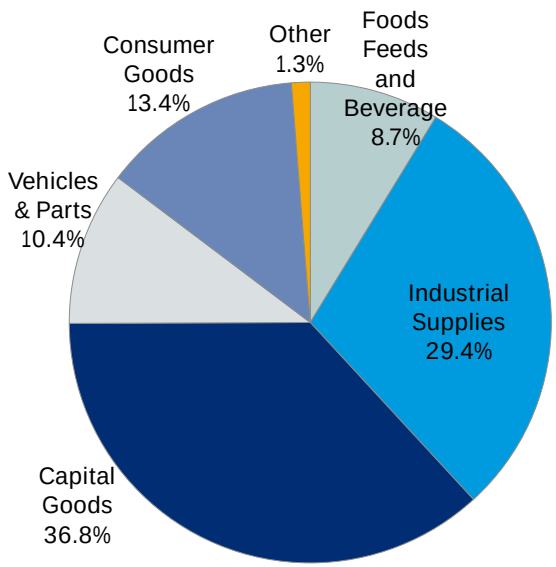
Source: U.S. Census Bureau, Foreign Trade Division.

As suggested above, some sectors of the U.S. economy are more affected by global demand than others. In 2013, $2.508 trillion, or 66 percent of total manufacturing output, was exported, making the manufacturing sector very sensitive to changes in the world economy and foreign demand for U.S. products. Manufactured goods represented 68 percent of total U.S. exports in the first 11 months of 2015. U.S. exports of manufactured goods reached a record $1.4 trillion in 2014, an increase of 4.4 percent over 2013. Given the weakness in global demand and the strong dollar, exports of goods grew only 1.1 percent over the first 11 months of 2015, compared with the same months in 2014. Figure 30 decomposes U.S. goods exports by end-use category and highlights those areas of the domestic manufacturing sector that are affected by changes in global demand and the exchange rate. With the recent lifting of the export ban on crude oil, energy is likely to become a more important piece of the pie going forward.

However, the United States produces approximately 21 percent of the world's manufacturing output, a number which has remained unchanged for the last 40 years. Ongoing job losses during this period are explained by record-breaking productivity gains. All across the

manufacturing sector there are causal links between capital deepening per worker, relatively high real rates of return, and strong productivity growth. Both total factor productivity growth and growth in the capital-to-labor ratio have accelerated since 1995 and increased even further in the latest recession and subsequent recovery.

Figure 30
2015 Share of Exported Goods by End-Use Category



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

On the other hand, with a strengthening U.S. economy and a strong dollar, imports are expected to rise 5.2 percent in 2015 and 3.9 percent in 2016. Weakening import growth following the recession had a favorable impact on the current account trade deficit. While the deficit reached a low point of 2.2 percent of nominal GDP in 2013Q4, it increased to an average of 2.6 percent in 2014 and 3.0 percent in the first three quarters of 2015. Import growth has also benefitted from renewed increases in crude oil imports as relatively high-priced domestic production struggles to compete in the current low-price environment. Though imports are a subtraction from U.S. output growth, they are also a signal of strength in consumer and business sector demand.

Global holdings of Treasury securities declined by 1.8 percent in 2015, based on the first 10 months of data, after rising 6.3 percent in 2014, according to data from the U.S. Treasury (see Table 5). The two biggest holders of U.S Treasuries now are net sellers. China, the largest single holder, cut its holdings by 2.0 percent in 2014 and only partially made up for the decline by increasing holdings by 0.8 percent in 2015, based on data through October, while Japan, the second largest holder, saw a sharp drop in its foreign reserves by 6.6 percent after an increase of 4.1 percent in 2014. Central banks tend to sell foreign currency when their own domestic currency is under too much selling pressure. Currently, China is experiencing capital outflows as investors abandon the yuan for U.S. dollars and euros to invest elsewhere, and the People's Bank of China has responded by selling foreign currency and buying yuan in order to avoid inflation.

Russia, the fifteenth largest holders of U.S. Treasury securities based on the most recent data, declined its holdings by 38 percent in 2014 and another 4.7 percent by October 2015. On the positive side, Treasury securities holdings by the oil-exporting nations grew 1.9 percent in 2015 through October, following to 19.2 percent growth in 2014.

Table 5

MAJOR FOREIGN HOLDERS OF TREASURY SECURITIES*

($ Billions)

	Japan		Mainland China		United Kingdom		Oil Exporters		Grand Total**	
	Level	Change	Level	Change	Level	Change	Level	Change	Level	Change
Jan-14	1,201.4	18.9	1,275.6	5.5	163.2	(0.5)	246.5	8.2	5,841.3	48.7
Feb-14	1,210.8	9.4	1,272.9	(2.7)	175.6	12.4	243.8	(2.7)	5,890.1	48.8
Mar-14	1,200.2	(10.6)	1,272.1	(0.8)	176.3	0.7	247.4	3.6	5,948.3	58.2
Apr-14	1,209.7	9.5	1,263.2	(8.9)	185.4	9.1	255.4	8.0	5,959.4	11.1
May-14	1,220.1	10.4	1,270.9	7.7	179.8	(5.6)	257.9	2.5	5,974.5	15.1
Jun-14	1,219.3	(0.8)	1,268.4	(2.5)	173.6	(6.2)	262.1	4.2	6,018.7	44.2
Jul-14	1,219.0	(0.3)	1,264.9	(3.5)	173.0	(0.6)	261.3	(0.8)	6,002.6	(16.1)
Aug-14	1,230.1	11.1	1,269.7	4.8	172.7	(0.3)	267.5	6.2	6,069.4	66.8
Sep-14	1,221.8	(8.3)	1,266.3	(3.4)	167.8	(4.9)	279.4	11.9	6,069.2	(0.2)
Oct-14	1,222.4	0.6	1,252.7	(13.6)	171.3	3.5	281.8	2.4	6,062.1	(7.1)
Nov-14	1,241.5	19.1	1,250.4	(2.3)	174.3	3.0	278.9	(2.9)	6,114.8	52.7
Dec-14	1,230.9	(10.6)	1,244.3	(6.1)	188.9	14.6	285.9	7.0	6,156.0	41.2
Jan-15	1,238.6	7.7	1,239.1	(5.2)	207.4	18.5	290.8	4.9	6,217.0	61.0
Feb-15	1,224.4	(14.2)	1,223.7	(15.4)	192.3	(15.1)	296.8	6.0	6,161.7	(55.3)
Mar-15	1,224.7	0.3	1,261.0	37.3	200.3	8.0	297.3	0.5	6,172.3	10.6
Apr-15	1,215.9	(8.8)	1,263.4	2.4	195.6	(4.7)	292.9	(4.4)	6,137.5	(34.8)
May-15	1,214.9	(1.0)	1,270.3	6.9	199.5	3.9	296.8	3.9	6,133.9	(3.6)
Jun-15	1,197.1	(17.8)	1,271.2	0.9	215.0	15.5	296.7	(0.1)	6,174.8	40.9
Jul-15	1,200.8	3.7	1,268.8	(2.4)	212.9	(2.1)	298.4	1.7	6,116.5	(58.3)
Aug-15	1,197.0	(3.8)	1,270.5	1.7	222.8	9.9	293.2	(5.2)	6,098.7	(17.8)
Sep-15	1,177.1	(19.9)	1,258.0	(12.5)	214.0	(8.8)	291.3	(1.9)	6,103.1	4.4
Oct-15	1,149.2	(27.9)	1,254.8	(3.2)	210.6	(3.4)	291.4	0.1	6,046.3	(56.8)

* Estimated foreign holdings of U.S. Treasury marketable and nonmarketable bills, bonds and notes are based on Treasury Foreign Portfolio Investment survey benchmarks and on monthly data reported under the Treasury International Capital (TIC) Reporting System.

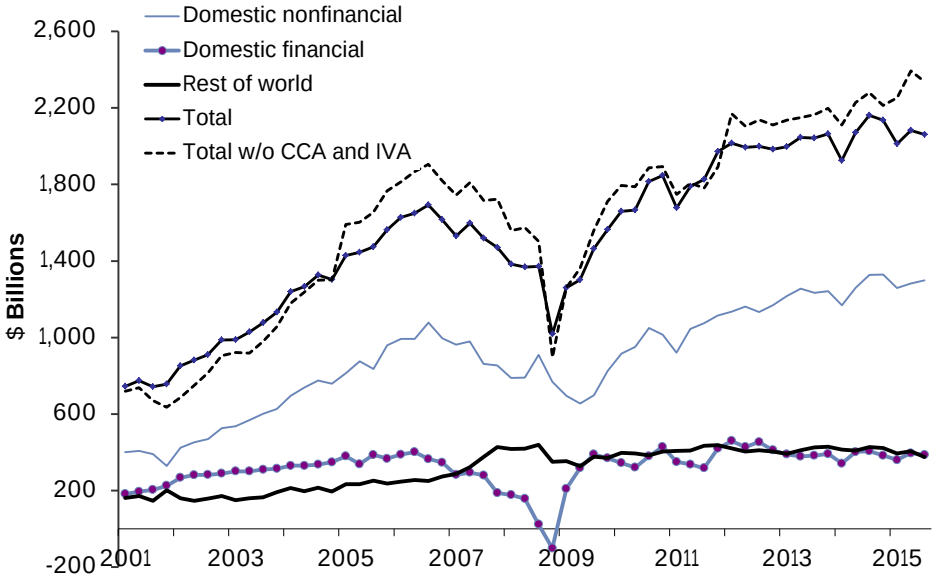
** Grand Total is the total of all 27 countries included in the Portfolio Investment Survey.

Source: U.S. Department of the Treasury/Federal Reserve Board.

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

U.S. corporate profits exhibited remarkable strength during the early phase of the recovery (see Figure 31), growing 58.4 percent between the recession trough in the second quarter of 2009 and the third quarter of 2015, the most recent quarter for which data are available. However, after 10.0 percent growth in 2012, corporate profit growth slowed down. It grew 2.0 percent in 2013, 1.7 percent in 2014, and was flat for the first three quarters of 2015. This slowdown of U.S. corporate profits growth was initially due to the financial sector, which declined 12.0 percent in 2013, followed by small declines of 0.6 percent in 2014 and 0.7 percent through the third quarter of 2015. However, as the global economy got much weaker in 2015, the "rest-of-world" profits, generated by activity outside of U.S. borders, experienced a significant decline of 6.1 percent through the third quarter, following small growth of 0.8 percent for 2014 and 1.1 percent for 2013, becoming the main drag on U.S. corporate profits. At the same time, domestic nonfinancial profits were also negatively affected by weak global demand and grew only 2.2 percent during the first three quarters of 2015, down from 2.8 percent in 2014. As a result, U.S. corporate profit is estimated to decline 0.9 percent on an annual basis in 2015.

Figure 31
U.S. Corporate Profits



Source: Moody's Analytics.

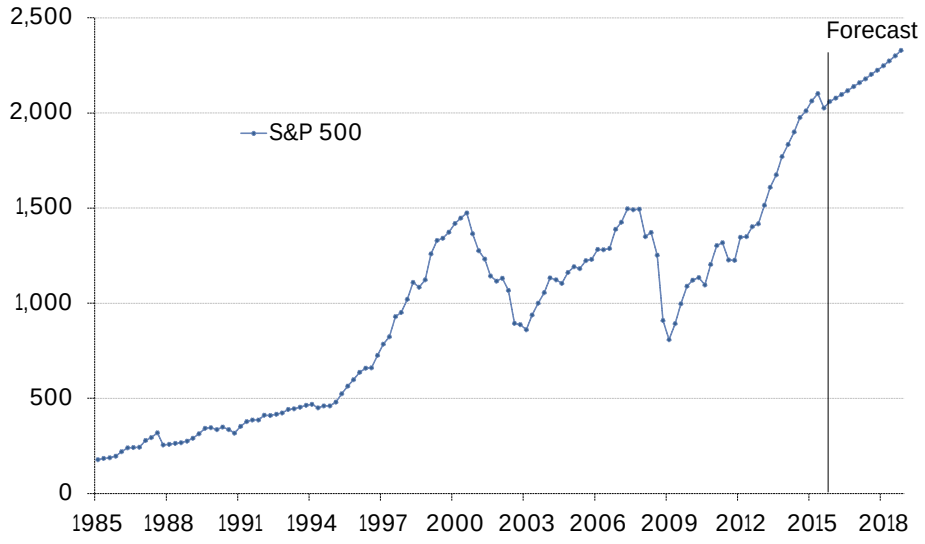
In 2016, U.S. corporate profits are expected to improve but continue to exhibit weak growth. Weak global growth is expected to constrain rest-of-world profits, while relatively slow projected domestic growth will lead to weak domestic nonfinancial profits. The Federal Reserve's policy shift starting in December, 2015, may curb financial sector profits growth in 2016, and the S&P 500's 6 percent decline during the first week of the new year was an inauspicious start for that sector. As a result, U.S. corporate profits from current production, which includes the inventory valuation and capital consumption adjustments, are projected to grow 2.9 percent in

2016, after falling 0.9 percent in 2015. Growth rates for both years are well below the historical average 7.4 percent from 1948 to 2014.

Equity market turbulence has remained a constant throughout this recovery (see Figure 32). Although markets have generally risen since their March 2009 troughs, there have been two major corrections along the way: a 16 percent correction between April 23, 2010, and July 2, 2010; and a 19 percent correction between July 7, 2011, and October 3, 2011. Given that equity price fluctuations over that part of the recovery were more reflective of the fear surrounding both the euro-debt crisis and domestic political strife than the path of corporate earnings, much of the recent run-up likely reflects a diminishing of the risk aversion that plagued the market for so long.

Figure 32

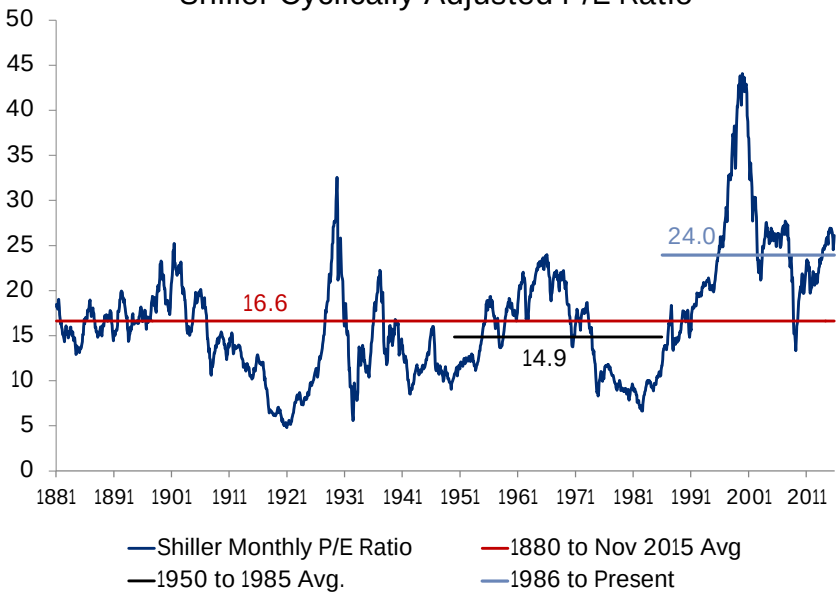
Equity Market Growth



Source: Moody's Analytics; DOB staff estimates.

Over the long term, equity market price growth is expected to be consistent with growth in corporate earnings, discounted by the change in interest rates. However, more recent ratios between equity prices and corporate earnings suggest a disconnect that may be related to the long period during which interest rates were extraordinarily low as a result of central bank policy. Figure 33 presents the long-term history of the S&P 500 price-to-earnings ratio adjusted for inflation, where earnings are measured by the trailing 10-year moving average. The November 2015 level was above the 24.0 average from 1986 to that month, a period that contained the high-tech/Internet bubble of the late 1990s. This level compares to an average over the entire history of the series of 16.6, and an average over the early postwar period of 14.9. These results urge caution, particularly in light of recent events, in an environment of rising interest rates. The Budget Division projects equity market growth of 2.2 percent for 2016 on an annual average basis, following growth of 6.8 percent in 2015.

Figure 33
Shiller Cyclically Adjusted P/E Ratio



Source: Robert Shiller; DOB staff estimates.

Outlook for Government Spending

State and local government spending declines came to an end in the first quarter of 2014 after 16 consecutive negative growth quarters, with year-over-year growth accelerating over the following quarters (see Figure 34). The National Association of State Budget Officers (NASBO) shows that state spending in fiscal year 2015 increased at the fastest clip since 1992, largely because of strong growth in federal funds to states from increased Medicaid enrollment during the first full year of the Affordable Care Act, and because of moderate growth in own funds.[9] Unlike Federal government spending, state and local government expenditures are constrained by revenue flows, federal funds to states, and statutory balanced-budget requirements. With home prices on the mend and stronger economic activity, sales tax and property tax revenues have helped state and local revenues and are expected to continue to do so, while growth in federal funds to states is likely to slow as Medicaid enrollment is expected to decelerate. The Budget Division projects state and local government spending to grow 1.9 percent in 2016, following 1.6 percent growth in 2015. Clearly, these growth rates fall short of average growth in state and local government spending for the period from 1965 to 2014 of 2.2 percent.

The Federal spending sequester and the pullback in the nation's military efforts as the high budget deficit met with resistance from policymakers resulted in a significant decline in the NIPA component of Federal spending. As a consequence of the slowdown in Federal spending, the Federal budget deficit fell from $1,300 billion in Federal fiscal year 2010-11, the equivalent of

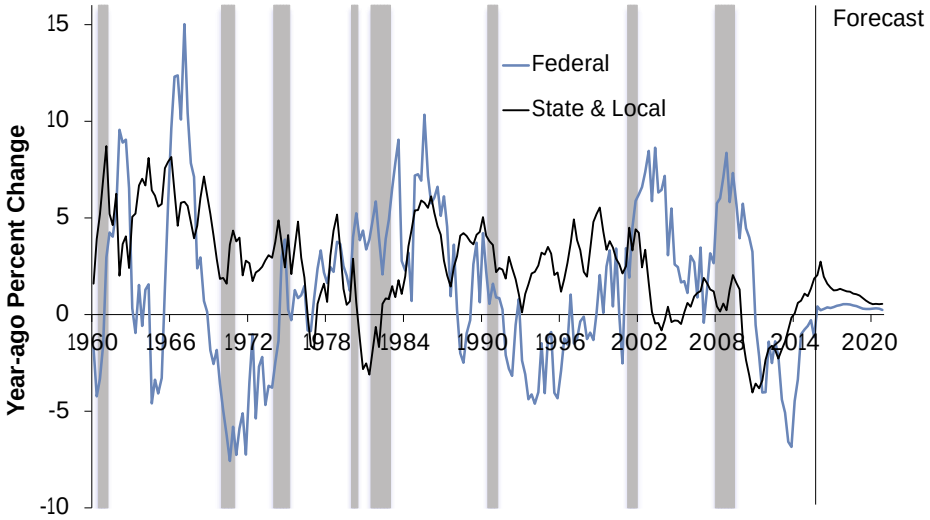
[9] The National Association of State Budget Officiers, State Expenditure Report, 2015.

8.7 percent of nominal GDP, to $680 billion or 4.1 percent of nominal GDP two years later, and to $439 billion or 2.4 percent of nominal GDP in Federal fiscal year 2014-15.

Going forward, headwinds from federal government spending are expected to turn into very light tailwinds. The Bipartisan Budget Act of 2015, signed by President Obama on November 2, 2015, will fund the federal government through September 2016. The adjusted caps are set at an estimated $606.9 billion for defense programs and $542.8 billion for nondefense programs for a total adjusted cap of about $1.15 trillion.[10] The Congressional Budget Office (CBO) estimates that these caps suffice to meet appropriations, making cancellations of budgetary resources through sequestration unnecessary for fiscal year 2016. Additionally, in an eleventh-hour showdown, the Senate passed a bill at the end of October that raised the debt ceiling by $18.1 trillion, high enough to require no additional action until March 2017, and thus avoiding showdowns with the possibility of missing payments that can sharply raise borrowing costs. The Budget Division estimates the NIPA definition of Federal government spending to grow 0.3 percent in 2016 and 0.5 percent in 2017, after declining 0.4 percent in 2015. Estimated federal government spending growth rates for the near future also remain below the long-term average growth of 1.2 percent.

Figure 34

Real Government Spending Over the Business Cycle



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

[10] By law, the caps set in the Bipartisan Budget Act of2015 are adjusted upward for budget authority designated as an emergency requirement or provided for overseas contingency operations of for some types of disaster relief.

Comparison with Other Forecasters

Table 6 compares the Budget Division's (DOB) forecast for a selection of U.S. indicators with those of other forecasting groups. The 2016 forecasts for real U.S. GDP growth fall into a range from a low of 2.1 percent (Macroeconomic Advisers) to a high of 2.7 percent (IHS Economics), with DOB closer to the bottom of the range. The DOB 2016 inflation forecast of 1.8 percent is at the top of the range, while IHS Economics is at the bottom at 1.2 percent. DOB's unemployment rate forecast for 2016 is 4.9 percent, in line with the other forecasters.

Table 6

U.S. ECONOMIC FORECAST COMPARISON

	2015	2016	2017
Real Gross Domestic Product (GDP)			
(2009 chained percent change)			
DOB	2.5	2.3	2.8
Blue Chip Consensus	NA	2.5	2.5
IHS Economics	2.4	2.7	2.9
Macroeconomic Advisers	2.4	2.1	2.3
Consumer Price Index (CPI)			
(percent change)			
DOB	0.2	1.8	2.2
Blue Chip Consensus	NA	1.6	2.3
IHS Economics	0.1	1.2	2.6
Macroeconomic Advisers	0.1	1.6	2.3
Unemployment Rate			
(percent)			
DOB	5.3	4.9	4.8
Blue Chip Consensus	NA	4.8	4.6
IHS Economics	5.3	4.9	4.9
Macroeconomic Advisers	5.3	4.8	4.6

Source: New York State Division of the Budget, December 2015; *Blue Chip Economic Indicators*, January 2016; IHS Economics, *US Forecast Summary*, January 2016; and Macroeconomic Advisers, *Economic Outlook,* January 2016.

For a brief description of the methodology used by the Budget Division to construct its macroeconomic model for the national economy (DOB/US), see Box 4. For a more detailed description, see New York State Economic, Revenue, and Spending Methodologies, November 2015.[11]

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

Risks to the U.S. Forecast

The Budget Division outlook calls for a slow start to the year but with steady improvement over the course of 2016, as the strength of the domestic labor and housing markets competes with weak demand from overseas. But there are a number of significant risks to the forecast. The euro-area economy is growing but at a snail's pace, while the true underlying growth rate in China is highly uncertain. If growth in either area is even more sluggish than expected, the implications for emerging markets and the global economy more generally will be negative, and will likely result in slower export and corporate profits growth than reflected in this forecast. The impact will reverberate through U.S. labor and financial markets, resulting in slower growth than anticipated. On the other hand, if either area is stronger than expected, the implications for the forecast will be quite positive.

It appears that the dysfunction that has plagued the U.S. government has largely been resolved, but if the current spirit of compromise should dissipate, the resulting uncertainty could affect both household and business sector confidence, and their willingness to spend and hire. Oil prices are expected to stabilize as U.S. energy production cuts put downward pressure on supply. But continued tepid global growth anticipated for this year, along with strategic behavior on the part of sovereign energy producers could send oil prices even lower, which could have a deleterious effect on both business hiring and investment, as well as on equity markets. Alternatively, if consumers choose to spend more of the energy dividend than expected, household spending could stronger than anticipated.

Finally, the Federal Reserve has begun to execute its long awaited exit from six and a half years of unconventional policy use and unprecedented balance sheet expansion. The central bank has confirmed that the future path of that strategy remains data dependent, and highly uncertain at this stage. If that exit is rockier than anticipated, and long-term interest rates start to rise more quickly than expected, the impact on the entire global economy – both real and financial – could be quite negative. Alternatively, a smooth exit could play a critical role in putting the current expansion on the road to becoming one of the longest since the middle of the 20th century. Either way, the experience will continue to be one for the history books.

Box 4

THE DIVISION OF THE BUDGET U.S. MACROECONOMIC MODEL

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

The Budget Division's U.S. macroeconomic model (DOB/U.S.) incorporates the theoretical advances described above in an econometric model used for forecasting and policy simulation. The model contains 132 core equations, of which 37 are behavioral. In addition, there are hundreds of auxiliary forecasting equations that incorporate the results from the core model as inputs. The current estimation period for the model is 1965:1 through 2014:3. Our analysis borrows heavily from the Federal Reserve Board model which was redesigned during the 1990s using the most up-to-date advances in modeling techniques. We are grateful to Federal Reserve Board economists for providing guidance and important insights as we developed the DOB/U.S. macroeconomic model.

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

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

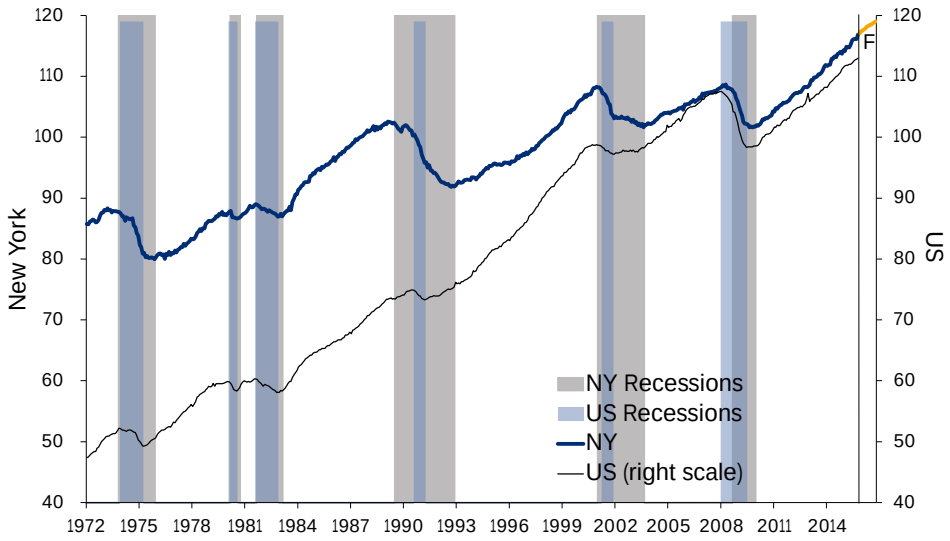
The model structure reflects the microeconomic foundations that govern optimizing behavior, but is sufficiently flexible to capture the short-run fluctuations in employment and output caused by economic imbalances (such as those caused by sticky prices and wages). DOB/U.S. incorporates dynamic adjustment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

The New York State Economy

New York State's private labor market continues to enjoy robust growth. On a year-ago basis, private sector employment grew a strong 2.3 percent in the second quarter of last year, the most recent period for which detailed data are available. Growth was led by the construction sector, fueled in turn by a thriving real estate market. The private education sector also experienced strong growth in the first half of 2015. The Budget Division estimates that private sector employment grew 2.1 percent for all of 2015, representing five consecutive years of above-average job growth. With the national economy slowing toward the end of last year and the Federal Reserve starting down a gradual path of interest rate normalization, private sector job growth is expected to slow to still above-average growth of 1.5 percent in 2016.

Figure 35

New York State Index of Coincident Economic Indicators



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

In contrast with the State's private sector, public sector job growth was virtually flat during the second quarter of last year, bringing overall State employment growth down to 2.0 percent for the quarter and an estimated 1.7 percent for the year. Consistent with a moderate fall off in private sector growth, total State job growth of 1.3 percent is expected for 2016.

In contrast with decelerating job growth, wage growth is expected to speed up from 3.7 percent for 2015 to 4.3 percent for 2016. These apparently contradictory trends are an artifact of a decline in finance and insurance sector bonuses estimated for 2015 vis-à-vis the weak but positive growth projected for this year.

Box 5

NEW YORK STATE INDICES OF COINCIDENT AND LEADING ECONOMIC INDICATORS

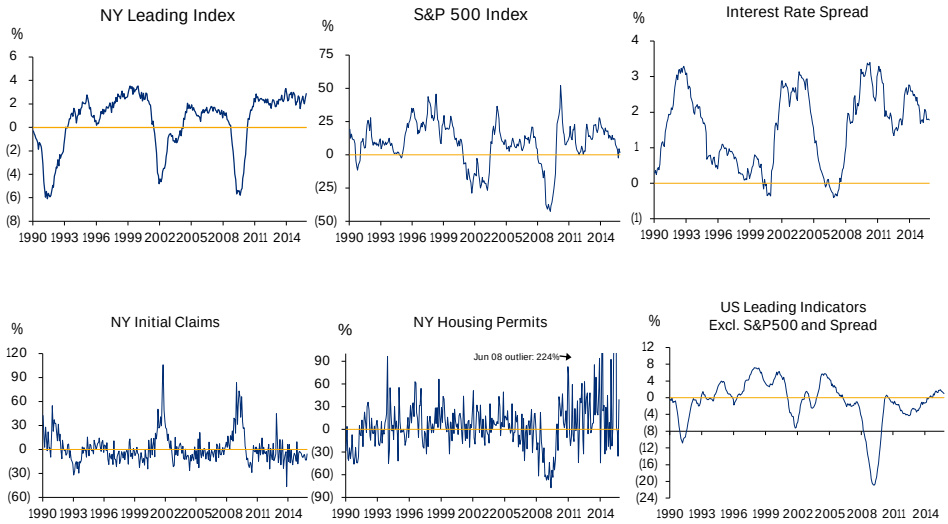
In the absence of an official mechanism for dating business cycles at the sub-national level, DOB staff constructed a New York State Index of Coincident Economic Indicators measuring overall economic conditions for New York.[1] The methodology used to construct the index is based on the Stock and Watson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

NEW YORK STATE BUSINESS CYCLES

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

Source: DOB staff estimates.

Variables Used in New York Index of Leading Indicators



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

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

The long lag with which the New York economy entered the last recession contrasts sharply with the experience of the prior five downturns. As illustrated in Figure 35 on page 76, the State entered three of the five prior recessions earlier than the nation as a whole, and entered the remaining two only one month later. The State's estimated business cycle trough date is December 2009, which implies that New York's recession was two months shorter than that of the nation as a whole.

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

The Budget Division uses the New York State Index of Coincident Economic Indicators to determine the State's business cycle turning points (see Box 5). The index's level and growth are plotted in Figure 35 along with the turning points for both the New York and U.S. business cycles. The New York State Leading Index combines five high frequency data series to signal that either a pickup or a slowdown in economic activity can be expected six to 12 months down the road. The coincident index exhibits average monthly growth of 0.3 percent for the last six months through October 2015, the last month for which complete data are available. The leading index implies average monthly growth of 0.2 percent for the six months through April 2016 and 0.1 percent for the six months through October 2016. Given the shift in Federal Reserve policy, recent financial market developments, and the importance of those developments to the New York State economy, it is not surprising that a modest slowdown is being signaled for the months ahead.

New York State is home to arguably the world's financial capital, and while that status confers many benefits, historically it has also imparted a high degree of employment and wage volatility. However since the recent financial crisis the changing regulatory environment has altered the pattern of risk-taking behavior by Wall Street firms. Although the net impact of these changes on finance sector employment and wages has been negative, a side benefit has emerged in the form of lower wage volatility. A standard deviation is a simple statistic that when doubled defines a range of values within which a measure has a 67 percent chance of falling. The wider is the range, the more volatile the series. During the six bonus seasons that preceded the worst of the financial crisis, finance and insurance sector bonus growth exhibited a standard deviation of 20.4 percent; in the six seasons that followed, the standard deviation dropped to 13.0 percent. Thus, the State economy appears to be undergoing a period of adjustment, during which, above-average private sector job growth has coupled with a less volatile but more diversified wage base.

Outlook for Employment

Since the end of the recession, the State's labor market has enjoyed strong private sector job growth. Table 7 presents a current profile of the job market by comparing year-ago growth rates for the second quarter of 2015, the most recent quarter for which detailed QCEW (Quarterly Census of Employment and Wages) data are available, against U.S. employment growth for the same period; private employment grew 0.2 percentage points faster for the U.S. than for New York. Table 7 reveals additional differences between New York and the nation. In the second quarter of 2015, New York led the nation in five sectors: utilities; construction; transportation and warehousing, real estate and rental and leasing, and private educational services. Growth in the construction industry benefited from a strong real estate market, particularly in New York City.

Table 7

YEAR-AGO PERCENT CHANGE IN EMPLOYMENT FOR 2015Q2: NYS v. US

	NYS	US
Total Private	**2.3**	**2.5**
Utilities	1.9	1.8
Construction	5.7	4.5
Manufacturing and Mining	0.4	1.4
Wholesale Trade	0.8	1.6
Retail Trade	0.8	2.1
Transportation and Warehousing	4.0	3.0
Information	(0.1)	2.3
Finance and Insurance	1.6	2.0
Real Estate and Rental and Leasing	1.9	1.8
Professional, Scientific, and Technical Services	3.2	3.7
Management, Administrative, and Support Services	2.8	3.5
Educational Services	4.5	1.5
Healthcare & Social Assistance Services	2.1	2.9
Leisure, Hospitality and Other Services	2.5	2.5
Government	**0.1**	**0.3**
Total	**2.0**	**2.2**

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

Going forward the Budget Division projects total State employment growth of 1.3 percent for 2016, following growth of 1.7 percent for 2015. Private sector job growth of 1.5 percent is projected for 2016, after growth of 2.1 percent in 2015. The State's maturing labor market recovery compares with overall national job growth for 2016 of 1.7 percent and private growth of 2.0 percent.

Table 8 shows projected changes in employment for 2016 by sector. The threatened expiration of New York's 421-a program spurred a surge both in building permits and in housing starts ispring 2015, pulling forward activity from future quarters. However interest rates are expected to rise over the course of 2016. As a result, construction employment growth is expected to slow to a still healthy 2.5 percent, based on an anticipated slowdown in State housing starts. Elsewhere a healthy national economy will continue to support the demand for New York's large

business service sector, thus professional and business services will continue to be a growth engine. Tourism will continue to be a key source of strength, supporting strong job growth in the leisure and hospitality sector, despite headwinds from a stronger dollar and weak growth in overseas economies.

In the wake of Superstorm Sandy, some finance and insurance firms transferred employees out of the state temporarily. With the return of these workers thought to be complete and with large firms considering layoffs after two years of relatively flat revenues, job growth in this sector is expected to fall from 1.2 percent in 2015 to 0.4 percent growth in 2016. Finally, after six consecutive years of decline endedi in 2014, the government sector is expected to eke out its first year of positive, albeit low, growth of 0.1 percent in 2016, after being flat in 2015.

Table 8

CHANGE IN NEW YORK STATE EMPLOYMENT FOR 2016

	Percent	Levels
Total Private	**1.5**	**117,507**
Utilities	0.5	189
Construction	2.5	8,789
Manufacturing and Mining	0.0	83
Wholesale Trade	0.4	1,488
Retail Trade	1.2	11,728
Transportation and Warehousing	1.5	3,518
Information	0.5	1,208
Finance and Insurance	0.4	1,957
Real Estate and Rental and Leasing	1.4	2,632
Professional, Scientific, and Technical Services	2.1	13,782
Management, Administrative, and Support Services	1.9	11,481
Educational Services	2.2	7,211
Healthcare & Social Assistance Services	1.9	26,996
Leisure, Hospitality and Other Services	2.3	29,091
Government	**0.1**	**871**
Total	**1.3**	**118,378**

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

Source: NYS Department of Labor; DOB staff estimates.

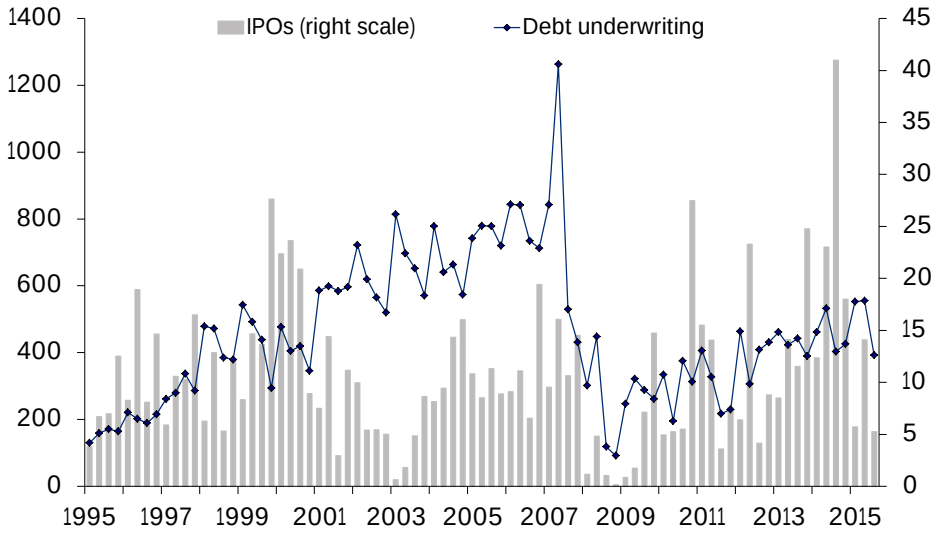
The Continuing Transformation of the Securities Industry

As recent events strikingly illustrate, financial market activity continues to be most volatile. Some of this volatility is evident in two important drivers of securities industry revenues and profits: initial public offerings (IPOs) and corporate debt underwriting. While debt underwriting is closely linked to interest rates and the overall level of economic activity, IPOs tend to rise and fall with the secondary equity market. The spikes that appear in Figure 36 correspond to the historically large offerings that gained much attention in recent years, such as the $15.8 billion General Motors IPO in November 2010, the notorious Facebook offering in May 2012, the public sale of Twitter in November 2013, and, most recently, the record-setting $21.8 billion Alibaba IPO in September 2014.

The 2015 IPO market was much more subdued with 169 offerings that raised only an estimated $30 billion, a six-year low. The implied 60.6 percent decline was driven by a number of factors, including uncertainty about Federal Reserve and European Central Bank policies, concerns about the Chinese economy, poor equity market performance, declining energy prices, and increases in mergers and acquisitions (M&A) and private market transactions.

In contrast, 2015 was the best year ever for M&A activity, despite anti-inversion regulations and anti-trust laws enacted during the prior year.[12] The rise in M&A activity can be attributed to the bull market that continued for much of the year, low interest rates, speculation over the timing of the Federal Reverse's first interest rate hike, and the ongoing search for tax inversion benefits. With rising interest rates expected to result from the December 2015 monetary policy shift, the strength of the deal market is expected to weaken going forward.

Figure 36
Major Drivers of Financial Market Activity
$ Billions



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

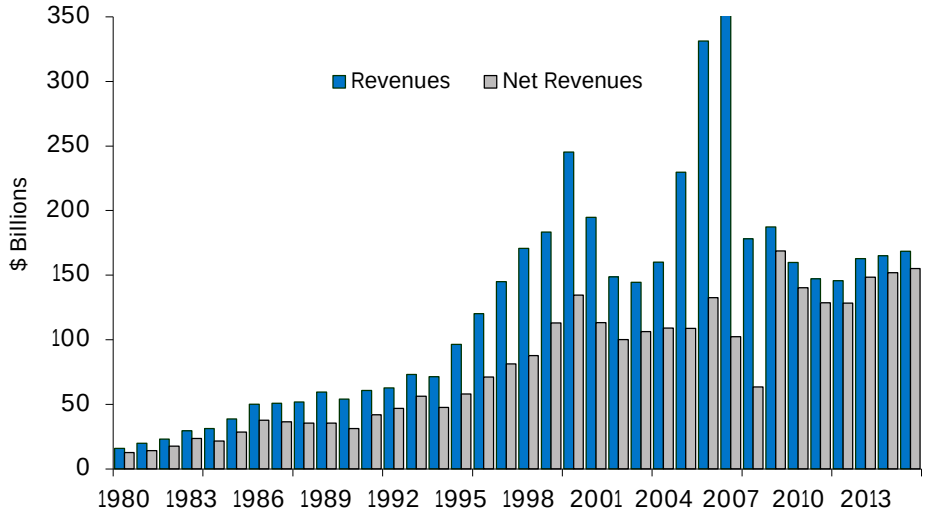
Despite surging M&A activity, overall securities industry revenue and profits were lackluster in 2015 due to disappointing IPO volume and weak and turbulent equity markets. Figure 37 shows New York Stock Exchange member-firm revenues before and after subtracting interest costs. Total revenues are estimated to have risen 2.2 percent in 2015, following 1.4 percent growth in 2014. More generally, total revenues have been deteriorating since 2009. Estimated revenues for 2015 remain 10.1 percent below their 2009 levels and 52.1 percent below 2007 levels.

[12] On September 22, 2014, the U.S. Treasury Department adopted several regulations to make tax inversion abroad more difficult or to reduce the benefits to companies that had already done so.

Table 9 lists the primary sources of revenue and expenses for NYSE member-firms over the last nine years. Clearly, the three greatest areas of improvement in industry balance sheets after 2008 are the decline in interest expenses, due to historically low interest rates; increasing gains from equity underwriting, including IPOs; and the growth of fee and asset management revenues.

Figure 37

NYSE Member Firm Revenues



Note: Estimate for 2015 is based on three quarters of actual data and one quarter estimated; net revenues exclude interest expenses.
Source: SIFMA.

Table 9

NYSE MEMBER FIRM FINANCIAL RESULTS

($ Billions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015*
Revenues	**352.0**	**178.1**	**185.3**	**159.8**	**147.3**	**161.9**	**162.8**	**165.0**	**168.6**
Commissions	28.8	30.2	26.5	25.0	25.7	22.1	23.1	23.0	22.8
Trading Gain (Loss)	(10.3)	(71.8)	28.4	16.7	1.5	14.8	11.1	11.5	11.1
Underwriting Revenue	23.2	16.5	19.6	20.3	18.3	22.2	24.9	25.5	24.7
Fees, Asset Management	21.6	20.9	17.3	20.6	25.7	28.3	33.2	38.2	30.5
All Other	273.0	161.4	93.5	77.1	76.1	74.5	70.5	66.8	79.6
Expenses	**363.4**	**220.7**	**126.7**	**134.7**	**139.5**	**137.8**	**145.8**	**148.7**	**148.2**
Total Compensation	69.6	59.8	61.3	66.9	68.0	67.5	70.4	72.7	75.4
Interest Expense	249.8	114.5	18.6	19.6	18.7	18.8	14.4	13.1	13.4
All Other Expenses	44.0	46.3	46.7	48.2	52.8	51.6	61.0	63.0	59.4
Pre Tax Net Income	**(11.3)**	**(42.6)**	**58.6**	**25.1**	**7.7**	**24.0**	**17.0**	**16.3**	**20.4**

* Estimate for 2015 is based on three quarters of actual data and one quarter estimated.

Source: SIFMA.

Table 9 also highlights some of the sources of the recent weakening in securities industry revenues. Industry trading gains fell dramatically in 2010 and 2011, and have remained relatively low for the past four years for a number of reasons. Equity markets have been volatile from repeated cycles of panic in response to sovereign debt concerns both here and in the euro-zone, concerns about the Chinese economy, the strengthening dollar, and the price of oil. With long term interest rates remaining stubbornly low, gains from fixed-income trading and from lending have also been weak. The evolving regulatory environment under Dodd-Frank has also had a large impact on bank behavior since it was signed into law in July 2010.

Some of the key goals of the Dodd-Frank reform were strengthening bank capital requirements; limiting counterparty risk; and, ultimately, systemic risk. One of the major provisions of Dodd-Frank required the formulation of regulations to enforce the so-called "Volcker Rule," which put limits on proprietary trading on the banks' own account. Final regulations were released and adopted by regulatory agencies in December 2013; however in December 2014 the Federal Reserve decided to give banks until July 21, 2016, to conform investments made prior to December 31, 2013, with the regulations. But banks still had to cease proprietary trading activities by July 2015. They also had to divest themselves of any interest in private equity, venture capital funds and hedge funds made after December 2013 by that deadline. The results presented in Table 9 illustrate the impact that reform has had on the way Wall Street is conducting business.

In addition to Dodd-Frank, implementation of Basel III, the third incarnation of the Basel Accords establishing global regulatory standards for managing bank risk, was to start in 2013, but the implementation date has since been extended to 2019. Basel III specifically aims at improving the ability of banks to withstand periods of systemic economic and financial stress through more stringent capital and liquidity requirements. But these strengthened requirements will tend to put further pressure on revenue-generating activity and bank profitability by reducing leverage ratios,

thus intensifying the pressure that already exists in the current environment of low long-term interest rates.

The new regulatory environment appears to have altered bank business practices in two fundamental ways. First, the composition of executive compensation has evolved away from cash in favor of deferred compensation and stock grants, thus more closely tying pay to the long-term performance of the firm. As a result, the revenue growth estimated for 2015 may not translate into an equivalent rise in taxable bonus pay for the current 2015-16 bonus season. The deferral of compensation will tend to smooth out bonus payments, as the cash portion of current-year compensation packages combines with the deferred portions of prior years.

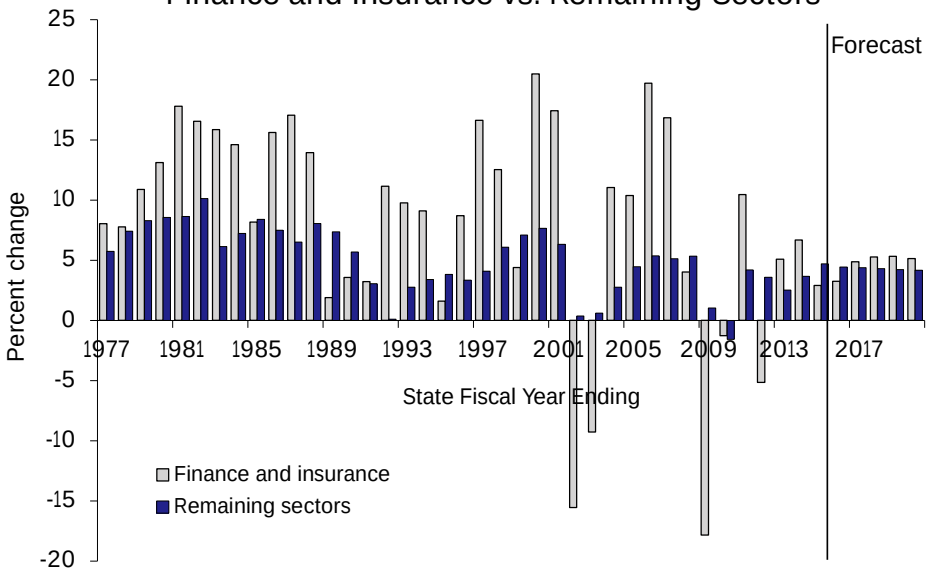
Secondly, in order to reinforce such long-term incentives, packages include claw-back provisions that allow firms to take back a portion of bonus pay if actions taken by an employee are ultimately judged to have been too risky. Firms therefore are expected to continue to alter their business practices in favor of less risky behavior both by reducing leverage and by engaging in fewer risky trades. The upward trend of revenue generated by less risky fees and asset management supports this claim.

Outlook for State Income

The Budget Division projects total personal income growth of 4.7 percent for 2016, slightly stronger than the 4.1 percent growth in 2015. These growth rates are driven mainly by wages, the largest component of personal income. New York State wages are estimated to have risen 3.7 percent for 2015, with growth of 4.3 percent projected for this year. The wage outlook for 2016 reflects slightly better growth in finance and insurance sector bonuses for the 2015-16 bonus season in progress, as well as solid growth in some of the State's other high-wage industries, such as professional and business services. In addition, the government sector is expected to continue to add jobs, although at a slow pace. Private sector wages are projected to grow 4.6 percent for 2016, while government sector wage growth is projected to improve to 2.7 percent in 2016 from 2.1 percent in 2015.

Because the state-level wage data published by the U.S. Bureau of Economic Analysis have proven unsatisfactory for the purpose of forecasting State tax liability, the Budget Division constructs its own wage and personal income series based on QCEW data. Moreover, because of the importance of trends in variable income – composed of stock-related incentive income and other one-time bonus payments – to the understanding of trends in State wages overall, the Budget Division has developed a methodology for decomposing wages into bonus and nonbonus series. For a detailed discussion, see Box 6. The Budget Division's outlook for State income is based on these constructed series.

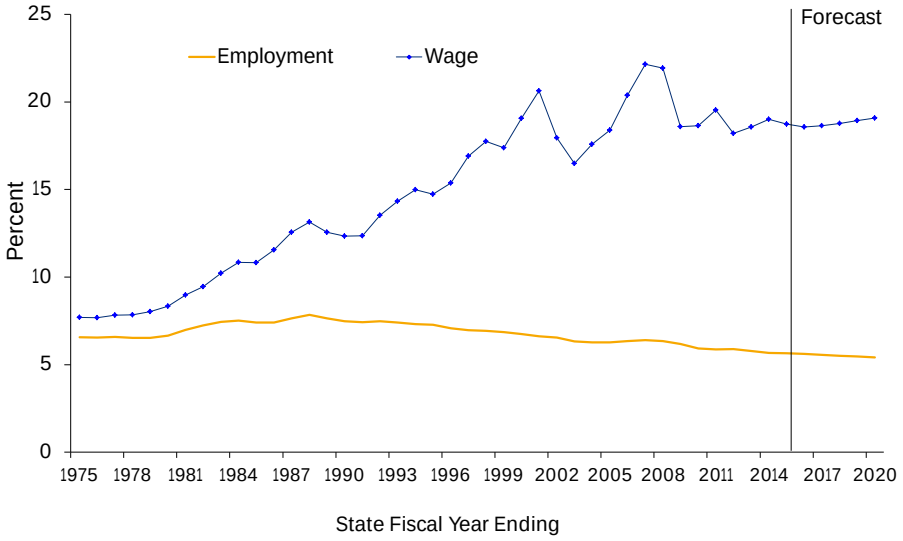
Figure 38
New York State Wage Growth
Finance and Insurance vs. Remaining Sectors



Source: NYS Department of Labor; DOB staff estimates.

New York State employment and incomes are profoundly affected by the fortunes of the financial markets. As illustrated in Figure 38, finance and insurance sector wages have historically tended to grow much faster than wages outside of that sector. However, this trend has not only become much more muted since the end of the financial crisis, as the chart makes clear, it actually reversed during the 2014-15 State fiscal year and is projected to do so again for the year in progress. From FY 1977 through FY 2008, the last complete fiscal year before the fall of Lehman Brothers, finance and insurance sector wage growth averaged 4.4 percentage points higher than all other sectors. However, over the six years since the depth of the crisis, (excluding FY 2009 when finance and insurance sector wages fell 17.8 percent) that difference averaged less than 0.3 percentage points. For the out-years, thet difference is expected to average 0.9 percentage points. As a result, financial sector wage growth is expected to be much more in line with nonfinancial sector wage growth and the industry's share of total wages is not projected to reach its 2006-07 peak at any point over the entire forecast horizon.

Figure 39
Finance and Insurance Sector Employment and Wages as Share of State Total



Source: NYS Department of Labor; DOB staff estimates.

Figure 39 shows how the substantially higher wage growth in the finance and insurance sector increased its share of total State wages over time on a State fiscal year basis to a peak of 22.1 percent in 2006-07, but has since fallen and is unlikely to revisit that peak in the near future. The industry's employment share is substantially lower than its wage share at only 5.7 percent of total State employment in 2014-15 and is expected to continue its downward trend. Nevertheless, finance sector workers continue to be, on average, very highly compensated. Even after falling to $174,000 in 2008-09 in the wake of the financial crisis, finance and insurance sector average wages were still 247 percent higher than the average wage for the rest of the State economy. By 2016-17, the industry's average wage is projected to rise to about $234,000, which would be 289 percent above that of the remaining sectors. Financial market wages have an important effect on employment and income in New York City and its surrounding suburbs, both directly – through compensation paid to finance sector workers and purchases made by finance sector firms, and indirectly – as finance sector workers spend their incomes on housing, entertainment, and other goods and services.

Box 6
THE CONSTRUCTION OF NEW YORK STATE WAGES
AND THE ESTIMATION OF VARIABLE INCOME

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

The DOB uses only New York data to construct its State wage series. The primary source is data collected under the Quarterly Census of Employment and Wages (QCEW) program. In contrast, the BEA uses national information to adjust the quarterly values for seasonal variation, as well as to ensure that state level wages add up to national estimates. The consequence is often a significant difference between the two series in both the quarterly pattern and the annualized growth rates. For example, according to staff estimates based on the QCEW data, wage growth rates for the first and second quarters of 2000, on a year-ago percent-change basis, were 18.3 percent and 8.5 percent, respectively. The comparable growth rates originally published by the BEA were 2.4 percent and 5.4 percent. These estimates have since been revised up to 7.3 percent and 9.2 percent, respectively. However, the lack of timeliness in the revision process limits the usefulness of BEA data for state forecasting purposes.

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

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

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

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

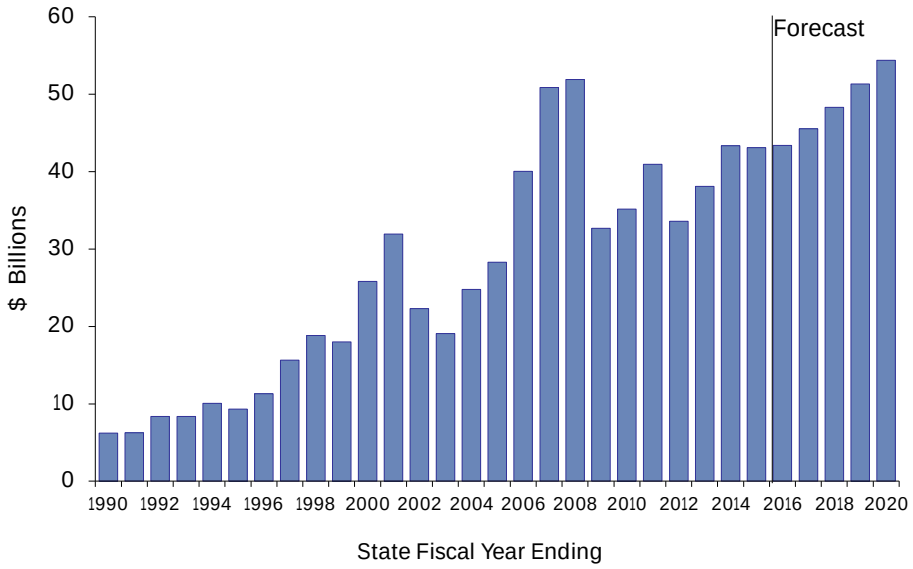
[1] The threshold adopted for this purpose was 25 percent. However, the variable income estimates are fairly robust to even a five-percentage-point swing in this criterion.

Variable Income Growth

Variable income is defined as that portion of wages derived primarily from bonus payments, stock incentive income, and other one-time payments. Firms tend to grant employee bonus "packages" during either the fourth quarter of a given year or the first quarter of the following year, as a form of performance incentive for the prior calendar year. Although the cash component of bonus income is unambiguously counted as wages (and taxes are withheld) in the quarter in which it was granted by the firm, stock incentive income typically is not. Stock grants do not appear in the wage data until they are vested. Nevertheless, variable income payments are sufficiently concentrated in the fourth and first calendar-year quarters to make the State fiscal year a logical period of analysis for discussing the determinants of variable income growth.[13]

The Budget Division projects total State variable income to rise 5.2 percent for 2016-17, following estimated 3.2 percent growth in the current fiscal year, mainly due to forecasted weak bonus payments in the finance and insurance sector. Figure 40 portrays how dramatically variable income paid to employees in the finance and insurance industry has grown since 1990. An incentive-based payment structure allows employers to share with employees the risks of doing business and is particularly attractive to the securities industry, given the degree of volatility in industry profits.

Figure 40
New York State Finance and Insurance Sector Bonuses



Source: NYS Department of Labor; DOB staff estimates.

The cash portion of finance and insurance sector bonuses is estimated to rise 0.7 percent for the current 2015-16 bonus season, resulting in a payout of $43.4 billion. This growth is an

[13] See Box 6 on page 38 for a more detailed discussion of bonus estimation.

improvement over the 0.6 percent decline estimated for 2014-15. The finance industry continued to benefit from low interest rates in 2015 on the expense side. But as discussed above, weak and turbulent equity markets resulted in similarly weak revenue growth. Volatility in long-term interest rates slammed trading gains on the fixed income side as well.

Equity market growth is projected to be even slower in 2016, as interest rates begin to rise as the Federal Reserve pursues its monetary policy normalization. However, the Budget Division expects long-term rates to rise with short-term rates, making lending more profitable. A reduction in the intense volatility that characterized financial markets in 2015 is expected, resulting in improvement in NYSE member-firm revenue growth over the 2.2 percent growth estimated for 2015. However, at this writing, the S&P 500 is 100 points below its year-end value. Consequently, there is much risk to this forecast. The Budget Division projects finance and insurance sector bonus growth of 5.0 percent for 2016-17, representing a payout of $45.5 billion, $2.1 billion above 2015-16.

The Budget Division's model for finance and insurance sector bonuses is based on an underlying volume of revenue-generating activity that includes corporate equity and debt underwriting. As indicated in Figure 36 on page 81, the most recent available data suggest that 2015 was a disappointing year for IPOs after a stellar performance in 2014. Debt underwriting volume was also below the most recent 10-year average . Weak global growth and rising interest rates in the U.S are expected to lead to another year of weak demand for debt underwriting. Projected weak equity market growth in 2016 is expected to result in weak IPO growth as well. All of these factors contributed to a modest bonus growth forecast for 2016-17.

All of the uncertainty surrounding the macroeconomic outlook for the national and global economies becomes magnified in the financial markets. The market gyrations witnessed in early January 2016 ihighlight these risks. An additional layer of uncertainty is precipitated by the recent shift in monetary policy. The extraordinary actions taken by the central bank over the last seven years were intended to pull forward economic activity in order to get the economy moving and it is unknown how the unwinding of those efforts will affect current levels of activity. Moreover, the securities industry will be adjusting to these new conditions while still learning to operate within a more stringent regulatory environment. These developments create a substantial degree of uncertainty surrounding the Budget Division outlook.

Nonbonus Wages

Unlike the variable component of income, nonbonus wages are driven by changes in employment and the nonbonus average wage and are therefore relatively more stable. After adjusting for inflation, the nonbonus average wage for each of the State's industrial sectors is believed to have a stable long-run relationship with the real U.S. average wage, which in turn is determined by labor productivity. However, State real average wages can deviate from their long-run trend due to short-term fluctuations related to business cycles, shocks to the regional economy, or shocks to a specific industrial sector that is relatively more important to the State economy, such as finance and insurance. Nonbonus average wages are projected to rise 3.0 percent for the 2016 calendar year, surpassing an estimated 2.5 percent increase in 2015. With

the unemployment rate projected to stay at 5.5 percent for 2016, total nonbonus wages are projected to grow 4.4 percent for 2016, following an increase of 4.2 percent for 2015.

Average Total Wages and Inflation

Average total wages are projected to increase 2.9 percent for 2016, following an estimated 1.9 percent increase for 2015, which again is due to the weak bonus growth in the finance and insurance sector. The Budget Division projects 1.9 percent growth in the composite CPI for New York in 2016, following 0.3 percent growth for 2015. Projected 2016 inflation for New York is consistent with that for the nation.

Nonwage Income

The Division of the Budget projects a 5.2 percent increase in the nonwage components of State personal income for 2016, higher than the increase of 4.5 percent for 2015. Property income is one of the largest components of nonwage income at the State level and includes interest, dividend, and rental income; dividend income is in turn estimated to be a large component of property income, based on State income tax return data. Weak equity markets and slow growth in corporate profitability are expected to result in relatively weak growth in dividend income at both the national and State level in 2016. The Budget Division expects U.S. dividend income to grow 4.6 percent in 2016, implying comparable growth for New York. However, interest income is expected to accelerate in 2016 due to rising rates engendered by the shift in monetary policy. Consequently, New York property income is projected to grow 6.1 percent in 2016, up from 4.2 percent growth in 2015.

Proprietors' income is expected to accelerate to 5.5 percent growth this year in New York, following growth of 4.5 percent in 2015. The employee contribution to Social Security is expected to rise 4.3 percent in 2016, following growth of 2.0 percent in 2015. Transfer income is expected to grow 4.6 percent in 2016, following growth of 5.2 percent in 2015.

The Housing Market Outlook

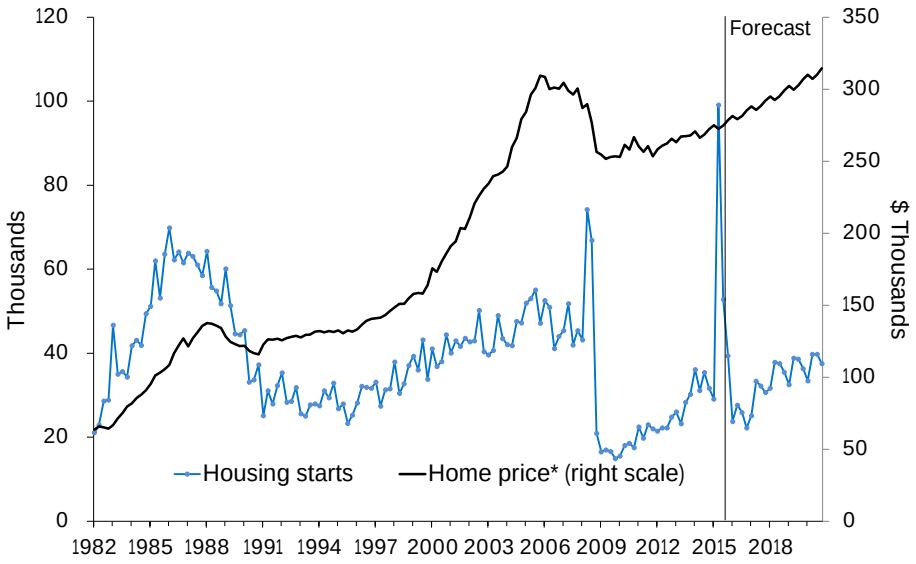
New York State's housing market continued to exhibit robust growth in 2015. Housing permits grew 86.8 percent based on the first 11 months of data, while housing starts grew 72.2 percent. Low mortgage rates, healthy employment growth, the ongoing recovery from Superstorm Sandy, and strong domestic and foreign demand for the luxury segment of New York City's real estate market have all fueled the growth in housing.

However, the greatest impact on home building in 2015 was likely caused by the threat of the expiration of the 421-a property tax exemption program as the governor and legislature debated its fate in the face of a June 15, 2015, deadline for renewal.[14] Those fears resulted a rush to apply

[14] This is not the first time that a legal or regulatory change has had an outsized effect on construction spending. A change in New York City building codes took effect on July 1, 2008 requiring developers to add features such as sprinklers, smoke detectors, fire-resistant stairways, and on-site safety managers or coordinators for buildings larger

for building permits. These grew 335.3 percent during the second quarter of last year compared to the same quarter in 2014. Housing starts, which tend to follow permits with a short lag, grew a corresponding 218.3 percent. This unusually large increase appears in Figure 41, which compares recent trends and the Budget Division forecast for both housing starts and average existing home prices for New York.

Figure 41
NYS Housing Market Outlook



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

It is more than likely that the surge in building permits in the second quarter of last year pulled forward construction activity that would have taken place at some point in the near future. Thus, the second quarter explosion in permit applications was followed by an 11.7 percent decline in the third quarter. As a result, State housing starts are projected to decline 54.8 percent in 2016, following 64.0 percent growth in 2015. The strong 2015 performance came from strong growth in both single-family and multifamily units, but multifamily units saw a particular jump in the second quarter of 2015 (see Figure 42), confirming the role which the New York City real estate market played in that increase. The near-term forecast also is supported by the expected rise in mortgage interest rates, though that increase is projected to be gradual.

than 10 stories. The change produced a rush to obtain building permits and start work in June of that year, and resulted in growth of 11.2 percent multi-family starts in 2008.

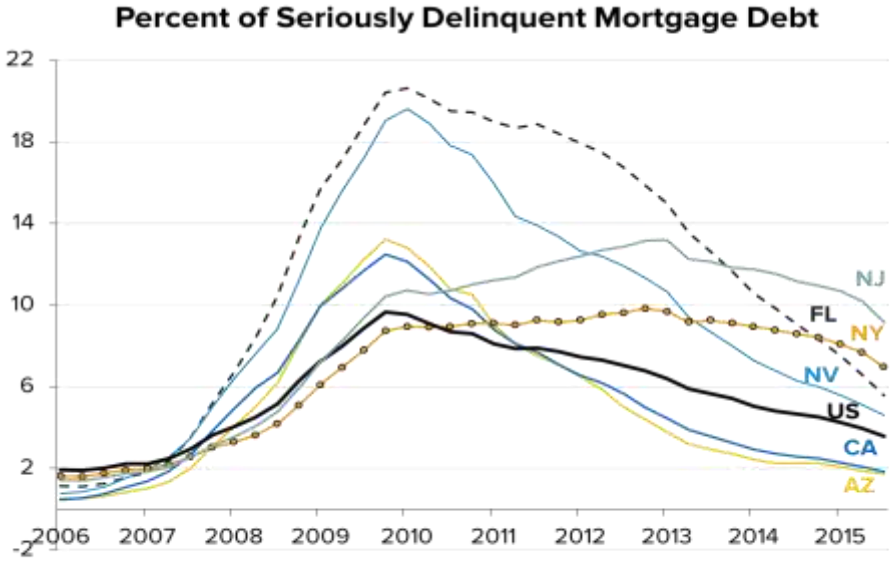
Figure 42

Note: Values for 2015Q4 are based the average of the first two months.
Source: Moody's Analytics.

Prospects for the State's residential housing market also depend on the outlook for prices. New York State's average single-family home price is expected to rise 2.4 percent in 2016, following growth of 2.1 percent in 2015. The good news is that because New York's residential housing sector experienced less of a price and construction bubble than many other states, there was less of an overhang to unwind and thus the rate at which New York mortgages were entering foreclosure has been consistently lower than the nation's since the home-price collapse in 2006. However, the State's foreclosure rate began to exceed that of the nation in 2013Q1, due largely to the impact of Superstorm Sandy. By the third quarter of 2015, the most recent period available, the State's percentage of mortgage loans entering foreclosure status is 0.40 percent of all loans serviced, well above the national rate of 0.23 percent.

New York's percentage of homes in a state of delinquency is also higher than nation's. Figure 43 displays for selected states the percentage of total mortgage debt outstanding that is seriously delinquent, defined as either more than 90 days past due or in foreclosure. Based on data through 2015Q3, New York continues to look worse than two of the states hit hardest by the housing market collapse, Arizona and California, as well as the nation. The buildup of homeowners in foreclosure or "pre-foreclosure" status in New York is emblematic of the long duration of the foreclosure process here and in other states commonly referred to as "judicial states," where a lender must file a lawsuit in order to initiate a foreclosure. Additional "judicial states" appearing in Figure 43 are Florida and New Jersey. This build up may be delaying the full recovery of New York's housing market. The State's average existing home price is not expected to return to its prior 2005Q4 peak until the first quarter of 2020.

Figure 43



Source: Moody's Analytics.

New York City's luxury apartment market is a unique niche with a global reach. This market segment had been steadily declining from the second half of 2014 through the first half of 2015, with the strong dollar helping to dampen foreign demand. However, after a drop of 19.6 percent and 20.0 percent for the first and second quarters of 2015, respectively, this market started to gain traction once again, consistent with the State's housing market overall.[15] Condo and co-op purchases rose 9.4 percent in the fourth quarter of 2015 from a year ago, following a 9.6 percent increase in the third quarter. On a broader scale, the number of purchases in the fourth quarter was 11.5 percent above the 10-year quarterly average. The median sales price for the fourth quarter was $1,150,000, up 17.3 percent from 2014Q4, surpassing the record of $1,025,000 reached in the second quarter of 2008, just prior to the depth of the financial crisis. The recent strength of the New York City condo and co-op market has largely been driven by a falling inventory and rising sales of new units; new unit sales in the last quarter of 2015 more than doubled compared with 2014Q4. Indeed, the sale of new units appears to be the primary driver of recent price increases, particularly within the luxury segment. This is defined as the top 10 percent of sales. Luxury median sales price rose 25 percent from a year ago to $6 million in the fourth quarter, due largely to sales of new units. Existing unit sales fell 1 percent while new unit sales more than doubled.

New York State Labor Market Dynamics

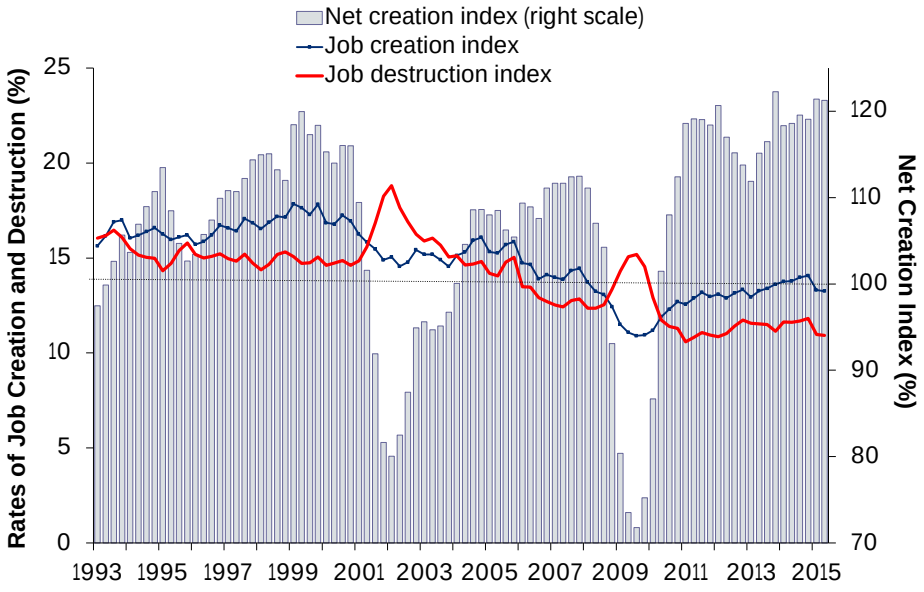
Between 1993 and 2015, New York State's private sector labor market experienced very diverse periods of labor market dynamics as the result of falling and rising rates of job creation and job

[15] See < http://www.millersamuel.com/files/2016/01/Manhattan_4Q_2015.pdf >, viewed January 5, 2016.

destruction in response to changing economic conditions.[16] During the Great Recession, the rate of job destruction jumped up while the rate of job creation fell. The third quarter of 2009 marked the peak in the rate of job destruction and the trough in the rate of job creation, resulting in the lowest net jobs creation index of the last 32 years (see Figure 44). However, Figure 44 also shows the solid improvements in the State's labor market since then. Beginning with the second quarter of 2010, the rate of job creation has exceeded the rate of job destruction for 20 consecutive quarters, and the net creation index is now higher than it has been at any time during the last 32 years. Throughout most of the expansion, the rate of job creation fairly consistently exceeded the rate of job destruction by almost two percentage points.

Though the labor market is less dynamic in the recent expansion than it was in the mid to late nineties, as evident from lower rates of both job creation and job destruction, both rates are no longer sliding as they did following the 2001-2002 recession. The underlying net job creation rate of 2.3 percent in the second quarter of 2015 is consistent with the Budget Division's 2.1 percent estimate for private sector job growth in 2015. Going forward, the Division expects a somewhat slower 1.5 percent increase in private sector employment for 2016.

Figure 44
NYS Private Sector Employment Dynamics



Source: NYS Department of Labor; DOB staff estimates.

The State's Employment and Establishment Base

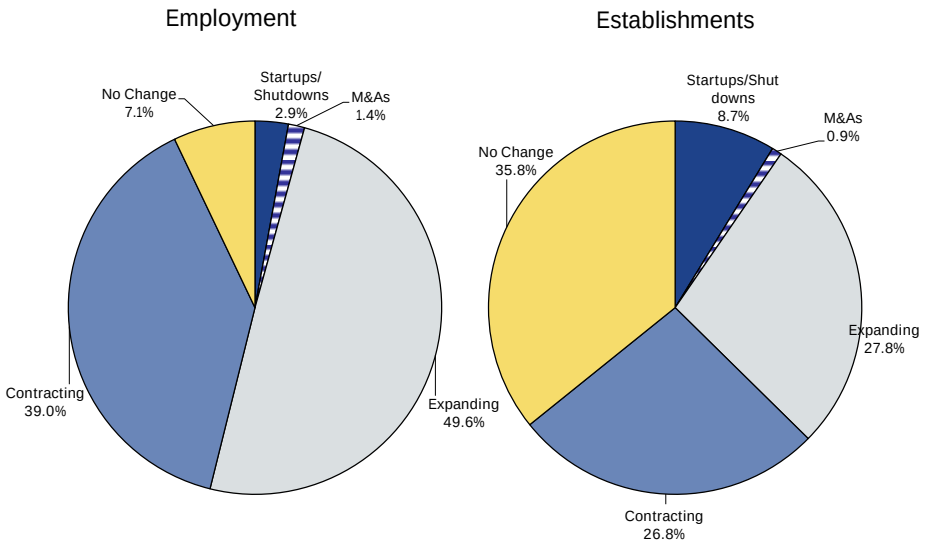
Figure 45 shows the composition of the State's employment and establishment base for the second quarter of 2015 by type of establishment. Startups and shutdowns accounted for 8.7

[16] Box 7 provides more detail on the numbers underlying the employment dynamics charts

percent of the establishment base in 2015Q2. Because these firms tend to be quite small, averaging only about four employees per firm, they accounted for only 2.9 percent of the State's private sector employment base. Firms that were either acquired or absorbed by other firms accounted for 0.9 percent of the establishment base. The average size of these firms was about 20 employees, and these firms accounted for 1.4 percent of employment.

Existing firms are classified according to whether their employment levels (a) expanded, (b) contracted, or (c) experienced no change relative to the same quarter of the prior year. Existing firms represent an overwhelming share of both establishments and employment: 90.4 percent of the State's establishment base and 95.7 percent of the job base. As indicated in the right-hand panel of Figure 45, the three types of existing firms accounted for somewhat similar shares of establishments: 27.8 percent were expanding, 26.8 percent were contracting and 35.8 percent had not change. The employment shares, however, were quite different with 49.6 percent of employment in expanding firms, 39.0 percent in contracting firms and 7.1 percent in firms with no change. That the job share of expanding firms is a significantly higher than that of contracting firms is consistent with the healthy rate of net job creation for the quarter. The average size of existing firms also varies by firm type, with those firms experiencing no change in employment averaging less than three employees, expanding firms averaging 22 employees, and contracting firms averaging 18.

Figure 45
Composition of State's Employment and Establishment Base
2015Q2



Source: NYS Department of Labor; DOB staff estimates.

Box 7

ANALYZING PRIVATE SECTOR EMPLOYMENT DYNAMICS AT THE ESTABLISHMENT LEVEL

The expansion or contraction of an industry over time is usually measured by the net change or net growth in jobs. However, a look beneath the net numbers into the mechanics of job creation and destruction at the establishment level facilitates a deeper understanding of the underlying dynamics.[1] During times when State employment is growing slowly, or even falling, an examination of the underlying dynamics reveals an extremely active labor market – even in the worst of times, new firms are created and existing firms add jobs. For example, though private sector employment fell 3.3 percent in 2009, about 23 percent of the State's business establishments created jobs. The data for this study derive from the Quarterly Census of Employment and Wages (QCEW) program.[2] These data include all establishments subject to Federal unemployment insurance laws and cover approximately 98 percent of all employment. For the second quarter of 2015, the most recent period for which data are available, the QCEW data covered 622,248 private sector establishments in New York State and 7,656,950 private sector employees.

Establishment-level data facilitate the investigation of questions that cannot be addressed at the aggregate level. Such questions include whether the primary source of job creation is new firm startups or existing firms that have chosen to expand, or whether net employment growth is the result of an increase in the rate of job creation or a decrease in the rate of job destruction. Two industries may exhibit the same net change in employment but one may have a high job turnover rate, resulting from high gross rates of gains and losses, while the other may have a low turnover rate. Previous studies have found that an increase in the turnover rate tends to be associated with an increase in net growth.[3] Hence, the underlying dynamics may give clues as to the near-term direction of the business cycle, and an industry that suddenly starts to experience an increase in firm startups or gross job creation may turn out to be a leading industry in the economy's next growth phase. Moreover, one can also determine whether new jobs are being created in relatively high-wage or low-wage industries.

Because QCEW data are not seasonally adjusted, comparisons over time should be restricted to the same quarter of various years. We therefore analyze job growth relative to the same quarter of the previous year. Comparability across time also requires normalizing by a common base. Because the jobs that were eliminated between the two quarters are no longer in the 2015 job count, we follow BLS and define the base as the average of the two quarters.

The gross number of jobs created between the second quarter of 2014 and the second quarter of 2015 is constructed by adding together the number of jobs created by firm startups (firms which existed during the second quarter of 2015 but did not exist four quarters prior), expanding firms that existed in both quarters, and firms created through mergers and acquisitions. Between the second quarter of 2014 and the second quarter of 2015, a total of 1,002,963 jobs were created from these three sources. Performing this calculation for the second quarter of 2015 produces the following:

$$\text{Gross rate of job gain} = \frac{\text{Startup gain} + \text{Existing firm gain} + \text{M\&A gain}}{\text{Base}} = \frac{1{,}002{,}963}{7{,}569{,}120} = 13.3\%$$

(continued on next page)

[1] For a similar analysis for the U.S., see U.S. Bureau of Labor Statistics (BLS), "Business Employment Dynamics: First Quarter 2014," <http://www.bls.gov/news.release/pdf/cewbd.pdf>.

[2] For a detailed description of DOB's use of QCEW data, see Box 6 on page 87.

[3] See R. Jason Faberman, "Job Flows and Labor Dynamics in the U.S. Rust Belt." Monthly Labor Review, September 2002, Vol. 125, No. 9, pages 3-10.

(continued from previous page)

This result indicates that the State's gross rate of job creation for the second quarter of 2015 is 13.3 percent. An analysis of job creation at the establishment level also confirms the conventional wisdom that small firms are the State economy's primary growth engine. For example, of the more than one million gross number of jobs created during the second quarter of 2015, 54.6 percent were created by firms with less than 50 employees. Another 24.8 percent were created by medium sized firms of between 50 and 250 workers, and the remaining 20.6 percent by large firms with workforces exceeding 250.

We similarly construct a gross rate of job destruction by adding together employment at firms that existed in the second quarter of 2014 but not in the second quarter of 2015, jobs lost from contracting firms that existed in both quarters, and jobs lost due to a merger or acquisition. We then divide by the State's job base (as defined above), which for the second quarter of 2015 yields:

$$\text{Gross rate of job loss} = \frac{\text{Startup loss} + \text{Existing firm loss} + \text{M\&A loss}}{\text{Base}} = \frac{827,303}{7,569,120} = 10.9\%$$

This result states that the gross rate at which jobs were lost between the two quarters is 10.9 percent. Thus, for the second quarter of 2015, the gross rate of job creation exceeded the gross rate of job destruction. A net index of job creation is constructed by dividing the gross rate of job gains by the gross rate of job losses. For the second quarter of 2015, this calculation yields:

$$\text{Net index of job creation} = \frac{\text{Gross rate of job gain}}{\text{Gross rate of job loss}} = \frac{13.3\%}{10.9\%} = 121.2\%$$

A net index value of exactly 100 percent implies that the gross number of jobs created is entirely offset by the number of jobs destroyed; a value above 100 percent, as we see above, indicates that employment is growing; a value below 100 percent indicates a net job loss, implying the presence of a "job gap."

As illustrated in the table below, two industries can have similar values for the net index but have very different underlying dynamics. For example, for the second quarter of 2015, the Finance and Insurance sector and the Leisure, Hospitality, and Other Services sector had similar net indices of job creation of 117.3 percent and 119.1 percent, respectively. However, the Leisure, Hospitality, and Other Services sector has a much higher turnover rate than the Finance and Insurance sector. Understanding these differences has implications for fine-tuning the Budget Division employment forecast.

Employment Dynamics Comparison: 2013Q2

Sector (NAICS code)	Gross rate of job creation	Gross rate of job destruction	Net index of job creation
Finance and Insurance (52)	11.0%	9.4%	117.3%
Leisure, Hospitality, and Other Services(71,72 and 81)	15.7%	13.2%	119.1%

Manufacturing

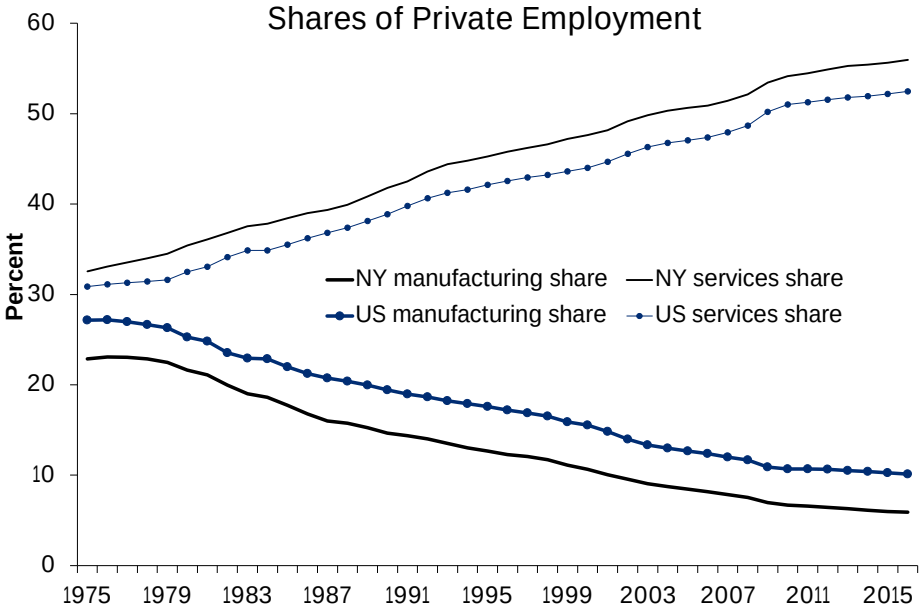
The State has been losing manufacturing jobs for nearly 30 years, and now employs fewer workers in manufacturing than in finance and insurance; professional, scientific, and technical services; and trade, transportation and utilities.[17] Nevertheless, the manufacturing sector is important in Upstate, where it still accounts for a significant share of private employment.

[17] The Budget Division combines manufacturing and mining for forecasting purposes. As of the second quarter of 2015, mining accounted for less than 0.1 percent of total employment in this category and will be ignored for the remainder of the discussion.

New York's comparative advantage has shifted away from manufacturing jobs toward jobs in services (see Figure 46). Competitive pressures arising from increased globalization have resulted in the decline of State manufacturing employment since the mid-1970s, with the rate of job loss accelerating during recessions. However, the declines have slowed in the past few years, and manufacturing has actually experienced a small net employment gains during the first two quarters of 2015. The Budget Division's forecast calls for continued small increases in the manufacturing and mining sector over the next few years.

Even after the 0.2 percent growth in manufacturing jobs estimated for 2015, an increase of about 900 jobs, and 0.02 percent predicted growth in 2016, an increase of only about 80 jobs, the sector's employment remains about 60 percent below its 1984 level of about 1.2 million workers. Figure 47 suggests that slower growth in demand for the State's exports has likely resulted in less demand for New York State manufacturing workers. Figure 48 indicates that the demand for State exports is sensitive to the value of the U.S. dollar. Despite a recent comeback of the nation's auto industry, the State's manufacturing sector continues to struggle in the less-than-robust national economic recovery, the continued globalization of production, the strong dollar, and risks associated with the European debt crisis, the refugee crisis, the crisis in the domestic energy production sector, and the slowdown in global economic growth.

Figure 46
Manufacturing and Service Sector
Shares of Private Employment

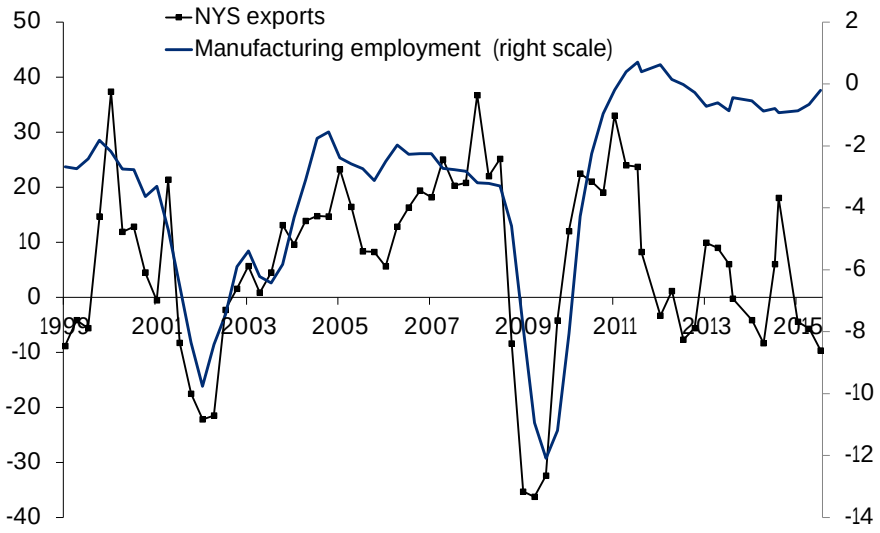


Source: Moody's Analytics; NYS Department of Labor.

Figure 47

NY State Exports and Manufacturing Employment

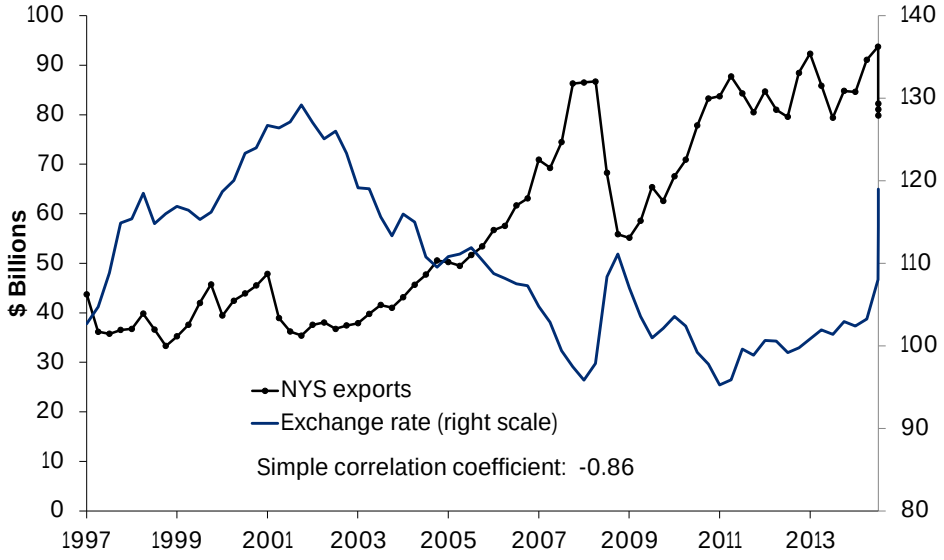
Year-ago percent change



Note: The two series have a simple correlation coefficient of 0.50.
Source: Moody's Analytics.

Figure 48

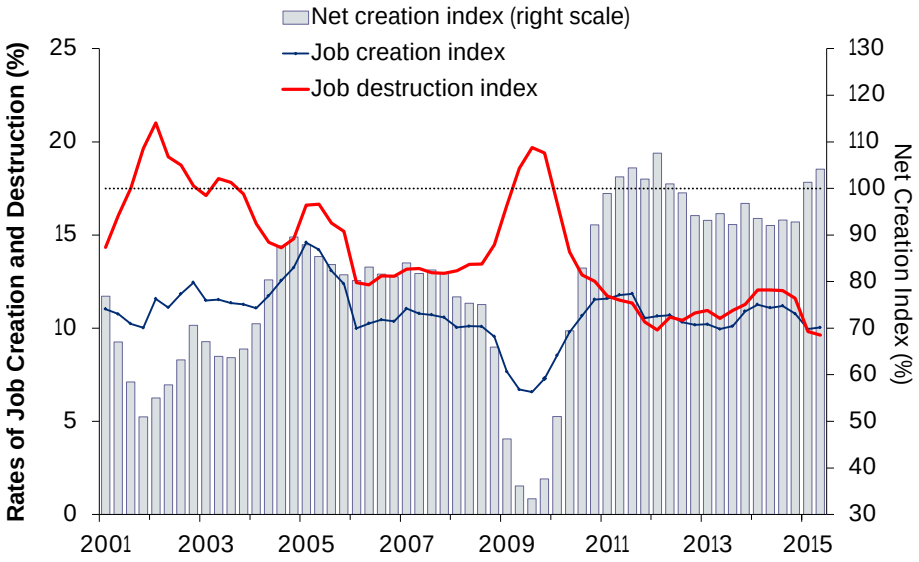
Dollar Exchange Rate Index and NYS Goods Exports



Source: Moody's Analytics

In the wake of the 2001-03 State recession, job creation began to rise and job destruction continued to fall, leading to a net index of job creation of almost 90 percent by the end of 2004 (see Figure 49). The net index dropped back down to about 82 percent by the second quarter of 2007, consistent with the slowdown in manufacturing nationwide, in advance of the "official" start of the national recession in December 2007. Those losses accelerated starting in 2008 due to an increasing rate of job destruction and a falling job creation rate. Losses continued in 2009, as net creation index reached just 33 percent by the third quarter of 2009, resulting in a decline of 10.9 percent for the year, the largest in the history of the series. After a brief period of very low growth, the sector went back to declines, with a 0.8 percent employment decline in 2014 after a decline of 0.6 percent in 2013. Minor growth is expected in 2015 and the coming years, estimated around 0.2 percent in 2015 and 0.02 percent in 2016.

Figure 49
Mining and Manufacturing



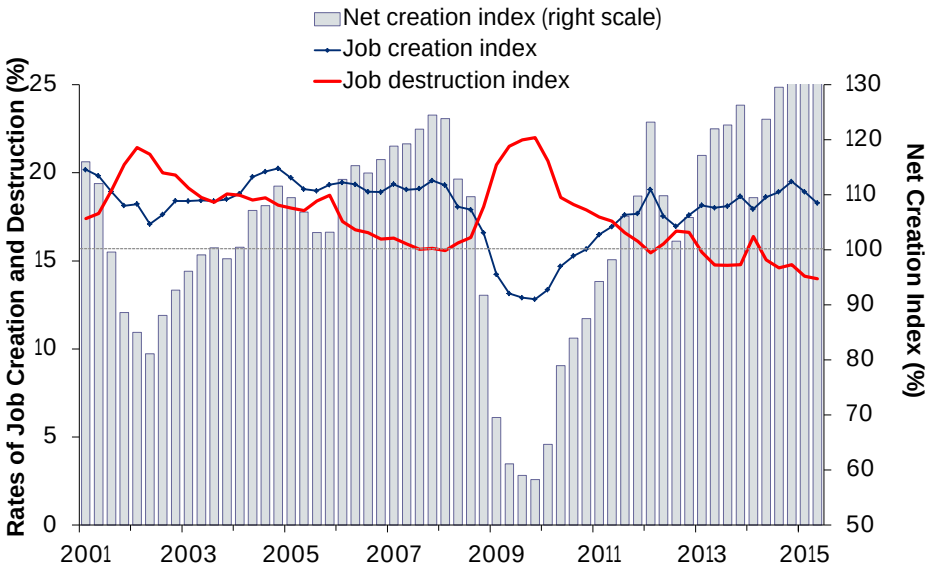
Source: NYS Department of Labor; DOB staff estimates.

Construction and Real Estate

Despite the fact that New York's residential housing market experienced less of the bubble than the rest of the nation, residential housing took a hit during the Great Recession. Commercial real estate was also hit hard in the last recession. As a result, the construction sector was the second hardest-hit sector during the downturn, second only to manufacturing. Unlike manufacturing, however, construction has staged a solid comeback and the Budget Division is projecting an increase in construction employment of 2.5 percent for 2016, after consecutive 4.6 percent increases in 2014 and 2015. Meanwhile, employment in the real estate, and rental and leasing sector is projected to increase 1.4 percent in 2016 after an increase of 2.1 percent in 2015.

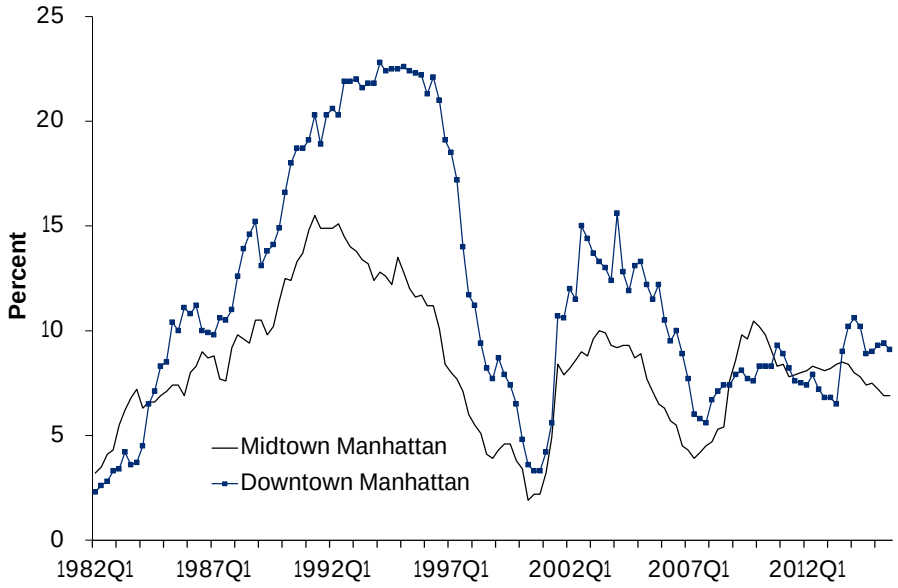
The underlying labor market dynamics visualize the sector's recent improvements. As the rate of job destruction keeps falling and the rate of job creation remains strong, the net employment creation index has moved to its highest level of the past 32 years (see Figure 50).

Figure 50
Construction & Real Estate



Source: NYS Department of Labor; DOB staff estimates.

Figure 51
Office Vacancy Rates



Source: Moody's Analytics; CBRE.

However, the credit crisis started just as new office space was coming online, resulting in increased office vacancy rates. For example, office vacancy rates for both downtown and midtown Manhattan turned upward starting in the first quarter of 2008, though they were still well below national office vacancy rates (see Figure 51). After increasing at the end of 2009 and 2010, Manhattan office vacancy rates started to come down in 2011. After a short increase in 2013, Manhattan office vacancy rates started to come down again.

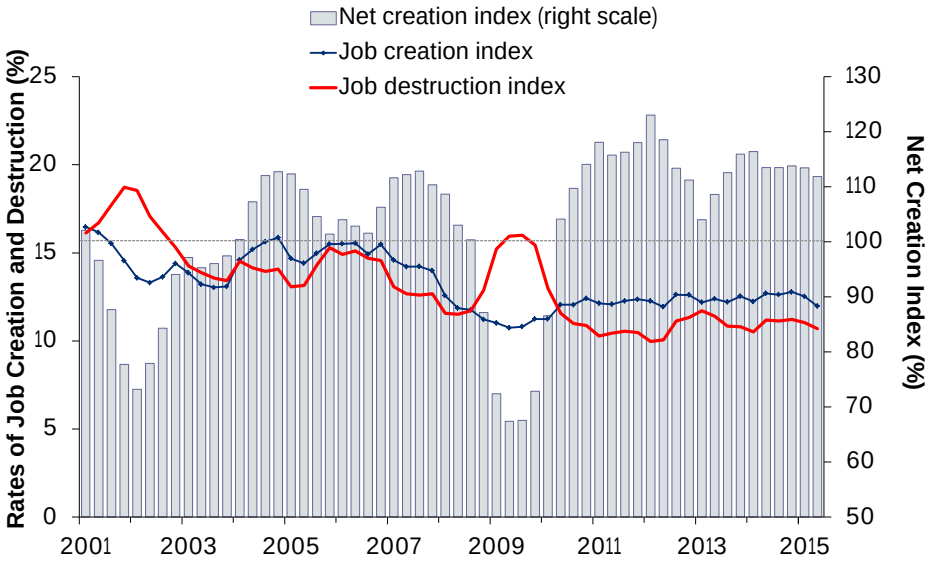
The Budget Division outlook for modest construction employment growth in 2015 is supported by activity already in the pipeline, such as the ongoing reconstruction of the World Trade Center, a multi-year subway project, and the rebuilding after Superstorm Sandy. Projects financed by the waning American Recovery and Reconstruction Act may also help reduce net job losses. Finally, Figure 51 indicates that office vacancy rates may be leveling off. However, the overhang created by the high volume of activity that preceded the downturn remains a major source of risk to the recovery of the downstate real estate market.

Regional data indicate that the housing sector growth has positively impacted construction employment in most of the State's regions, with these regions reporting higher employment in the first of half of 2015 compared to the same period in 2014. The greatest construction employment increases occurred in Capital District (7.9 percent), Hudson Valley (7.8 percent), New York City (4.8 percent), Long Island (3.8 percent), ,and Western New York (1.8 percent).

Trade, Transportation, and Warehousing

The Budget Division projects this sector will gain about 16,700 jobs in 2016, for an increase of 1.1 percent, after 1.3 percent growth in 2015. The retail trade, wholesale trade, and transportation and warehousing segments are among the more cyclically sensitive industrial sectors, and were hit hard by the recent recession. As Figure 52 shows, this sector experienced large "job gaps" in both State recessions of 2001-2003 and September 2008-December 2009. In the more recent recession the sector lost jobs for six consecutive quarters, from the fourth quarter of 2008 through the first quarter of 2010. Although the gross job destruction rate took a huge dive during the first quarter of 2010, the net index turned positive in the following quarter. Growth did pick up over the course of 2010, reaching a 1.9 increase during the first quarter of 2011, later tailing off.

Figure 52
Trade, Transportation, and Warehousing



Source: NYS Department of Labor; DOB staff estimates.

For 2016, the Budget Division projects increases of 0.4 percent for wholesale trade, 1.2 percent for retail trade and 1.5 percent for transportation and warehousing. The increases in wholesale trade and transportation and warehousing represent a lower growth rate from what each subsector posted in 2015 but are still strong and consistent with both national and State income growth and the anticipated growth in international trade.

Information (Media and Communications)

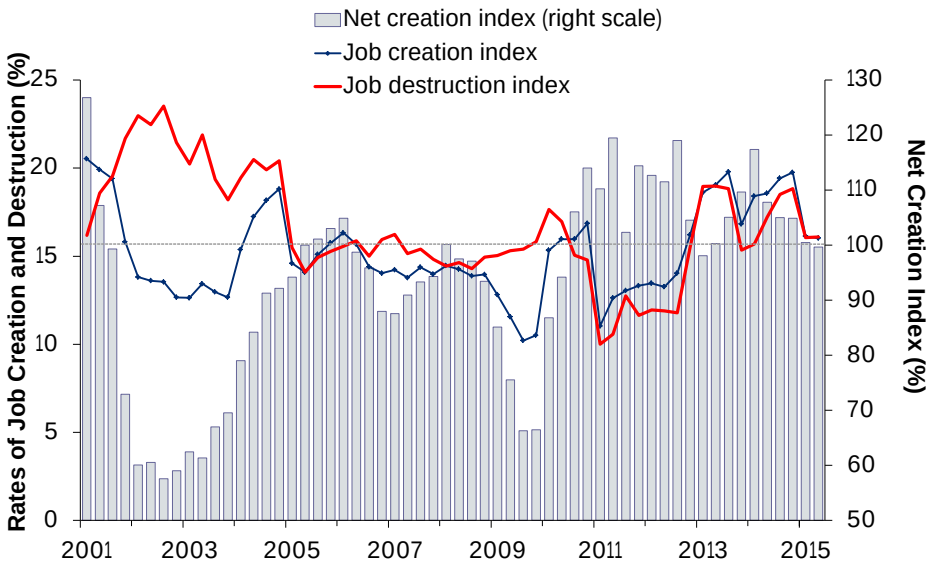
The information sector, which includes publishing, motion pictures, broadcasting, and telecommunications, is the most regionally concentrated industrial sector with almost 60 percent of State employment located in New York City. The information sector is estimated to have

gained about 650 jobs in 2015, after experiencing a moderate increase in 2013 and an impressive increase in 2014. The gains in employment appear to be related to the penetration of the New York City market by the social media industry and are not expected to be repeated at that scale going forward. Job gains of 1,200, or 0.5 percent, are expected in 2016.

The information sector was among the hardest hit in the State during the 2001-2003 recession and was extremely negatively affected by the collapse of the internet/high-tech bubble. Employment in the sector, which reached its most recent peak in 2001, has to date failed to recover to that level, and had been trending downward even before the 2008-2009 State recession hit. In addition, this sector was once one of the most dynamic sectors in the State, exhibiting gross rates of job creation and destruction generally well above statewide averages, but this dynamism has waned with the contraction of the industry (see Figure 53).

Figure 53

Information



Source: NYS Department of Labor; DOB staff estimates.

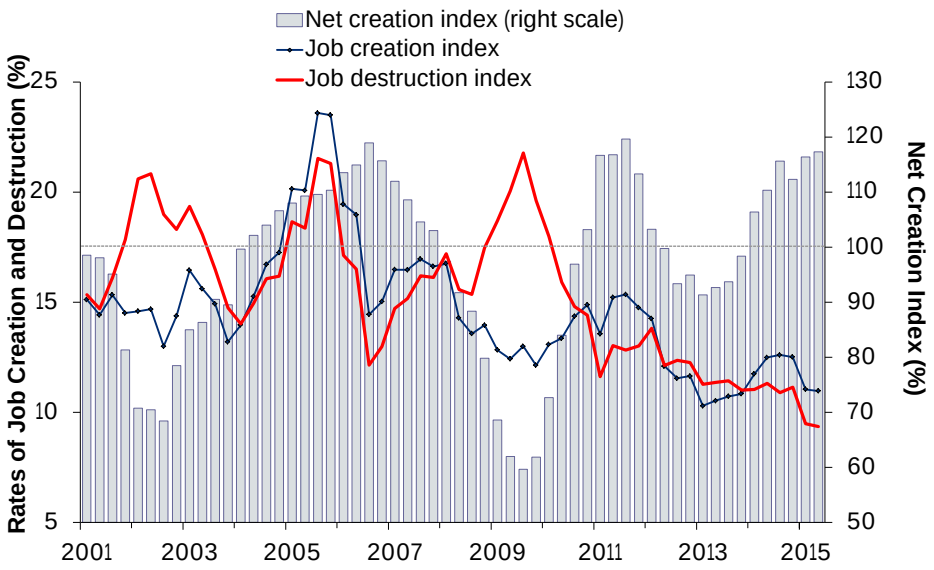
Finance and Insurance

The finance and insurance sector, one of the State's leading sectors, shows slow growth. The Budget Division estimates that this sector gained 6,070 jobs in 2015, for a 1.2 percent annual increase. A smaller gain of 1,960 jobs is projected for 2016, resulting in growth of only 0.4 percent. As has been the case in the past, it could take many years before Wall Street fully recovers from one of the most cataclysmic periods in its history. For example, after the stock market crash of 1987 and the national recession of 1990-91, it took ten years for the securities industry to recover its previous employment peak; this time it could take longer. The Budget

Division does not project that the finance and insurance sector will reach its pre-recession 2007Q3 peak of 547,000 jobs before the end of the forecast horizon in 2022.

Figure 54

Finance and Insurance



Source: NYS Department of Labor; DOB staff estimates.

During the middle of the past decade, the finance and insurance sector had been a bright spot for the State's economy (see Figure 54). The jobs lost during the 2001-2003 recession lowered industry compensation costs and helped Wall Street firms to increase profits significantly by 2003. After three years of job losses, strong revenue and profit performances resulted in the sector's net job creation index rising above 100 in 2004; it remained there through 2007. During these years, employees received record salaries and bonuses and State personal income tax revenues soared. In addition, both job creation and job destruction rates climbed to about 20 percent in 2005, proving this sector to be one of the State's most dynamic. Between the middle of 2005 and the end of 2007 the rates of job creation and destruction moved in parallel, with the latter remaining above the former, implying net job growth.

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

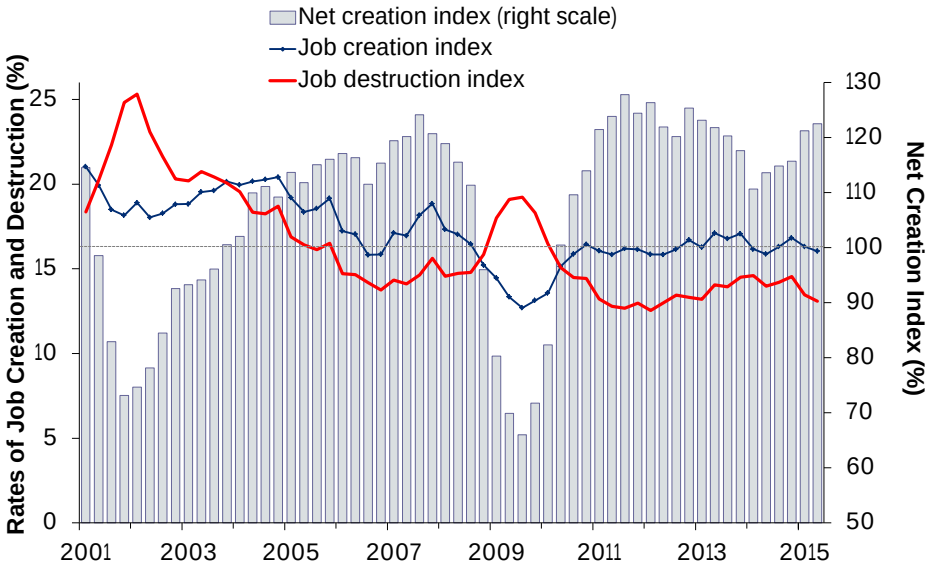
positive, it turned negative in 2012 and 2013, came back to positive territory in 2014 and the momentum continued in 2015. The Budget Division projects that the finance and insurance sector will continue to grow for a few more years but at a slower pace.

Professional and Business Services

This sector is expected to help lead State employment gains in 2015. It includes two groups of industries: the professional, scientific, and technical services sector (PST), which encompasses legal, accounting, architectural, engineering, advertising, and technical services; and the management, administrative, and other business support services group. The Budget Division estimates that the PST subsector saw an estimated gain of 2.9 percent, or 17,880 jobs, in 2015, to be followed by a gain of 2.1 percent, or 13,780 jobs, in 2016. The management, administrative, and support services sector is expected to follow a similar trend with a 2016 gain of 11,480 jobs, or 1.9 percent, after a 2015 gain of 13,670 jobs, or 2.3 percent. This sector includes temporary help services, which helps to explain its earlier recovery.

Figure 55

Professional and Business Services



Source: NYS Department of Labor; DOB staff estimates.

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

Meanwhile, in the PST subsector, the most recent recession led to a dramatic increase in the job destruction index, and decrease in job creation index, which in turn pushed down the net

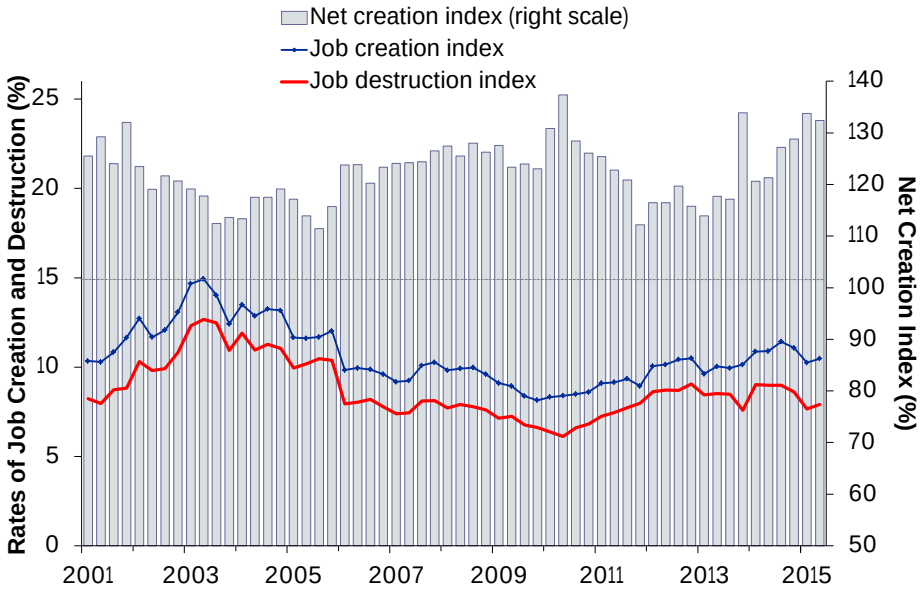
creation index down to a level even worse than in the 2001-2003 State recession (see Figure 55). Since the second quarter of 2010, the trends in those two indexes have reversed, leading to the highest rate of net job creation since the 2007 peak by the second quarter of 2011. The State's PST sector serves both a national and an international customer base; thus, growth in U.S. corporate profits and an improving global economy imply growth in this sector going forward in 2016.

Education and Health Care

The private education and healthcare and social assistance sectors have exhibited consistent strength and remain the brightest spots in the employment forecast (see Figure 56). Together, these two sectors are expected to add about 34,210 new jobs in 2016 for growth of 2.0 percent.

Figure 56

Education, Health Care, and Social Assistance



Source: NYS Department of Labor; DOB staff estimates.

The health care industry is the larger of the two, employing an estimated total of almost 1.4 million workers in 2015. The private education sector is estimated to employ only about 333,000, as it excludes more than 600,000 workers employed at public educational institutions. Typically, neither of these sectors exhibits a significant degree of cyclical sensitivity. Although there is pressure on public sector spending, an important funding source for the private health care sector, State health industry employment saw some growth in the QCEW series in 2015. The demand for jobs within the health care and social assistance sector is expected strengthen further with the aging of the State's population going forward. Private education employment is projected to rise 2.2 percent for 2016, following estimated growth of 3.4 percent for 2015. Healthcare and social assistance employment is also projected to rise 1.9 percent in 2016, following estimated growth of 2.1 percent for 2015.

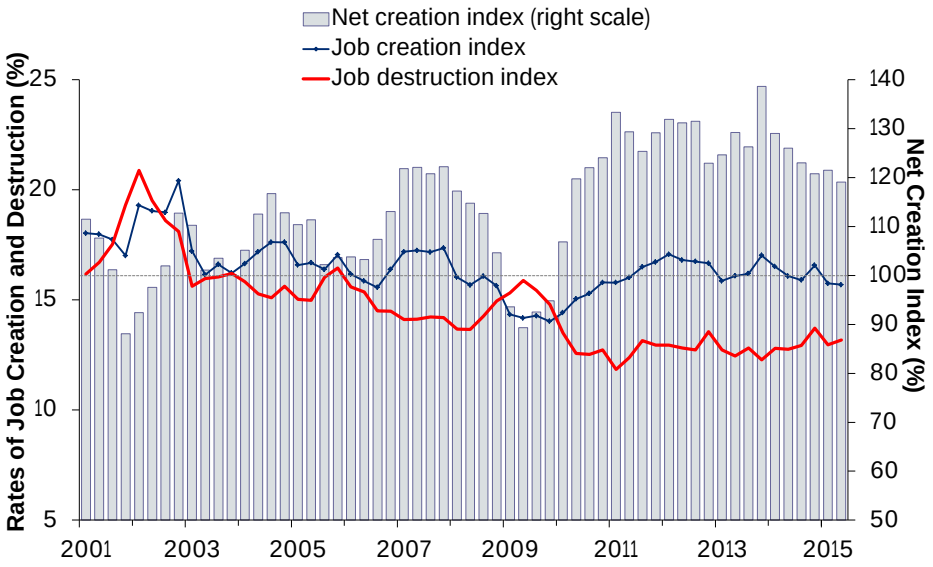
Leisure, Hospitality, and Other Services

The Budget Division expects leisure, hospitality, and other services employment to increase by 2.3 percent in 2016, following an increase of 2.6 percent in 2015. The national and global recessions had a severe impact on this sector, particularly in the arts, entertainment, and other tourism-related industries, not unlike the impact of the September 11 attacks (see Figure 57). In that case, the gross rate of job destruction increased considerably during the fourth quarter of 2001 and the first quarter of 2002, although the sector began to bounce back soon thereafter.

During the more recent State recession, the net index started falling in the first quarter of 2008 and was below 100 by the first quarter of 2009. The sector's rate of job destruction peaked early, in the second quarter of 2009, and the sector has been improving since, experiencing net growth by the first quarter of 2010. Since then this sector has experienced strong growth, mainly due to the improvement of the job destruction index, which led to the highest net creation index since 2001 in the first quarter of 2011. This sector is estimated to have added almost 31,280 jobs in 2015, and is expected to add another 29,090 jobs in 2016, with the gradual strengthening of the national and global economies favoring tourism.

Figure 57

Leisure, Hospitality, and Other Services



Source: NYS Department of Labor; DOB staff estimates.

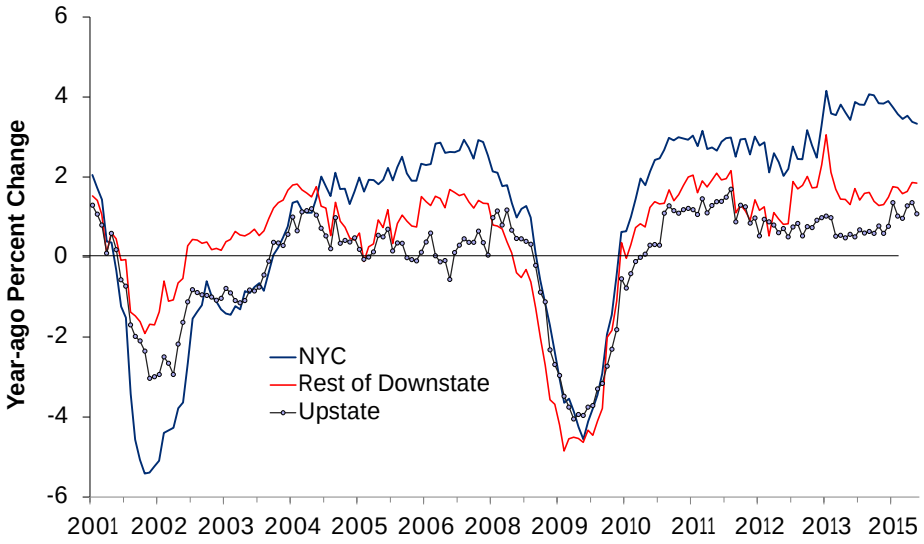
Regional Job Growth Disparity

Figure 58 indicates that since the start of the last State recovery in late 2003, employment growth has been quite variable across the State's regions. Between October 2003 and October 2008 the State's private sector added 338,400 jobs, a 4.8 percent increase. Fully 74.7 percent of

these jobs were added in New York City, which saw a private sector increase of 252,700, or 8.4 percent. This strong growth is no surprise given the robust performance of the City's services industries, because their market is not just national but global. Employment growth in the downstate region excluding New York City was weaker, at 2.6 percent, a gain of 38,500 jobs. However, growth in the upstate region was still weaker, with the private sector adding only about 47,200 jobs during the period, for growth of 1.9 percent.

By the middle of 2008, the national recession and the housing market contraction began to hit New York. As shown in Figure 58, the downstate region outside of New York City was the first to be affected. But the New York City labor market took a big hit when the credit crisis intensified with the fall of Lehman Brothers in September 2008. Most of the job losses in the financial and business services sectors were in the City. In addition, the synchronized global economic recession put significant downward pressure on the City's tourism-related establishments, including airlines, hotels, and restaurants, resulting in severe job losses.

Figure 58
NYS Private Sector Employment by Region



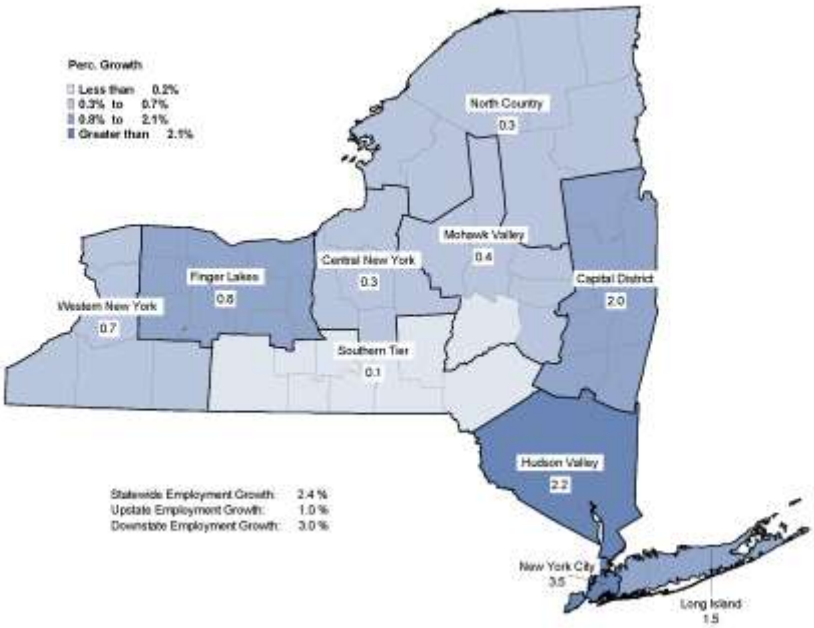
Source: NYS Department of Labor.

Meanwhile, the upstate economy's continued relative dependence on manufacturing, in particular the auto, machinery and equipment industries, meant that the weakening demand for cars and light trucks, and investment goods more generally, resulted in extensive layoffs, especially in the western part of the State. But as Figure 58 also shows, job losses turned to growth in 2010, starting in New York City and spreading to the remainder of the State later in the year, consistent with the beginning of recovery in January 2010. Job growth in the rest of downstate began to deteriorate close to the beginning of 2011, presumably negatively affected by the many setbacks that plagued the economy that year, particularly in the finance sector. By the end of the year, the region was experiencing either slow or no growth on a year-ago basis.

Those same setbacks caused job growth in New York City to decelerate by the middle of the year. However, jobs in upstate are less concentrated in the financial sectors and thus kept growing in 2011. That trend reversed itself in 2012 with the intensification of the global slowdown. With upstate and rest of downstate employment growth decelerating, only New York City's labor market appeared to be strengthening over the course of 2012. However, both New York City and the rest of Downstate experienced job losses in November in the wake of Superstorm Sandy, losses which turned out to be temporary. The job market in these areas started to pick up in 2013.

Figure 59 compares the relative performance of New York's 10 regions between the first half of 2014 and the first half of 2015, the most recent period for which the most accurate data – Quarterly Census of Employment and Wages (QCEW) data – are available. These data indicate that job growth over the period was broad-based. Private-sector employment for the State as a whole grew 2.4 percent, with the downstate regions showing faster growth of 3.0 percent. Meantime, the upstate region grew 1.0 percent. A more detailed analysis of regional employment trends can be found in the tables on pages 113-114.

Figure 59
Regional Employment Growth: 2014H1-2015H1



Risks to the New York Forecast

All of the risks to the U.S. forecast apply to the State forecast as well, although as the nation's financial capital, developments that have an impact on credit markets, such as rising (or falling) interest rates and equity market gyrations, pose a particularly large degree of risk for New York. The ongoing realignment of energy prices has created yet another source of equity market

volatility, as traders reassess the health of the global economy and the myriad additional factors that influence the demand and supply of energy. That volatility can be quite destabilizing to the financial sector and ultimately bonuses and State wages overall. The recent flattening of the yield curve represents yet another risk to finance industry revenues and profits. Any development that induces risk-averse investors to pile into U.S. Treasury securities can potentially force long-term interest rates even further downward, reducing the incentive for banks to lend and therefore the potential revenue from that source.

Financial market risks are compounded by the uncertainty surrounding the implementation of financial reform, which is already altering the composition of bonus packages in favor of stock grants with long-term payouts and claw-back provisions, thus affecting the forecast for taxable wages. As financial regulations evolve, it is becoming increasingly uncertain as to whether finance sector revenue generating activities such as trading, lending, and underwriting will ever return to pre-crisis levels, resulting in additional risk to the forecasts for bonuses and capital gains realizations.

There are, however, some upside risks to DOB's New York economic outlook as well. A stronger national or global economy than projected could increase the demand for New York goods and services, resulting in stronger job growth than projected. Such an outcome could lead to stronger levels of business activity and income growth than anticipated. If corporate earnings surprise to the upside, stock prices could regain their upward momentum earlier and more strongly, stimulating additional financial market activity and producing higher wage and bonus growth than currently projected. Of course, a stronger national economy could force the Federal Reserve to raise interest rates more rapidly than projected, which could negatively affect the State economy and the financial sector in particular. The Federal Reserve is in uncharted waters in its exit from an extraordinary period in the history of monetary policy. The risks associated with the execution of that plan are particularly acute for New York.

Box 8
THE NEW YORK STATE DIVISION OF THE BUDGET
NEW YORK MACROECONOMIC MODEL

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

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

Employment
The national economy affects New York employment through two channels. First, if State employment growth for a specific sector is related to the growth of the U.S. employment in the same sector, U.S. employment for that sector is specified as an exogenous variable in the equation. Second, overall U.S. economic conditions, as measured by the growth of real U.S. GDP, is included either directly in the employment equations for some sectors or indirectly through the VAR relationships. Intra-sectoral relationships for New York employment can be different from those for the nation as a whole. These relationships are captured in a restricted VAR model where the impact of one sector on other sectors is explicitly specified.

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

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

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

[1] For more information, see New York State Economic, Revenue and Spending Methodologies, November, 2014,<http://www.budget.ny.gov/pubs/supporting/MethodologyBook.pdf>.

Table 10

NEW YORK STATE PRIVATE EMPLOYMENT BY INDUSTRY

	Employment in Thousands					Percent Change				
INDUSTRY	**2011**	**2012**	**2013**	**2014**	**2015***	**2011**	**2012**	**2013**	**2014**	**2015***
Mining and Manufacturing	461.5	461.6	458.7	454.8	454.5	0.2	0.0	(0.6)	(0.8)	0.3
Construction and Real Estate	483.6	491.1	507.6	526.2	527.7	0.4	1.6	3.4	3.7	4.6
Trade, Trans., and Warehousing	1,438.9	1,464.0	1,480.8	1,504.2	1,503.1	1.8	1.7	1.1	1.6	1.4
Information	254.5	258.2	259.6	263.5	262.1	1.3	1.5	0.5	1.5	0.0
Finance and Insurance	497.4	496.1	492.8	499.0	502.9	2.1	(0.3)	(0.7)	1.2	1.6
Business and Professional Svs.	1,131.0	1,166.1	1,200.1	1,224.0	1,239.2	3.2	3.1	2.9	2.0	2.9
Education and Health Care	1,604.2	1,628.5	1,656.1	1,692.5	1,729.0	1.5	1.5	1.7	2.2	2.6
Leisure, Hospitality, and Other Svs.	1,092.0	1,134.4	1,177.4	1,215.7	1,220.9	3.7	3.9	3.8	3.3	2.7
Other **	86.2	81.8	84.8	101.5	105.3	2.4	(5.1)	3.7	19.6	10.2
Statewide	7,049.3	7,181.8	7,318.0	7,481.3	7,544.8	2.1	1.9	1.9	2.2	2.4

* Levels for 2015 are based on the first two quarters of the year; 2015 growth rates are relative to the same period in 2014.
** Includes agriculture, utilities, and unclassified firms.

Table 11

NEW YORK STATE PRIVATE EMPLOYMENT BY REGION

	Employment in Thousands					Percent Change				
REGION	**2011**	**2012**	**2013**	**2014**	**2015***	**2011**	**2012**	**2013**	**2014**	**2015***
New York City	3,130.4	3,217.0	3,307.7	3,433.5	3,505.5	2.9	2.8	2.8	3.8	3.5
Long Island	1,011.5	1,026.9	1,047.9	1,062.2	1,061.3	1.6	1.5	2.0	1.4	1.5
Hudson Valley	709.8	716.4	724.4	736.4	739.4	1.7	0.9	1.1	1.7	2.2
Capital District	380.1	387.2	390.9	395.7	396.6	1.4	1.9	1.0	1.2	2.0
Mohawk Valley	126.2	126.3	125.9	125.7	124.1	(0.4)	0.1	(0.3)	(0.2)	0.4
North Country	104.0	104.2	104.5	104.7	102.6	(0.6)	0.2	0.3	0.2	0.3
Central New York	274.9	275.9	276.4	277.9	275.3	0.9	0.4	0.2	0.5	0.3
Southern Tier	228.7	230.1	230.6	228.7	226.4	0.6	0.6	0.2	(0.8)	0.1
Western New York	504.6	508.5	511.3	515.6	512.6	1.2	0.8	0.6	0.8	0.7
Finger Lakes	449.6	453.2	454.1	457.4	454.8	1.5	0.8	0.2	0.7	0.8
Unclassified	129.5	136.0	144.3	143.5	146.1	5.2	5.0	6.0	(0.5)	4.7

* Levels for 2015 are based on the first two quarters of the year; 2015 growth rates are relative to the same period in 2014.

Table 12

REGIONAL EMPLOYMENT SHARES BY INDUSTRY

REGION	**Mining/ Manuf.**	**Constr. & Real Estate**	**Trade, Trans. & Wareh.**	**Info.**	**Finance and Insurance**	**Bus. & Prof. Svs.**	**Educ. & Health Care**	**Leisure, Hosp. & Other Svs.**	**Other**
New York City	2.2	7.2	17.0	4.9	9.2	18.7	23.2	16.5	1.1
Long Island	6.6	8.1	24.1	1.9	5.0	15.2	21.9	15.9	1.2
Mid Hudson	6.1	8.4	23.2	2.1	3.8	13.4	24.2	17.0	1.7
Capital Region	8.4	6.9	21.4	2.3	5.4	14.5	23.1	16.8	1.3
Mohawk Valley	13.2	4.2	24.5	1.9	5.5	7.7	26.7	15.2	1.2
North Country	10.3	6.2	26.0	1.7	2.1	6.9	24.4	19.2	3.3
Central New York	11.0	6.1	23.9	1.6	4.4	12.7	21.3	16.7	2.4
Southern Tier	15.7	4.8	20.1	1.8	3.5	10.3	26.4	15.9	1.6
Western New York	13.1	5.7	21.8	1.6	5.2	14.3	19.7	17.5	1.1
Finger Lakes	14.4	5.9	19.1	2.0	3.3	14.5	23.6	15.0	2.1
Statewide	6.0	7.1	20.0	3.5	6.6	16.4	22.7	16.3	1.4

Note: Shares are based on the period from 2014Q3 through 2015Q2.

Table 13

REGIONAL EMPLOYMENT TRENDS: 2011-2015										
Region	Employment (000's)					Percent Change				
	2011	2012	2013	2014	2015*	2011	2012	2013	2014	2015*
	Manufacturing and Mining									
New York City	74.8	76.0	75.9	75.7	76.8	(1.9)	1.5	(0.1)	(0.2)	1.9
Long Island	72.7	73.4	73.4	71.3	70.7	(0.1)	1.1	(0.1)	(2.8)	(1.1)
Hudson Valley	48.7	47.9	47.4	45.6	45.3	(2.1)	(1.6)	(1.0)	(3.9)	(0.8)
Capital District	30.2	31.5	32.6	32.8	33.6	4.4	4.3	3.4	0.7	3.6
Mohawk Valley	16.5	16.5	16.3	16.6	16.5	(1.3)	0.3	(1.1)	1.4	0.1
North Country	10.9	10.8	10.9	10.9	10.8	(3.7)	(1.0)	0.8	(0.6)	(0.3)
Central New York	32.3	30.9	30.4	30.4	30.4	(0.2)	(4.2)	(1.8)	0.3	0.8
Southern Tier	38.1	37.6	36.8	36.1	35.7	0.5	(1.3)	(2.3)	(1.9)	(0.8)
Western New York	67.7	67.7	67.1	68.1	67.3	2.8	0.1	(1.0)	1.5	(0.9)
Finger Lakes	68.5	68.0	66.5	66.1	66.2	1.2	(0.7)	(2.2)	(0.6)	0.7
Unclassified	1.1	1.1	1.4	1.2	1.2	21.3	5.6	26.4	(14.7)	2.2
Statewide	461.5	461.6	458.7	454.8	454.5	0.2	0.0	(0.6)	(0.8)	0.3
	Construction and Real Estate									
New York City	224.3	228.6	236.8	246.4	252.1	(0.4)	1.9	3.6	4.1	4.8
Long Island	74.4	76.1	81.6	85.5	84.7	(0.6)	2.3	7.2	4.7	3.8
Hudson Valley	54.5	53.9	56.3	59.9	61.3	1.7	(1.0)	4.5	6.4	7.8
Capital District	24.4	24.8	25.3	26.4	26.7	0.9	1.9	1.7	4.6	7.9
Mohawk Valley	5.5	5.5	5.6	5.4	4.8	(2.4)	(0.9)	1.6	(4.0)	(1.2)
North Country	6.9	6.8	6.7	6.5	5.9	(5.0)	(1.6)	(2.0)	(3.6)	0.9
Central New York	16.6	17.2	17.2	16.9	16.0	(1.6)	3.8	0.0	(1.9)	0.7
Southern Tier	11.4	11.5	11.2	11.1	10.3	1.8	0.8	(2.0)	(1.1)	(2.7)
Western New York	28.4	28.1	28.1	29.2	27.8	2.6	(1.0)	(0.1)	4.1	1.8
Finger Lakes	25.4	26.3	26.6	27.1	25.8	0.9	3.7	1.2	1.7	1.2
Unclassified	11.8	12.2	12.1	11.8	12.3	16.5	3.3	(0.3)	(3.1)	16.7
Statewide	483.6	491.1	507.6	526.2	527.7	0.4	1.6	3.4	3.7	4.6
	Trade, Transportation, and Warehousing									
New York City	544.1	558.7	572.3	587.0	589.8	2.8	2.7	2.4	2.6	2.1
Long Island	245.8	249.1	252.6	256.9	256.2	0.6	1.4	1.4	1.7	1.1
Hudson Valley	165.9	168.1	169.1	171.9	171.6	2.3	1.3	0.6	1.6	1.2
Capital District	82.8	84.0	84.0	85.2	84.1	0.8	1.5	0.1	1.4	0.5
Mohawk Valley	31.3	31.3	31.2	31.0	30.4	(0.4)	0.1	(0.5)	(0.6)	(0.9)
North Country	27.3	27.1	27.1	27.3	26.7	(1.5)	(0.8)	0.0	0.7	(0.3)
Central New York	64.9	66.0	65.9	66.1	65.8	1.4	1.7	(0.1)	0.3	1.1
Southern Tier	46.3	47.0	46.6	45.9	45.5	1.7	1.5	(0.9)	(1.4)	0.1
Western New York	109.9	111.4	110.6	112.5	112.0	1.2	1.4	(0.7)	1.7	0.8
Finger Lakes	88.9	89.2	87.7	87.7	86.9	0.7	0.3	(1.7)	0.0	0.2
Unclassified	31.8	32.1	33.8	32.8	34.1	4.9	0.8	5.3	(3.0)	6.1
Statewide	1,438.9	1,464.0	1,480.8	1,504.2	1,503.1	1.8	1.7	1.1	1.6	1.4
	Information									
New York City	157.3	161.4	163.6	170.9	173.3	5.0	2.7	1.3	4.5	2.3
Long Island	23.4	23.1	22.8	21.1	19.8	(2.6)	(1.2)	(1.2)	(7.5)	(7.7)
Hudson Valley	17.7	17.8	16.9	15.7	15.5	(4.3)	0.7	(4.9)	(7.0)	(2.6)
Capital District	9.8	9.6	9.4	9.4	9.1	(2.0)	(1.9)	(2.0)	0.4	(5.7)
Mohawk Valley	2.6	2.5	2.3	2.3	2.3	(8.5)	(5.8)	(8.0)	3.4	1.6
North Country	1.8	1.8	1.8	1.8	1.7	(1.8)	(2.0)	(0.4)	(0.0)	(2.2)
Central New York	5.1	4.9	4.8	4.7	4.5	(1.8)	(3.8)	(1.8)	(1.9)	(4.1)
Southern Tier	3.9	3.9	4.1	4.4	4.1	(0.6)	(0.1)	5.4	7.6	(10.2)
Western New York	8.4	8.4	8.2	8.3	7.9	(1.1)	0.0	(2.5)	0.7	(4.5)
Finger Lakes	9.2	8.8	8.6	8.9	9.0	(3.0)	(4.2)	(1.5)	2.8	3.2
Unclassified	15.4	16.1	17.0	15.9	15.0	(11.0)	4.2	6.2	(6.9)	(3.3)
Statewide	254.5	258.2	259.6	263.5	262.1	1.3	1.5	0.5	1.5	0.0

(Cont'd on next page)

REGIONAL EMPLOYMENT TRENDS: 2011-2015 (*cont'd*)

Region	Employment (000's)					Percent Change				
	2011	2012	2013	2014	2015*	2011	2012	2013	2014	2015*
Finance and Insurance										
New York City	315.7	313.4	310.2	318.0	321.3	3.2	(0.7)	(1.0)	2.5	2.2
Long Island	52.2	52.5	52.8	53.0	53.0	0.1	0.6	0.5	0.5	0.4
Hudson Valley	30.0	29.4	29.2	28.9	28.4	1.0	(1.9)	(0.5)	(1.3)	(1.9)
Capital District	21.4	21.5	21.5	21.5	21.6	0.3	0.8	0.0	(0.3)	0.9
Mohawk Valley	7.1	7.0	7.0	7.0	6.9	0.8	(1.8)	0.5	(0.9)	(1.9)
North Country	2.5	2.5	2.3	2.2	2.3	0.0	(1.0)	(8.0)	(2.9)	3.2
Central New York	13.6	13.3	12.8	12.5	12.3	0.6	(1.9)	(4.1)	(2.6)	(1.5)
Southern Tier	8.7	8.5	8.2	8.0	7.9	0.1	(2.6)	(2.5)	(2.9)	(1.8)
Western New York	26.0	26.5	26.3	26.5	27.3	1.7	1.6	(0.5)	0.6	3.8
Finger Lakes	14.9	15.1	15.2	15.0	15.4	2.4	1.6	0.4	(1.5)	2.6
Unclassified	5.3	6.5	7.2	6.5	6.7	(14.9)	21.5	11.0	(9.0)	3.1
Statewide	497.4	496.1	492.8	499.0	502.9	2.1	(0.3)	(0.7)	1.2	1.6
Professional and Business Services										
New York City	573.1	593.9	615.3	637.9	656.3	3.5	3.6	3.6	3.7	4.6
Long Island	151.7	156.6	160.5	161.5	160.5	3.4	3.2	2.5	0.6	1.3
Hudson Valley	94.5	97.0	98.7	99.4	98.6	2.9	2.7	1.7	0.7	1.1
Capital District	55.6	56.9	56.9	57.3	58.1	1.2	2.3	0.1	0.5	2.8
Mohawk Valley	9.9	10.2	9.9	9.6	9.6	0.5	3.0	(2.9)	(2.9)	0.4
North Country	7.0	7.0	7.2	7.4	6.9	(0.9)	0.6	2.6	2.0	(4.9)
Central New York	35.2	35.0	35.1	35.5	34.5	1.3	(0.6)	0.4	1.1	(1.6)
Southern Tier	21.9	22.4	23.4	23.6	23.1	1.1	2.1	4.4	1.1	(0.3)
Western New York	74.3	74.9	76.0	73.9	73.0	0.4	0.8	1.5	(2.8)	0.1
Finger Lakes	63.0	65.4	66.3	66.5	66.6	3.5	3.8	1.3	0.3	0.9
Unclassified	44.6	46.7	50.6	51.4	52.2	10.3	4.7	8.4	1.5	4.5
Statewide	1,131.0	1,166.1	1,200.1	1,224.0	1,239.2	3.2	3.1	2.9	2.0	2.9
Education, Health Care, and Social Assistance										
New York City	727.3	746.2	768.3	797.5	818.6	1.8	2.6	3.0	3.8	3.2
Long Island	226.7	226.8	228.6	231.1	236.7	2.1	0.1	0.8	1.1	3.0
Hudson Valley	173.0	173.7	174.9	177.2	182.5	1.3	0.4	0.7	1.3	3.7
Capital District	88.9	90.3	90.9	91.5	92.6	1.7	1.6	0.7	0.6	1.5
Mohawk Valley	33.6	33.5	33.5	33.4	33.6	0.3	(0.4)	0.1	(0.3)	1.2
North Country	25.2	25.2	25.3	25.3	25.7	0.6	0.1	0.4	0.1	1.9
Central New York	57.3	58.3	58.9	59.2	59.4	1.2	1.7	1.0	0.7	(0.2)
Southern Tier	60.7	61.1	61.2	59.7	60.9	(0.4)	0.7	0.2	(2.5)	2.1
Western New York	100.6	101.2	101.5	101.6	102.2	0.3	0.6	0.3	0.1	0.5
Finger Lakes	105.2	105.3	106.0	108.0	108.6	1.0	0.1	0.7	1.9	0.8
Unclassified	5.7	6.9	6.9	7.9	8.1	19.8	21.7	(0.5)	14.6	2.9
Statewide	1,604.2	1,628.5	1,656.1	1,692.5	1,729.0	1.5	1.5	1.7	2.2	2.6
Leisure, Hospitality, and Other Services										
New York City	484.6	512.4	537.9	565.5	579.7	5.3	5.7	5.0	5.1	4.2
Long Island	153.7	158.8	165.0	169.2	166.4	3.9	3.3	3.9	2.5	1.2
Hudson Valley	114.3	117.8	120.6	125.2	123.7	3.6	3.0	2.4	3.8	2.0
Capital District	62.6	64.1	65.7	66.5	65.7	1.7	2.3	2.5	1.3	2.0
Mohawk Valley	18.4	18.6	18.9	19.1	18.6	0.2	1.2	1.7	0.8	0.5
North Country	19.5	20.0	20.0	20.1	19.3	3.1	2.5	0.2	0.4	0.1
Central New York	44.0	44.4	45.3	46.0	46.1	1.4	0.9	2.0	1.5	1.6
Southern Tier	34.4	34.9	35.7	36.3	35.4	0.5	1.5	2.1	1.8	0.1
Western New York	84.4	85.7	88.7	90.2	89.6	1.2	1.5	3.6	1.7	1.3
Finger Lakes	66.0	66.9	68.3	68.7	67.5	2.7	1.3	2.2	0.6	0.3
Unclassified	9.9	10.8	11.1	8.8	8.9	0.5	8.8	2.9	(20.6)	4.7
Statewide	1,092.0	1,134.4	1,177.4	1,215.7	1,220.9	3.7	3.9	3.8	3.3	2.7

* Levels for 2015 are based on the first two quarters of the year; 2015 growth rates are relative to the same period in 2014.

Source: NYS Department of Labor.

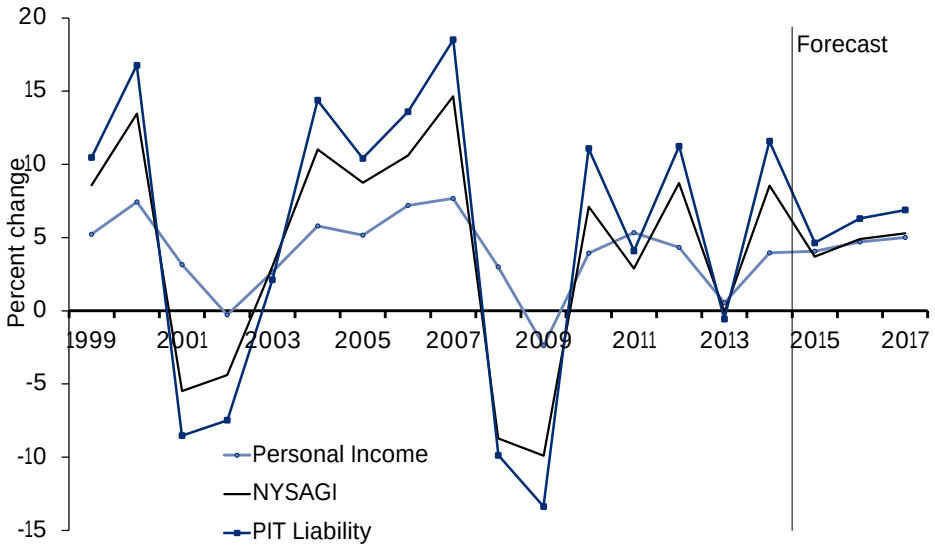
New York State Adjusted Gross Income

Receipts from the personal income tax account for almost 60 percent of the State's total tax revenue stream. New York State adjusted gross income (NYSAGI) is the measure of taxable income from which taxpayers' personal income tax liability is computed in conformity with New York State tax laws.[18] Detailed knowledge of the composition of this personal income tax base and its determinants is critical to accurately projecting New York's largest revenue source. At the aggregate level, the components of NYSAGI such as dividend income or capital gains income vary with State and national economic indicators. The Budget Division's forecast of the components of personal income will thus depend on the linkages between NYSAGI and the outlook for both the national and State economies.

In the years following the recession, NYSAGI growth has been volatile and on average lower than the pre-recession average annual growth (see Figure 60). Much of the volatility in NYSAGI during a time of a sustained but slow recovery at the State and national levels is the result of income shifting in response to anticipated tax law changes. Taxpayers realized capital gains early and employers distributed dividends and bonuses early in anticipation of the expiration of a lower tax rate at the end of 2012, creating a shift in income from 2013 into 2012 that led to 8.7 percent NYSAGI growth in 2012 followed by a small decline of 0.1 percent in 2013 (see Table 14). Estimated NYSAGI growth for 2014 of 8.6 percent is also affected by the shift since the growth rate is based on a deflated level in 2013.

Figure 60

The Indicators of New York State's Tax Base



Note: Personal income tax (PIT) liability is computed based on 2002 NY State tax law; 2014 liability and NYSAGI data are preliminary.
Source: NYS Department of Taxation and Finance; Moody's Analytics; DOB staff estimates.

[18] Box 9 on page 124 discusses in detail the relationship between three important indicators of the size of the State's personal income tax base, personal income tax liability, NYSAGI, and state personal income.

The Major Components of NYSAGI

Budget Division forecasts for the components of NYSAGI are based on detailed historical tax return data from samples of State taxpayers through the 2013 tax year, made available by the New York State Department of Taxation and Finance. For 2014, preliminary processing data based on the entire population of tax returns are used to construct estimates for all of the income components.

Although the measure of taxable wages derived from State tax returns does not precisely match the dollar amount derived from Quarterly Census of Employment and Wages (QCEW) data, they tend to follow a similar trend. To be consistent with the Budget Division's New York macroeconomic forecast, projected growth rates for taxable wages from 2014 onward are based on the forecast of growth for total State wages derived from the macroeconomic forecast, which is based on QCEW data. For a discussion of the Budget Division forecast for State wages, see Outlook for State Income beginning on page 84.

Table 14

CHANGES IN NYSAGI AND ITS MAJOR COMPONENTS

	2010	2011	2012	2013	2014*	2015	2016	2017
	---------- Actual ----------				---------- Estimated ----------			
NYSAGI								
Level ($ Billions)	638.9	657.3	714.7	714.0	775.1	803.8	843.1	887.8
Change ($ Billions)	42.4	18.4	57.4	(0.7)	61.1	28.7	39.3	44.7
% Change	7.1	2.9	8.7	(0.1)	8.6	3.7	4.9	5.3
Wages								
Level ($ Billions)	482.4	499.4	515.6	525.9	559.2	579.7	604.6	631.7
Change ($ Billions)	18.5	17.0	16.2	10.3	33.3	20.5	24.9	27.1
% Change	4.0	3.5	3.2	2.0	6.3	3.7	4.3	4.5
Capital Gains								
Level ($ Billions)	48.7	52.8	80.9	71.7	92.5	93.3	98.5	105.2
Change ($ Billions)	14.9	4.1	28.1	(9.2)	20.9	0.7	5.3	6.7
% Change	43.8	8.4	53.2	(11.4)	29.1	0.8	5.7	6.7
Partnership/S Corporation								
Level ($ Billions)	71.0	71.5	79.4	82.8	84.7	90.3	96.5	104.3
Change ($ Billions)	0.6	0.5	7.9	3.4	1.9	5.5	6.2	7.8
% Change	0.9	0.7	11.0	4.3	2.3	6.5	6.9	8.1

Source: NYS Department of Taxation and Finance; DOB staff estimates.
* 2014 Estimates are based on processing data except for wages.

Positive Capital Gains Realizations

The fate of NYSAGI is closely linked to the fate of capital gains realizations, both because of the relatively large share of income from positive capital gains realizations and because of the highly volatile nature of this income component. The Budget Division's forecasting model attempts to capture the inherent volatility in capital gains income by incorporating those factors that are most likely to influence realization behavior, such as expected and actual tax law changes, financial market activity, and real estate market activity.[19] The Division estimates moderate growth of 5.7 percent in 2016 and 6.7 percent in 2017 after much slower 0.8 percent growth in 2015 (see Table 14). This component is estimated to have grown 29.1 percent in 2014.

Federal and state taxes on capital gains income constitute a cost associated with the buying and selling of capital assets and therefore can greatly affect realization behavior. Taxpayers may decide to realize capital gains earlier than planned if they expect taxes on capital gains to increase. The federal capital gains tax rate increased from 15 percent to 20 percent at the end of 2012. Additionally, pursuant to a provision of the Affordable Care Act of 2010, a Medicare tax surcharge on investment income took effect in 2013, further raising the federal tax on capital gains realizations by 3.8 percent. While negotiations were still under way as 2012 came to an end, it was highly anticipated that tax rates would go up for at least higher-income taxpayers, who account for most of the capital gains. Taxpayers responded strategically by shifting long-term gains realizations from 2013 to 2012 to avoid the higher tax burden, resulting in 53.2 percent realizations growth in 2012 and a decline of 11.4 percent in 2013. As a consequence of this shift, the capital gains realizations base was low in 2013, artificially inflating the 2014 growth rate to an estimated 29.1 percent, above and beyond what underlying economic drivers would imply.

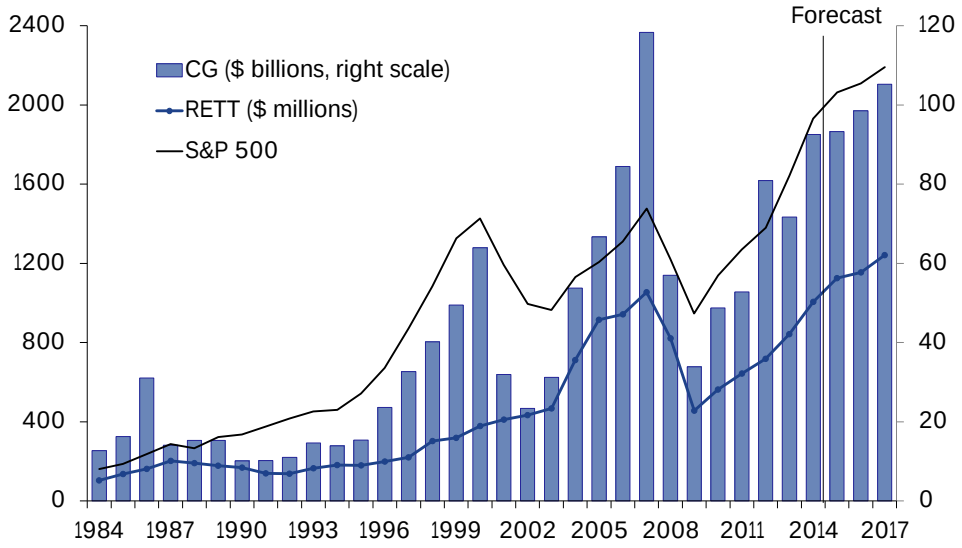
Figure 61 clearly shows how fluctuations in equity markets, as measured by the S&P 500 index, and real estate markets, as measured by State real estate transfer tax collections, help explain the magnitude of the fluctuations in capital gains realizations. Both markets grew strongly between 2003 and 2007, and both markets experienced precipitous declines in 2008 and 2009. While the declines in the S&P 500 in 2008 and 2009 were similar in magnitude to those experienced during the 2001-02 recession, the declines in capital gains realizations in 2001 and 2002 pale in comparison to those experienced in 2008 and 2009. The concurrent collapse of the real estate market clearly contributed to the unprecedented collapse in capital gains realizations. New York taxpayers lost a combined $84.4 billion in capital gains realizations income between 2007 and 2009 but are expected to have regained only $58.7 billion or about two-thirds of these losses by 2014.

Equity market growth as measured by the S&P 500 index slowed down considerably in 2015, mustering estimated growth of only 6.8 percent versus 17.5 percent growth in 2014 and 19.1 percent growth in 2013. Going forward, we anticipate only 2.2 percent growth in the S&P 500

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

index for 2016 and weak 4.0 percent growth for 2017, contributing to the subpar growth in capital gains realizations over the next two years.

Figure 61
Capital Gains Realizations, Real Estate Transfer Taxes and S&P 500 Index



Note: 2014 CG realizations are an estimate, 2015 RETT and S&P500 are actuals.
Source: Moody's Analytics; NYS Dept. of Taxation and Finance; DOB staff estimates.

As suggested above, the health of the real estate market also plays a critical role in determining capital gains realizations. Gains from both residential and commercial real estate transactions are taxable, though gains earned from the sale of a primary home are exempt up to a certain limit, for example, up to $500,000 for married couples filing jointly.[20] California data show that in 2012, 9.2 percent of positive capital gains realizations there were generated by real estate transactions. That share has fluctuated from a low of 6.2 percent in 2010 to a high of 32.4 percent in 1990. A study based on national data indicates that in 1993, 22 percent of net capital gains realizations in the U.S. were generated by real estate transactions.[21]

State real estate transfer tax (RETT) data provide a timely indicator of the strength of real estate sales and therefore of the possible impact of the real estate market on taxable gains. In just two years, real estate transfer tax collections fell by 57 percent from their 2007 peak, but tax collections since have regained all their losses, exceeding the 2007 peak by an estimated 7 percent in 2015 (see Figure 61). The Budget Division expects the real estate market to continue improving, albeit at a considerably slower pace, as home prices are increasing more slowly and expected higher long-term interest rates will make financing more expensive. New York's

[20] Taxpayers can claim this exclusion if they have lived in their home for a total of two years within the 5-year period ending on the date they sold or exchanged their home and if they have not sold or exchanged another home within the 2-year period ending on the date they sold or exchanged their home.
[21] L. E. Burman and P. R. Ricoy, "Capital Gains and the People Who Realize Them," National Tax Journal 50(3), September 1997, pages 427-451.

average single-family home price for the fourth quarter of 2015 is estimated to have risen 10.7 percent above its 2009Q2 trough, but is still 10.1 percent below its 2005Q4 peak. Thus, the residential housing market's contributions to capital gains realization in the most recent year were most likely not substantial.

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

Private-equity stakeholders had a solid year in 2015 as financial sponsor-backed deals reached their highest level since 2007 both globally and in the U.S. Further, the $2.283 billion in U.S. mergers and acquisitions was the highest level on record. But looking ahead, Federal Reserve monetary normalization likely will lead to rising interest rates which is generally considered to impact negatively the prices of equities and other assets. Lower stock prices in turn will result in fewer profits that exceed the levels which entitle private equity executives to a share of these profits, referred to as "carried interest." In addition private equity firms were holding $1.3 trillion in unspent commitments, also known as "dry powder," at the end of 2015's third quarter, according to the research group Preqin. These large uninvested funds result in competition for lucrative investment options, driving higher purchasing prices and so lower returns to private equity in the near future. The Budget Division therefore does not expect the same large positive contributions from private equity investment returns on capital gains realizations of the past three years to continue in the future.

The once extremely lucrative hedge fund industry continues to perform poorly, in part because of continued large costs of compliance with new global regulations that began appearing seven years ago. According to a survey by professional services company KPMG hedge funds have spent $3 billion since 2008 meeting the costs of new regulations, roughly a 10 percent increase in annual operating costs.[22] Hedge fund research firm Preqin indicates that the industry experienced its fourth consecutive month of negative returns in September 2015, making it the longest stretch of negative returns since the recession, even though there is no financial crisis in sight.[23] Through the third quarter, hedge funds were only up 0.18 percent in 2015, on track to an even lower return than in previous years.

There are both downside and upside risks to the forecast for capital gains realizations. Continuing strength in the private equity sector rather than a leveling off in payouts poses the largest upside risk to the outyear capital gains forecast. Downside risk comes from a possible

[22] http://www.kpmg.com/global/en/issuesandinsights/articlespublications/press-releases/pages/hedge-fund-managers.aspx
[23] http://www.businessinsider.com/hedge-funds-returns-in-2015-2015-10

market correction in response to continued federal funds rate hikes by the Fed during 2016. There is also downside risk from the impact of the low crude oil price, geopolitical instability and weak economic growth abroad on U.S. firms' profitability and investor confidence. Recent larger volatility points to a degree of unease among investors.

Rent, Royalty, Partnership, and S Corporation Gains

Partnership and S corporation income vies with capital gains income for the second largest income component after wages, but with considerably less volatility than capital gains. Historically growing at 10.5 percent annually, partnership and S corporation income has grown more slowly in the more recent past, averaging 7.2 percent growth between 2002 and 2012. Consistent with slow economic growth partnership and S corporation income is expected to have grown only 2.3 percent in 2014, following 4.3 percent growth in 2013. Based on an uptick in real GDP growth, the Budget Division predicts more average growth of 6.5 percent for 2015, 6.9 percent for 2016, and 8.1 percent for 2017.

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

New York State taxable partnership and S corporation income has experienced strong growth over the years. Between 1979 and 2013, this income component grew on average 10.3 percent annually, faster than the average annual rate of 6.3 percent for New York proprietors' income, as defined under NIPA and which includes partnership, S corporation, and sole proprietorship income. At the Federal level, partnerships and S corporations are the first- and second-fastest growing business entity forms, according to Internal Revenue Service Statistics of Income (SOI) data. Between 1998 and 2012, the latest year for which SOI data are available, the number of S corporations grew 62.5 percent while the number of partnerships grew 82.6 percent. For coparison non-farm sole proprietorships increased 35.3 percent and C corporations declined 21.3 percent over the same 14 years.

Growth in income from partnership and S corporations is related to both the economy and financial markets. However, average annual growth of 3.8 percent during the recent recovery has been lower than pre-recession relationships would suggest based on the strength of the economy and equity markets. Partnership and S corporation income gains and losses tend to rise and fall together, suggesting that the growth rates are linked at least in part to births and deaths of partnerships and S corporations. The severity of the Great Recession forced a large number of entities to exit the market, and it appears that tight credit markets have made it difficult for new entities to enter as economic conditions improved.

The Budget Division's partnership and S corporation income forecast contains both upside and downside risks. The real estate market is not captured independently in the forecast model. Since there is a high concentration of real estate partnerships in New York State, a better-than-predicted real estate market (due to an improved employment situation and a decline in

foreclosures) could lead to higher-than-expected partnership and S corporation gains. Like capital gains income, partnership and S corporation income is also sensitive to the performance of the private equity sector.

Dividend Income

Taxable dividend income in New York is a very volatile component and the last few years have been no exception, partly due to income shifting. The Budget Division estimates 18.4 percent growth for 2014, following a 4.8 percent decline in 2013. Both these numbers were affected by early dividend payouts made in 2012 to avoid the higher tax rate in 2013, which in turn lowered the 2013 level of dividends and consequently resulted in a higher growth rate for 2014. The Budget Division forecasts 5.4 percent growth for 2015, followed by 6.9 percent and 7.6 percent growth in 2016 and 2017, respectively.

Taxable dividend income is expected to rise and fall with U.S. dividend income, a component of the NIPA definition of U.S. personal income; long-term interest rates as represented by the 10-year Treasury yield; and the performance of equity markets. Growth rates in New York State taxpayers' dividend income have ranged from a decline of 28.7 percent in 2009 to an increase of 26.6 percent in 2004. Taxable dividends prove to be more variable than U.S. dividend income, growing at an average annual rate of 6.3 percent between 1976 and 2013 with a standard deviation of 12.8 percentage points, while U.S. dividend income grew an average 8.7 percent annually, with a lower standard deviation of 10.6 percentage points over the same period.

Average annual growth in taxable dividend income has been strong since the end of the recession, growing on average 11.9 percent annually between 2009 and 2014, presumably as a result of sizeable dividend payouts from publicly traded private equity firms and other businesses whose valuation improved greatly with the surge in the equity markets through 2014. With equity markets treading water in 2015, and conditions not expected to improve in the foreseeable future, growth rates going forward are expected to be considerably more moderate.

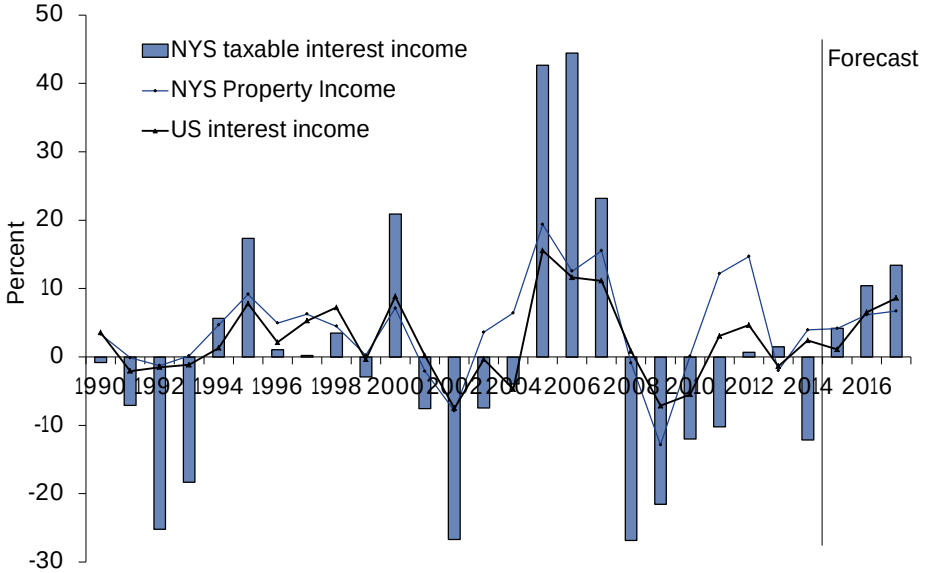
Risks to the dividend income forecast are closely linked to the risks embedded in the U.S. equity markets, corporate profitability and the performance of publicly traded private equity firms.

Interest Income

With an estimated 12.1 percent decline in 2014, taxable interest income extends its streak of either declines or very low growth for a seventh year. However, in response to continued improvements in the U.S. and State economies and the Fed's first interest rate hike in 2015, we expect interest income to increase by 4.2 percent in 2015, followed by a stronger 10.4 percent and 13.4 percent growth in 2016 and 2017, respectively, as additional rate hikes are anticipated.

Figure 62

Interest Income



Note: 2014 NYS taxable interest income is an estimate.
Source: Moody's Analytics; NYS Department of Taxation and Finance; DOB staff estimates.

An increase in interest rates will increase interest income for a given amount of assets. In addition, New York property income, a component of the NIPA definition of state personal income that includes interest income, is found to be a good indicator of the trend in taxable interest income for the State, although it is much less volatile (see Figure 62). For the period from 1977 to 2013, the average growth rate for New York property income was 6.5 percent, with a standard deviation of 7.6 percentage points, and the average growth rate for U.S. interest income, a component of the NIPA definition of U.S. personal income, was 5.8 percent, with a standard deviation of 7.9 percentage points. In contrast, State taxable interest income averaged 3.9 percent annual growth over the same period, with a standard deviation of 17.8 percentage points. The additional volatility in this component of NYSAGI could be related to the behavioral response of State taxpayers to past changes in the tax law.

In response to the conditions wrought by the Great Recession, the Federal Reserve ushered in a round of interest rate cuts starting in the second half of 2007. As the federal funds rate fell to close to zero and stayed low from December 2008 to late 2015, taxable interest income experienced large declines or very slow growth through 2015. The response to additional increases in the federal funds rate over the next few years should be stronger growth in interest income going forward.

The risks of the interest income forecast are clearly linked to the pace of interest rate hikes by the Federal Reserve. If the economy should experience a downturn, inflation does not pick up, or the stock market continues its recent tumble, the Fed may slow the pace of interest rate hikes, which would lower our forecast for interest income.

Small Business and Farm Income

Small business and farm income combines income reported as a result of operating a business, practicing a profession as a sole proprietor, or operating a farm. Such income is expected to vary with the overall strength of the national and State economies with some added volatility due to income shifting. Business and farm income is estimated to have grown 6.9 percent in 2014, after 1.1 percent growth in 2013, with 2013 income most likely lower because of some movement of income from 2013 into 2012 to avoid higher tax rates. Growth in 2014 is higher than it would be otherwise because of the lower base. As the economic recovery is matures and credit markets normalize, the Budget Division expects business and farm income to pick up speed with 6.4 percent growth in 2015 followed by 7.1 percent and 7.4 percent growth in 2016 and 2017 respectively.

Small business and farm income growth and volatility have shrunk over the years. This component of taxable income grew at an annual average rate of 11.5 percent from 1980 to 1990 with a standard deviation of 10.8 percent but- between 1991 and 2013 small business income grew only at an annual average rate of 4.1 percent, with a standard deviation of 4.7 percent. Proprietors' income, as defined under NIPA, experienced similar changes in growth, falling from 10.5 percent growth and a standard deviation of 8.4 percent to annual average growth of 4.2 percent and a standard deviation of 7.9 percent thereafter.

Average growth over the past five years of economic recovery has been low, only 3.8 percent, at least partly due to tight credit markets. The contraction of credit as a result of the financial crisis was particularly hard for small businesses since credit availability is particularly critical. Because small businesses historically have a higher failure rate, small-business lending is the highest-risk lending for banks and thus the first to go as economic conditions worsen. In an environment of tight credit, obtaining loans to maintain or grow activity became difficult for many small businesses. As credit became and continues to become more available in a slow but sustained economic recovery, business and farm income growth has been picking up speed.

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

Pension Income

Pension income is estimated to have grown 5.8 percent in 2014, following 3.5 percent growth in 2013. The Budget Division forecasts 4.4 percent growth in 2015, 4.7 percent in 2016 and 4.8 percent in 2017.

Pension income includes payments from retirement plans, life insurance annuity contracts, profit-sharing plans, military retirement pay, and employee savings plans. Pension income is linked to prior year long-term interest rates, suggesting that firms base the level of pension and life-insurance benefits they offer to employees on their expectations of future profitability, which is in turn tied to the future strength of the economy. Pension income has grown steadily over the years, although the growth rate has declined considerably over time. The average annual growth

rate between 1980 and 1990 was 12.6 percent, but it fell to 6.3 percent between 1991 and 2013. This coincides with a decline in the average 10-year Treasury yield from 10.4 percent in the former period to 4.9 percent in the latter. Both declines are likely the result of lower inflation rates in the later period.

Long-term Treasury yields have been at exceptionally low levels and have fallen continuously from a local high of 6.0 percent in 2000 to 1.8 percent in 2012 as a result of exceptionally low federal funds rates, the Federal Reserve's long-term asset purchasing program ("quantitative easing"), and the flight to safety engendered by the financial crisis and subsequent sovereign debt crises. Long-term Treasury yields increased slightly to 2.5 percent in 2014 before falling back down to an estimated 2.1 percent in 2015, but they are expected to rise gradually over the course of the next few years from 2.7 percent in 2016 to 3.4 percent in 2017 and 4.0 percent in 2018, following expected gradual rate hikes by the Fedover the next few years. This should bode well for pension incomes that are expected to follow suit.

The risks to the forecast for pension income are related mainly to the risks to long-term interest rates. If the economy sputters more than expected at this time, the Fed may slow down increases in the federal funds rate, affecting long-term interest rates and thus pension income.

Changes in the State Distribution of Income and Revenue Risk

As indicated in Figure 60 on page 116, NYSAGI exhibits more volatility than other indicators of the State's tax base, such as State personal income, while tax liability is more volatile still. Box 9 compares these three important indicators of the size of the State's personal income tax base and discusses their respective volatilities.

The most volatile components of taxable income, such as bonuses and capital gains realizations, are highly concentrated among the State's highest-income taxpayers. While the top one percent of taxpayers, as determined by their NYSAGI, accounted for 41.0 percent of adjusted gross income in 2013, they accounted for fully 76.4 percent of capital gains realizations (see Figure 63). Since the income of wealthy taxpayers is taxed at the highest rate, an accurate projection of these income components is critical to an accurate projection of personal income tax liability.

Box 9

INCOME TAX LIABILITY AND ALTERNATIVE MEASURES OF INCOME

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

Personal income tax liability is the amount which State taxpayers actually owe for a given tax year and thus measures the State's tax base.[1] Personal income tax liability is derived from taxpayers' New York State adjusted gross income (NYSAGI), in conformity with State tax law. A measure that is closely related to NYSAGI is State personal income, a U.S. Bureau of Economic Analysis national income and product accounts (NIPA) concept that measures income derived from value added to current production.[2] This widely available data source is often used as a proxy for NYSAGI. The relative volatility of personal income tax liability, NYSAGI, and State personal income, is presented in Figure 60 on page 116. For example in 2014, personal income grew 4.0 percent, while NYSAGI grew a stronger estimated 8.6 percent and personal income tax liability at constant law grew an even stronger estimated 11.6 percent.

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

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

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

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

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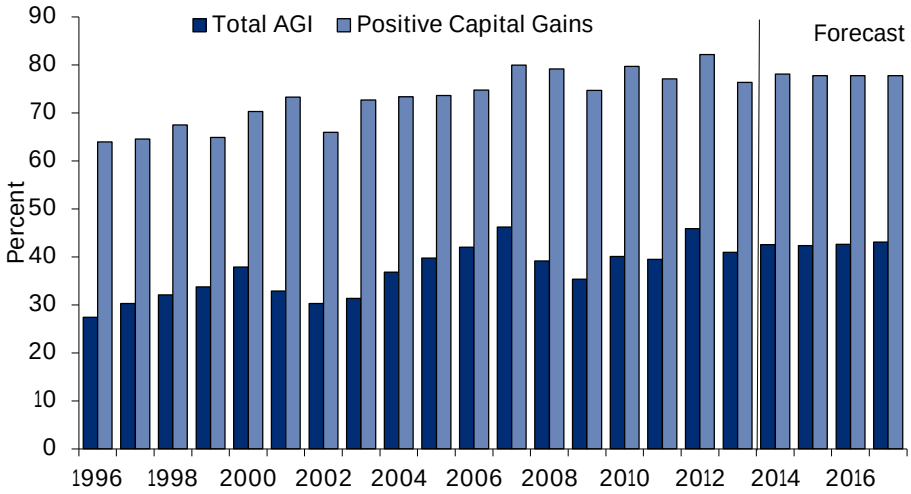
[1] For a detailed discussion of personal income tax liability, see Tax Receipt Section "Personal Income Tax."

[2] For a detailed explanation of how the Budget Division constructs State personal income, see Box 6 on page 87.

[3] However, any transaction cost generated by such a sale would add value to current production and would therefore be included in personal income.

[4] The New York State Economic, Revenue and Spending Methodologies, November 2015, provides a detailed explanation of the Budget Division's use of fan charts to compute prediction intervals around forecasts (<http://www.budget.ny.gov/pubs/supporting/MethodologyBook.pdf >.

Figure 63
Income Shares of the Top One Percent Taxpayers
AGI and Capital Gains Realizations



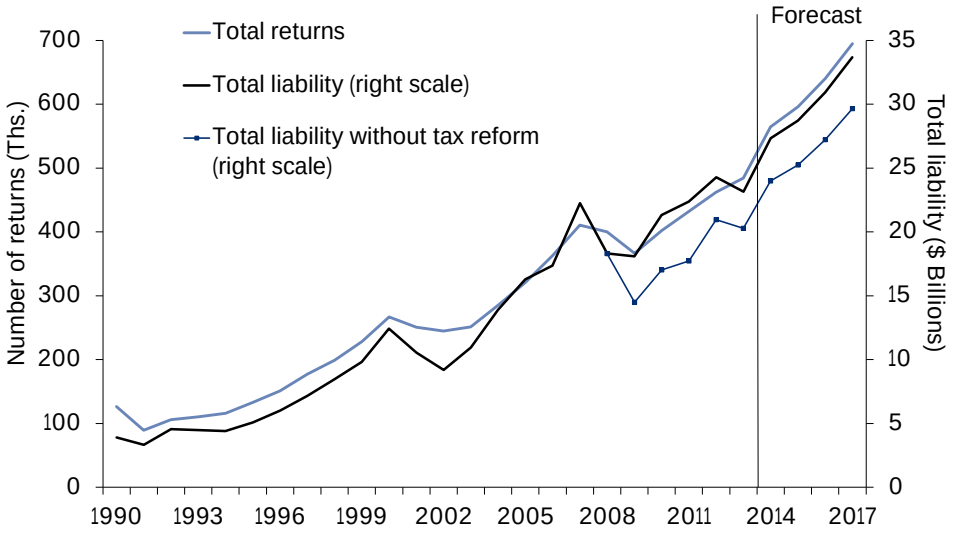
Note: For nonresident taxpayers, shares are based on total income;
Source: NYS Department of Taxation and Finance; DOB staff estimates.

Between 1985 and 2007, the number of returns generated by high-income taxpayers – those reporting NYSAGI of $200,000 or more – grew substantially, at an average annual rate of 12.8 percent. During the same period, the liability generated by these taxpayers grew more rapidly, at an annual average rate of 14.2 percent (see Figure 64). Liability was affected by a temporary surcharge that added two more tax brackets for wealthier taxpayers, raising the State's top income tax rate from 6.85 percent to 8.97 percent for tax years 2009 to 2011.[24] As the economy recovered between 2009 and 2014, returns and tax liability for wealthier taxpayers rebounded with an estimated increase of 54.2 percent in returns and 51.0 percent in liability over the five years.

The large decline in capital gains realizations and thus NYSAGI temporarily unwound some of the concentration of income, but by 2014 the estimated liability share of high-income taxpayers exceeded the 2007 peak by more than two percentage points, in part helped by a new high top marginal tax rate of 8.82 percent that started with the implementation of the December 2011 tax reform in 2012 (see Figure 65). Note that in the absence of the rate increase under the tax reform , high income taxpayers' share of liability is expected to return to its 2007 peak only by 2017.

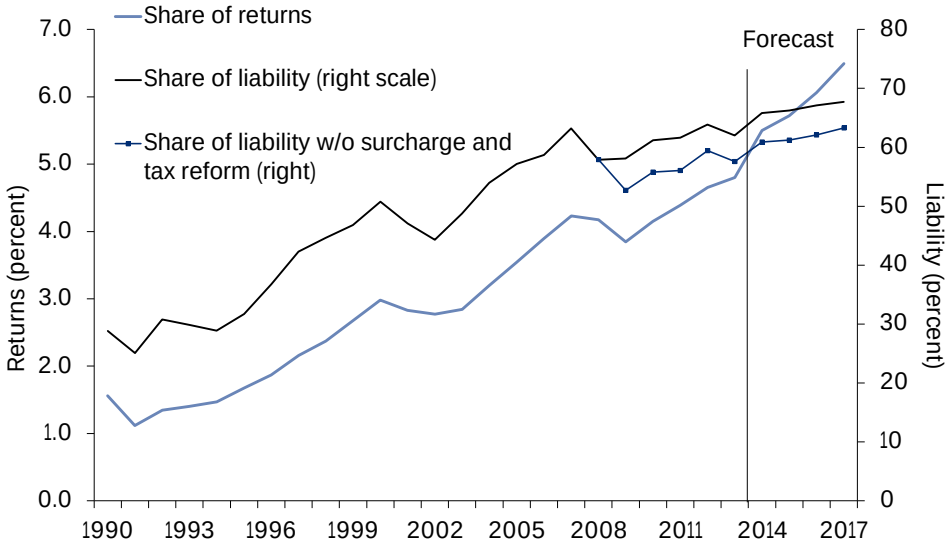
[24] See the "Personal Income Tax" section for more detail on the temporary income brackets and tax rates and the tax reform of 2011.

Figure 64
New York State High-Income Tax Returns



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

Figure 65
High-Income Taxpayers as Percent of Total Returns and Liability



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

Table 15

THE CONCENTRATION OF STATE INCOME AND LIABILITY

2007, 2009 and 2014

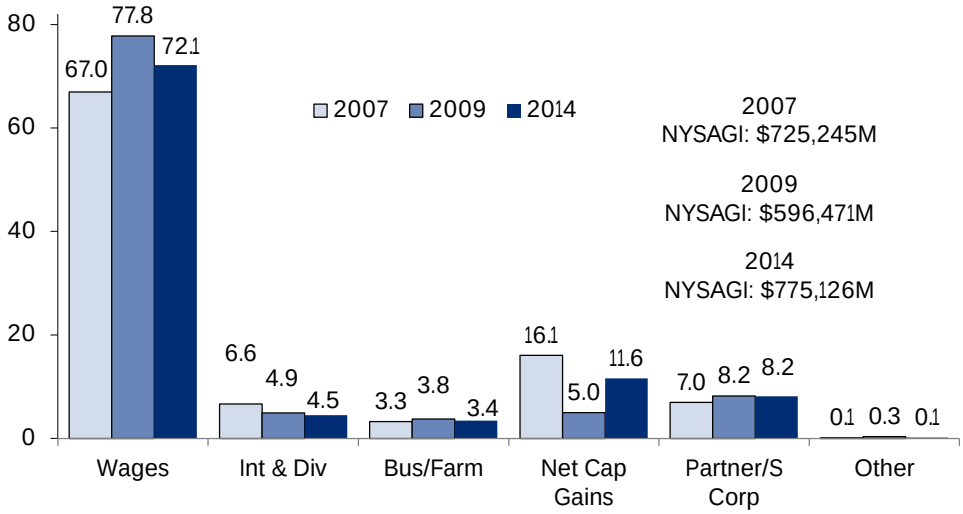
	Number of Returns	Gross Income	Wage Income	Nonwage Income	Liability
		2007			
Total ($ millions)	9,700,043	$778,402	$485,565	$292,837	$35,217
Share: Top 1%	—	34.4	19.5	59.2	46.4
Share: Top 5%	—	49.7	35.4	73.3	65.1
Share: Top 10%	—	59.2	46.7	79.8	75.2
Share: Top 25%	—	76.7	68.5	90.4	90.2
		2009			
Total ($ in millions)	9,524,621	$646,935	$463,939	$182,995	$31,168
Share: Top 1%	—	25.8	15.9	50.7	42.6
Share: Top 5%	—	41.6	32.3	65.2	61.5
Share: Top 10%	—	52.6	44.7	72.6	72.6
Share: Top 25%	—	73.5	67.8	87.8	89.5
		2014			
Total ($ in millions)	10,267,325	$841,323	$559,190	$282,133	$41,518
Share: Top 1%	—	29.5	17.1	54.1	39.6
Share: Top 5%	—	46.1	34.7	68.8	56.9
Share: Top 10%	—	57.2	47.3	76.7	66.9
Share: Top 25%	—	76.8	69.5	91.2	81.7

Note: Returns are ranked on the basis of gross income and based on a weighted statistical sample of all tax returns in the State. 2014 numbers are based on a trended sample.

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

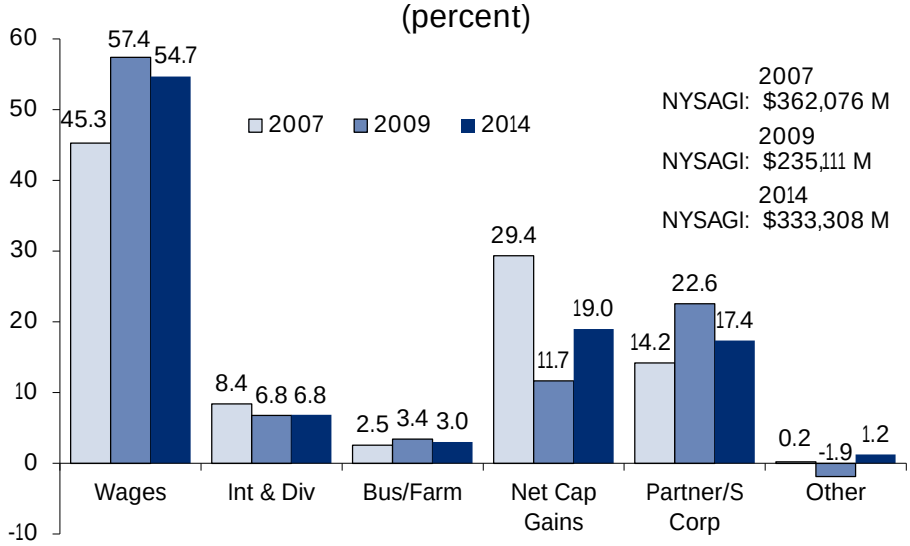
Table 15 shows the changes in the concentration of income and liability from the pre-recession peak in 2007 to the trough in 2009 and to 2014, the last year for which some taxpayer data are available. As a result of the recession, the share of nonwage income accruing to the top 10 percent of taxpayers fell by 7.2 percentage points between 2007 and 2009; but by 2014, the group had regained 5 percentage points of that loss. That parallels the movements of capital gains income, which tends to accrue primarily to high-income filers. New York taxpayers lost $84.4 billion in capital gains income between 2007 and 2009, of which they regained $58.7 billion by 2014. For wage income, which is more evenly distributed across taxpayers, the share of the top 10 percent of taxpayers fell 2.0 percentage points between 2007 and 2009, and increased 1.7 percentage points between 2009 and 2014.

Figure 66
Composition of NYSAGI for All Taxpayers
(percent)



Note: Both capital gains and partnership/S corporation gains income are net of losses. 2014 numbers are projections based on processing information.
Source: NYS Department of Taxation and Finance; DOB staff estimates.

Figure 67
Composition of NYSAGI for High-Income Taxpayers
(percent)



Note: Both capital gains and partnership/S corporation gains income are net of losses. High-income taxpayers are those reporting NYSAGI of $200,000 or more. All 2014 numbers are projections.
Source: NYS Department of Taxation and Finance; DOB staff estimates.

Figure 66 and Figure 67 display the actual decomposition of NYSAGI into its main components for the 2007 peak year, the 2009 trough year and the projected components for 2014, for all taxpayers and for high-income taxpayers, defined here as those reporting NYSAGI of $200,000 or more.

The figures show a substantial increase between 2009 and 2014 in the share of capital gains income and a decrease in the share of the other income components in response to equity market growth that far exceeded economic growth. Given the larger share of capital gains income among wealthier taxpayers, the impact of the strong equity market growth is more pronounced for wealthier taxpayers. However, none of the large changes in the major components of NYSAGI due to fthe recession have been fully rewound by 2014.

Risks to the Forecast

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

SELECTED ECONOMIC INDICATORS
(Calendar Year)

	2014 (actual[1])	2015 (estimate)	2016 (forecast)	2017 (forecast)	2018 (forecast)	2019 (forecast)	1977-2014 Average[2]
U.S. Indicators[3]							
Gross Domestic Product (current dollars)	4.1	3.5	3.9	4.9	5.0	4.9	6.1
Gross Domestic Product	2.4	2.5	2.3	2.8	2.7	2.5	2.8
Consumption	2.7	3.1	2.7	2.9	2.7	2.5	3.0
Residential Fixed Investment	1.8	8.5	7.0	6.7	6.2	5.3	1.7
Nonresidential Fixed Investment	6.1	3.2	4.2	5.1	4.8	4.3	4.6
Change in Inventories (dollars)	68.0	94.1	45.8	46.1	47.0	47.1	31.5
Exports	3.4	1.4	2.8	4.6	5.4	5.7	5.6
Imports	3.8	5.2	3.9	5.3	5.9	5.2	5.8
Government Spending	(0.6)	0.8	1.3	1.0	0.9	0.6	1.7
Corporate Profits[4]	1.7	(0.9)	2.9	4.5	5.1	5.3	7.2
Personal Income	4.4	4.6	4.7	5.1	5.1	5.0	6.2
Wages	5.1	4.8	4.6	4.7	4.8	4.8	5.8
Nonagricultural Employment	1.9	2.1	1.7	1.7	1.5	1.4	1.5
Unemployment Rate (percent)	6.2	5.3	4.9	4.8	4.8	4.8	6.4
S&P 500 Stock Price Index	17.5	6.8	2.2	4.0	4.4	5.8	8.9
Federal Funds Rate	0.1	0.1	0.8	2.1	2.8	3.1	5.4
10-year Treasury Yield	2.5	2.1	2.7	3.4	4.0	4.3	6.7
Consumer Price Index	1.6	0.2	1.8	2.2	2.3	2.4	3.9
New York State Indicators							
Personal Income[5]	4.0	4.1	4.7	5.0	5.0	4.8	5.7
Wages and Salaries[5]							
Total	6.3	3.7	4.3	4.5	4.4	4.4	5.4
Without Bonus[6]	4.7	4.2	4.4	4.3	4.2	4.1	5.1
Bonus[6]	17.5	0.2	3.7	5.8	5.8	5.8	9.4
Finance and Insurance Bonuses	22.4	(3.6)	2.1	6.1	6.1	6.1	14.3
Wage Per Employee	4.4	1.9	2.9	3.2	3.2	3.3	4.6
Property Income	3.9	4.2	6.1	6.7	6.1	5.6	6.4
Proprietors' Income	4.6	4.5	5.5	5.5	5.4	5.2	7.1
Transfer Income	1.8	5.2	4.6	5.1	5.4	5.6	6.1
Nonfarm Employment[5]							
Total	1.9	1.7	1.3	1.2	1.2	1.1	0.7
Private	2.2	2.1	1.5	1.4	1.4	1.3	0.8
Unemployment Rate (percent)	6.3	5.5	5.5	5.5	5.5	5.5	6.6
Composite CPI of New York[6]	1.5	0.3	1.9	2.3	2.4	2.5	3.9
New York State Adjusted Gross Income (NYSAGI)							
Capital Gains	29.1	0.8	5.7	6.7	7.1	7.2	16.3
Partnership/ S Corporation Gains	2.3	6.5	6.9	8.1	8.3	8.1	10.3
Business and Farm Income	6.9	6.4	7.1	7.4	7.1	6.7	6.3
Interest Income	(12.1)	4.2	10.4	13.4	10.4	7.8	3.8
Dividends	18.4	5.4	6.9	7.6	6.9	6.9	6.3
Total NYSAGI	8.6	3.7	4.9	5.3	5.3	5.3	5.4

[1] For NYSAGI variables, 2014 is an estimate.
[2] Partnership and S corporation gains data start in 1978, NYSAGI and Business and Farm data in 1980.
[3] All indicators are percent changes except change in inventories, the unemployment rate, and interest rates; all GDP components refer to chained 2009 dollars, unless otherwise noted.
[4] Includes inventory valuation and capital consumption adjustments.
[5] Nonagricultural employment, wage, and personal income numbers are based on CEW data.
[6] Series created by the Division of the Budget.
Source: Moody's Analytics; NYS Department of Labor; NYS Department of Taxation and Finance; DOB staff estimates.

SELECTED ECONOMIC INDICATORS
(State Fiscal Year)

	2014-15 (actual)	2015-16 (estimate)	2016-17 (forecast)	2017-18 (forecast)	2018-19 (forecast)	2019-20 (forecast)	1977-78 - 2014-15 Average
U.S. Indicators[1]							
Gross Domestic Product (current dollars)	4.3	3.5	4.1	5.0	4.9	4.9	6.0
Gross Domestic Product	2.7	2.3	2.4	2.8	2.6	2.5	2.8
Consumption	3.0	3.0	2.7	2.9	2.6	2.4	3.0
Residential Fixed Investment	3.7	8.3	6.8	6.6	6.0	5.0	1.6
Nonresidential Fixed Investment	5.8	3.1	4.6	5.1	4.7	4.2	4.5
Change in Inventories (dollars)	87.0	77.3	45.9	46.2	46.9	47.0	32.0
Exports	3.2	1.5	3.1	5.0	5.4	5.7	5.6
Imports	4.7	4.3	4.3	5.6	5.8	5.0	5.7
Government Spending	(0.1)	1.1	1.1	1.0	0.8	0.5	1.7
Corporate Profits[2]	3.7	(1.1)	3.1	4.6	5.2	5.3	7.2
Personal Income	4.6	4.6	4.8	5.1	5.1	5.0	6.2
Wages	5.0	4.9	4.5	4.7	4.8	4.8	5.7
Nonagricultural Employment	2.1	2.0	1.7	1.6	1.5	1.4	1.5
Unemployment Rate (percent)	5.9	5.1	4.9	4.8	4.8	4.8	6.4
S&P 500 Stock Price Index	15.4	4.0	3.0	4.0	4.6	6.2	8.9
Federal Funds Rate	0.1	0.2	1.1	2.3	2.9	3.2	5.4
10-year Treasury Yield	2.3	2.2	2.9	3.6	4.1	4.3	6.7
Consumer Price Index	1.2	0.6	1.9	2.3	2.3	2.4	3.8
New York State Indicators							
Personal Income[3]	3.5	4.5	4.8	5.0	4.9	4.7	5.8
Wages and Salaries[3]							
Total	4.4	4.2	4.5	4.5	4.4	4.4	5.4
Without Bonus[4]	4.7	4.4	4.4	4.3	4.2	4.1	5.1
Bonus[4]	2.4	3.2	5.2	5.8	5.8	5.7	9.1
Finance and Insurance Bonuses	(0.6)	0.7	5.0	6.1	6.2	6.0	14.7
Wage Per Employee	2.4	2.6	3.1	3.2	3.3	3.2	4.7
Property Income	3.8	4.9	6.4	6.6	6.0	5.4	6.5
Proprietors' Income	6.2	4.4	5.5	5.5	5.4	5.2	7.3
Transfer Income	2.8	5.3	4.6	5.2	5.5	5.6	6.1
Nonfarm Employment[3]							
Total	1.9	1.6	1.3	1.2	1.1	1.1	0.7
Private	2.3	1.9	1.5	1.4	1.3	1.2	0.8
Unemployment Rate (percent)	6.1	5.4	5.5	5.5	5.5	5.5	6.7
Composite CPI of New York[4]	1.1	0.8	2.0	2.3	2.4	2.5	4.0

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

[2] Includes inventory valuation and capital consumption adjustments.

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

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

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

Comparison of New York State Tax Structure with Other States

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

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

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

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

In iterations of this Comparison through the FY 2015 Executive Budget, New York's tax-to-personal income ratio had been inherently overstated. The numerator included all New York tax receipts, whether paid by residents or non-residents. The denominator, as calculated by the U.S. Bureau of Economic Analysis, excluded the New York source income of non-New York residents. Beginning with the FY 2016 Executive Budget Comparison, an adjustment has been made to add the New York source income of non-New York residents to the denominator. This methodological shift has been applied to all years and states in this Comparison.

Total State and Local Taxes

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

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

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

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

- The state and local tax-to-income ratio for New York exceeded the national average by $4.53 per $100 of personal income, or 43.6 percent in 1977, ranking New York second nationally. In 2013, the gap was $3.81 (36.6 percent) above the national average, ranking New York third nationally.

State Taxes

- In iterations of this Comparison through the FY 2015 Executive Budget, New York's tax-to-personal income ratio had been inherently overstated. The numerator included all personal income tax receipts, whether from residents or non-residents. The denominator, as calculated by the U.S. Bureau of Economic Analysis, excluded the personal income of non-N.Y. residents. Beginning with the FY 2016 Executive Budget Comparison, an adjustment has been made to add the personal income of non-N.Y. residents that pay N.Y. personal income tax to the denominator.

- New York is an average tax state when looking only at state taxes.

- New York's tax burden, as measured by taxes per $100 of personal income, was 6 cents (0.9 percent) above the national average of $6.55 in 2013.

- New York taxes per $100 of personal income actually declined from $7.12 in 1977 to $6.61 in 2013.

- New York's state tax rank was eleventh highest in 1977, and dropped to nineteenth highest in in 2013.

- Legislation enacted in 2014 that reduced corporate and estate taxes should serve to lower New York's ranking in future years.

Local Taxes

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

- New York City uniquely imposes taxes which comprise a large portion of New York's total local burden. In 2013, nearly $1.78 of New York's local burden of $7.61 per $100 of state personal income was due to New York City (NYC) personal and corporate income taxes. This accounted for approximately 23.4 percent of the total local burden.

Property Taxes in New York State

- Higher than average property taxes as a share of income (50 percent above the 2013 national average) in New York are tied, for the most part, to the rapid escalation in local Medicaid costs and capped growth in school property taxes through 2012. The property tax cap went into effect for local fiscal years beginning in 2012 for local governments and school districts.

- Significant disparities exist within New York with respect to the property tax burden.

- Property tax burdens as a percent of median home value are felt most heavily in Upstate counties due to relative weakness in home value appreciation and other demographic factors. In fact, four of the top ten highest property tax counties in the nation (and 9 of the top 20) in 2013 were in Upstate New York as measured by property taxes paid as a percent of a median-valued home in that county.[1] This is an improvement from 2011 (before the property tax cap went into effect) when, according to this measure, seven of the top ten (and 12 of the top 20) counties were in Upstate New York.

- Long Island and suburban counties near NYC (Westchester, Rockland, Suffolk, and Nassau) experienced high property taxes as a percent of each county's respective median household income in 2013. Using this metric, four of the ten highest property tax counties in the nation in 2013 were clustered Downstate. At least in part, this is a housing supply issue that characterizes Downstate and that disproportionately affects the elderly and middle class.

- Noticeably, the five counties of New York City did not have relatively high residential property tax burdens in 2013 when compared to other New York counties. This is the result of the more diverse tax structure in the City and a large and valuable commercial property tax base.

- Chapter 97 of the Laws of 2011 generally imposed a growth cap of 2 percent on the annual property tax levy of local taxing jurisdictions. With data through 2013 available, the impact of the property tax cap can be seen as the rankings of nearly all New York State counties based on taxes as a percentage of median home value improved compared to 2011. Also, New York's property taxes as a share of income in 2013 dropped approximately one percentage point compared to the national average in 2011.

- Legislation enacted in 2014 provided tax credits to certain homeowners outside New York City who live in a jurisdiction that stays within the property tax cap. The tax credits will be extended for a second year in jurisdictions which comply with the tax

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

cap and have put forward a plan to save one percent of their tax levy per year, over three years. This legislation should serve to improve New York's local tax ranking.

Table Construction

This section compares the state and local tax structure in New York State with other states. Table 1 reports tax rates for the major tax sources utilized by state and local governments. The first and second data columns of the table show the top personal income tax rate by state, and the income level at which the top rate takes effect; the third column lists top corporate tax rates (most state corporate tax structures have relatively flat rate structures, so the rate reported often applies to all corporate income subject to tax); the fourth column reports state sales tax rates; and the final column reports the average combined state and local sales tax rates imposed by the various jurisdictions within such state. The rates are those in effect as of 2015. The income and corporate tax rates reported exclude local rates. This exclusion is important since New York is one of only a handful of states where significant local personal income and corporate taxes are imposed, as in New York City.

Tables 2 and 3 report state taxes collected by source divided by state personal income for 1977 and for 2013, respectively. The New York rank in terms of state taxes fell from eleventh highest to nineteenth highest over this period.

Tables 4 and 5 report local taxes as a share of state personal income by state in 1977 and in 2013. In 2013, New York had the highest local tax burden using this measure. New York fell from $3.86 above the mean local tax burden in 1977 to $3.75 in 2013, but some of this decrease is captured in the general decrease in variation amongst local taxes across states. The above-average local tax burden is caused by relatively high property taxes, the large sales tax burden imposed at the local level, and the high ratio in the other category that picks up the income and corporate taxes imposed by New York City.

Tables 6a, 6b and 7 report state and locally imposed taxes as a percentage of state personal income. The data used in the calculations are for fiscal years ending in 1977 and 2013, the latest year for which complete state and local tax information are available. The tax-to-income ratios included on table 7 are: state and local income taxes, state and local corporate taxes, state and local sales taxes, local property taxes, all other state and local taxes, and finally combined state and local taxes. Table 8a reports changes in only the state tax to income ratio over the 1977-2013 period. During this time, New York's state tax burden fell relative to the mean, and has been below the mean for all but five of the last nineteen recorded years. Table 8b reports changes in the state and local tax-to-income ratio over the 1977-2013 period. In 1977, New York state and local taxes as a percent of personal income were 4.53 percentage points above the national average. In 2013, New York was 3.81 percentage points above the national average. The average state and local tax-to-income ratio has remained relatively constant nationwide over the thirty-six year period, while the New York ratio has declined overall and should continue to decline in the years ahead due to the continued impact of the property tax cap and related legislation. In every year since 1977, New York has been at least 2.23 percentage points above the mean.

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

Table 9 reports U.S. Census Bureau data on county-level property tax collections on owner-occupied housing for the 39 New York State counties, out of a total of 806 U.S. counties that had populations of at least 65,000 as of July 1, 2013. The data has been compiled and calculated by DOB based on the methodology used by the Tax Foundation in prior years' reports. Table 9 is sorted by county, in descending order of median property taxes paid on homes in that county as a percentage of the same county's median home value. Median values report the data point for which half of the data set values are higher and half lower. They differ from mean values (the sum of all observations divided by the number of observations) in that outlying values, such as particularly expensive homes, do not skew the computation. The rankings reported indicate the relative ordering of the counties with respect to the 806 U.S. counties covered, and are not relative solely to the counties of New York State.

The Tax-to-Income Percentage

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

Tax Exportation

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

For example, in New York, a large number of workers from New Jersey and Connecticut pay tax on New York source income and on taxable sales while in New York. This means that, unless a portion of Connecticut's and New Jersey's personal income is also shifted to New York State; the actual burden on New Jersey residents will appear to be a burden on New York residents. Beginning with the FY 2016 Executive Budget Comparison, a residence adjustment has been made to the personal income calculation for each state. The denominator now includes New York source income earned by non-New York residents. The same adjustment has been made for all 50 states.

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

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

Overall, it would seem likely that New York State is a net exporter of tax burdens relative to other states. This serves to bias the tax-to-income percentage for New York upward – making burdens in New York appear too high using this measure. The inclusion of the residence adjustment has helped rectify one of the tax exportation issues facing New York.

Income Adjustments

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

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

Federal Offsets

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

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

Comparison of New York State Tax Structure with Other States

Table 1 Comparison of 2015 State Top Rates					
State	Top PIT Rate	Highest Tax Bracket (Married Filing Joint)	Top Corp. Rate	State Sales Rate	Combined Sales Tax Rate[1]
Alabama	5	$6,000	6.5	4	8.91
Alaska	0	NA	9.4	0	1.76
Arizona	4.54	$300,000	6.5	5.6	8.17
Arkansas	7	$35,099	6.5	6.5	9.26
California	13.3	$1,039,374	8.84	7.5	8.44
Colorado	4.63	Flat Rate	4.63	2.9	7.44
Connecticut	6.7	$500,000	9	6.35	6.35
Delaware	6.6	$60,000	8.7	0	0
Florida	0	NA	5.5	6	6.65
Georgia	6	$10,000	6	4	6.96
Hawaii	11	$400,000	6.4	4	4.35
Idaho	7.4	$21,436	7.4	6	6.01
Illinois	3.75	Flat Rate	9.5	6.25	8.19
Indiana	3.3	Flat Rate	7.5	7	7
Iowa	8.98	$69,255	12	6	6.78
Kansas	4.6	$30,000	7	6.15	8.2
Kentucky	6	$75,000	6	6	6
Louisiana	6	$100,000	8	4	8.91
Maine	7.95	$41,849	8.93	5.5	5.5
Maryland	5.75	$300,000	8.25	6	6
Massachusetts	5.15	Flat Rate	8	6.25	6.25
Michigan	4.25	Flat Rate	6	6	6
Minnesota	9.85	$258,260	9.8	6.875	7.2
Mississippi	5	$10,000	5	7	7.07
Missouri	6	$9,000	6.25	4.225	7.81
Montana	6.9	$17,000	6.75	0	0
Nebraska	6.84	$58,920	7.81	5.5	6.8
Nevada	0	NA	0	6.85	7.94
New Hampshire	State Income tax limited to Interest Income and Dividends only		8.5	0	0
New Jersey	8.97	$500,000	9	7	6.97
New Mexico	4.9	$24,000	7.3	5.125	7.35
New York	8.82	$2,125,450	7.1	4	8.48
North Carolina	5.75	Flat Rate	6	4.75	6.9
North Dakota	3.22	$405,100	4.53	5	6.56
Ohio	5.33	$208,500	-	5.75	7.1
Oklahoma	5.25	$15,000	6	4.5	8.77
Oregon	9.9	$250,000	7.6	0	0
Pennsylvania	3.07	Flat Rate	9.99	6	6.34
Rhode Island	5.99	$137,650	9	7	7
South Carolina	7	$14,400	5	6	7.13
South Dakota	0	NA	0	4	5.83
Tennessee	State Income tax limited to Interest Income and Dividends only		6.5	7	9.45
Texas	0	NA	-	6.25	8.05
Utah	5	Flat Rate	5	5.95	6.68
Vermont	8.95	$411,500	8.5	6	6.14
Virginia	5.75	$17,000	6	5.3	5.63
Washington	0	NA	-	6.5	8.89
West Virginia	6.5	$60,000	6.5	6	6.07
Wisconsin	7.65	$325,700	7.9	5	5.43
Wyoming	0	NA	0	4	5.47
Mean Values	5.51		6.86	5.09	6.44
Standard Deviation	3.03		2.38	1.96	2.30
Coefficient of Variation	54.94		34.70	38.52	35.76

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

Comparison of New York State Tax Structure with Other States

Table 2 - 1977 Components and Percentage of Total State Tax Burden per $100 Personal Income														
State	Total State Taxes	Rank	PIT	Rank	Percent of Total	Sales and Use	Rank	Percent of Total	Corporate	Rank	Percent of Total	Other	Rank	Percent of Total
Alabama	6.37	26	1.19	33	18.7	4.12	10	64.7	0.34	38	5.4	0.71	27	11.2
Alaska	14.12	1	3.84	1	27.2	1.20	49	8.5	0.65	10	4.6	8.42	1	59.7
Arizona	7.02	12	1.15	34	16.4	4.30	7	61.2	0.31	40	4.5	1.25	10	17.9
Arkansas	6.34	27	1.29	28	20.4	3.87	15	61.1	0.53	21	8.4	0.64	32	10.1
California	6.50	24	1.87	18	28.8	3.10	33	47.7	0.85	5	13.0	0.68	31	10.5
Colorado	5.16	44	1.62	20	31.5	2.64	41	51.1	0.39	31	7.5	0.52	42	10.0
Connecticut	5.63	36	0.23	42	4.1	4.07	12	72.3	0.78	6	13.8	0.55	38	9.8
Delaware	8.04	5	3.45	2	43.0	1.42	48	17.6	0.60	14	7.4	2.57	3	31.9
Florida	5.10	45	0.00	45	0.0	3.76	19	73.8	0.30	41	5.9	1.04	15	20.3
Georgia	5.73	34	1.49	24	26.0	3.41	24	59.5	0.51	22	9.0	0.32	49	5.5
Hawaii	8.49	2	2.51	9	29.6	5.51	2	64.9	0.34	39	4.0	0.13	50	1.5
Idaho	6.32	28	1.93	15	30.6	3.03	35	47.8	0.53	20	8.4	0.83	22	13.2
Illinois	5.56	38	1.48	25	26.6	3.15	29	56.7	0.40	29	7.2	0.53	40	9.5
Indiana	5.66	35	1.25	31	22.2	3.75	20	66.2	0.23	44	4.0	0.43	47	7.6
Iowa	6.08	30	2.11	13	34.6	2.69	38	44.3	0.43	27	7.1	0.85	20	14.0
Kansas	5.83	33	1.26	29	21.6	3.13	31	53.7	0.74	9	12.7	0.70	29	12.0
Kentucky	7.14	10	1.55	22	21.7	3.83	16	53.7	0.60	13	8.4	1.16	13	16.2
Louisiana	6.90	15	0.54	40	7.8	3.42	23	49.5	0.38	32	5.5	2.56	4	37.1
Maine	6.73	21	1.08	37	16.0	4.25	8	63.2	0.51	23	7.5	0.89	18	13.3
Maryland	6.87	17	2.60	8	37.9	3.19	28	46.5	0.37	35	5.4	0.70	30	10.2
Massachusetts	6.57	22	2.67	7	40.6	2.63	42	40.1	0.89	2	13.5	0.38	48	5.8
Michigan	6.75	20	2.04	14	30.3	3.02	36	44.7	1.10	1	16.3	0.59	35	8.8
Minnesota	8.25	3	3.18	4	38.5	3.26	26	39.6	0.86	4	10.4	0.95	17	11.6
Mississippi	7.49	8	1.02	38	13.6	5.42	3	72.3	0.35	37	4.7	0.70	28	9.4
Missouri	4.54	47	1.11	36	24.4	2.64	40	58.2	0.30	42	6.6	0.49	44	10.8
Montana	6.00	31	2.15	12	35.8	1.59	47	26.6	0.48	26	8.0	1.78	7	29.6
Nebraska	5.45	40	1.52	23	27.8	3.05	34	56.0	0.37	34	6.8	0.51	43	9.3
Nevada	5.50	39	0.00	45	0.0	4.30	6	78.2	0.00	47	0.0	1.20	12	21.8
New Hampshire	3.53	50	0.12	43	3.5	2.01	46	56.9	0.57	16	16.3	0.82	24	23.3
New Jersey	5.32	42	1.22	32	22.9	2.70	37	50.8	0.57	17	10.7	0.83	23	15.6
New Mexico	7.72	7	0.34	41	4.5	4.86	5	62.9	0.38	33	4.9	2.14	5	27.7
New York	7.12	11	3.00	5	42.1	2.63	43	36.9	0.86	3	12.1	0.64	33	8.9
North Carolina	6.82	18	2.24	11	32.8	3.23	27	47.3	0.58	15	8.6	0.77	26	11.3
North Dakota	6.77	19	1.26	30	18.6	3.77	18	55.7	0.50	24	7.4	1.25	11	18.4
Ohio	4.44	49	0.76	39	17.2	2.65	39	59.7	0.39	30	8.8	0.63	34	14.2
Oklahoma	5.98	32	1.14	35	19.0	2.59	45	43.3	0.37	36	6.2	1.88	6	31.4
Oregon	5.19	43	3.00	6	57.7	0.85	50	16.4	0.49	25	9.4	0.86	19	16.5
Pennsylvania	6.26	29	1.32	27	21.1	3.14	30	50.2	0.75	8	11.9	1.05	14	16.8
Rhode Island	6.54	23	1.55	21	23.6	3.80	17	58.1	0.61	12	9.3	0.59	36	9.0
South Carolina	6.88	16	1.68	19	24.5	4.12	11	59.8	0.62	11	9.0	0.46	46	6.7
South Dakota	4.47	48	0.00	45	0.0	3.89	14	86.9	0.06	46	1.3	0.53	41	11.8
Tennessee	5.59	37	0.08	44	1.5	4.13	9	73.9	0.57	18	10.2	0.81	25	14.5
Texas	5.07	46	0.00	45	0.0	3.40	25	67.0	0.00	47	0.0	1.68	9	33.0
Utah	6.37	25	1.90	16	29.8	3.69	21	57.9	0.30	43	4.7	0.49	45	7.7
Vermont	7.46	9	2.28	10	30.6	3.66	22	49.1	0.55	19	7.4	0.96	16	12.9
Virginia	5.44	41	1.89	17	34.8	2.59	44	47.7	0.42	28	7.7	0.54	39	9.8
Washington	7.00	13	0.00	45	0.0	5.30	4	75.7	0.00	47	0.0	1.70	8	24.3
West Virginia	7.80	6	1.42	26	18.2	5.60	1	71.7	0.20	45	2.6	0.58	37	7.4
Wisconsin	8.13	4	3.40	3	41.9	3.13	32	38.5	0.75	7	9.2	0.85	21	10.4
Wyoming	6.91	14	0.00	45	0.0	3.93	13	56.8	0.00	47	0.0	2.99	2	43.2
Mean	6.46		1.49		22.4	3.39		54.1	0.47		7.5	1.10		16.1
Standard Deviation	1.52		1.00			1.02			0.24			1.21		
Coefficient of Variation	23.52		66.79			29.97			50.97			109.53		
NYS Diff. from Mean	0.66		1.51		19.7	(0.76)		(17.2)	0.38		4.6	(0.47)		(7.2)

Source: Moody's Economy.com, U.S. Census Bureau

Comparison of New York State Tax Structure with Other States

Table 3 - 2013 Components and Percentage of Total State Tax Burden per $100 Personal Income

State	Total State Taxes	Rank	PIT	Rank	Percent of Total	Sales and Use	Rank	Percent of Total	Corporate	Rank	Percent of Total	Other	Rank	Percent of Total
Alabama	5.37	39	1.86	35	34.6	2.73	27	50.8	0.22	39	4.1	0.56	29	10.5
Alaska	13.50	1	0.00	44	0.0	0.66	50	4.9	1.66	1	12.3	11.19	1	82.8
Arizona	5.56	36	1.40	41	25.2	3.39	14	60.9	0.27	33	4.9	0.50	34	8.9
Arkansas	7.93	7	2.45	20	30.9	3.71	8	46.8	0.37	19	4.7	1.40	9	17.6
California	7.19	12	3.61	4	50.2	2.60	34	36.1	0.40	14	5.6	0.59	28	8.1
Colorado	4.57	44	2.25	28	49.2	1.74	44	38.1	0.27	35	5.8	0.32	46	7.0
Connecticut	7.66	9	3.70	2	48.3	3.21	19	41.9	0.27	34	3.5	0.49	36	6.4
Delaware	7.67	8	2.59	18	33.8	1.12	48	14.6	0.71	4	9.3	3.25	5	42.4
Florida	4.39	48	0.00	44	0.0	3.64	9	82.9	0.26	36	5.9	0.49	35	11.3
Georgia	4.72	43	2.33	24	49.2	1.96	41	41.6	0.21	40	4.5	0.22	49	4.7
Hawaii	9.76	4	2.78	12	28.5	6.30	1	64.5	0.20	42	2.0	0.48	37	4.9
Idaho	6.32	25	2.28	27	36.1	3.13	22	49.5	0.35	22	5.6	0.55	30	8.7
Illinois	6.44	22	2.75	13	42.7	2.45	38	38.0	0.74	3	11.5	0.50	33	7.8
Indiana	6.86	15	2.02	33	29.4	4.17	6	60.8	0.32	27	4.6	0.35	44	5.2
Iowa	6.25	27	2.56	19	41.0	2.69	31	43.1	0.32	26	5.1	0.67	24	10.7
Kansas	6.01	30	2.33	23	38.8	2.95	23	49.1	0.30	31	5.0	0.42	41	7.0
Kentucky	6.75	17	2.32	25	34.4	3.19	20	47.2	0.40	13	6.0	0.83	17	12.3
Louisiana	4.87	42	1.45	40	29.7	2.63	32	53.9	0.13	44	2.7	0.66	27	13.6
Maine	7.50	11	2.96	9	39.4	3.44	13	45.8	0.33	24	4.4	0.77	18	10.3
Maryland	6.28	26	2.67	16	42.5	2.55	36	40.6	0.33	25	5.3	0.74	20	11.7
Massachusetts	6.19	29	3.33	6	53.9	1.93	42	31.2	0.49	9	7.9	0.44	40	7.0
Michigan	6.46	20	2.10	30	32.6	3.19	21	49.3	0.23	38	3.6	0.94	16	14.5
Minnesota	8.52	5	3.47	5	40.7	3.58	11	42.1	0.53	6	6.2	0.94	15	11.0
Mississippi	7.56	10	1.79	37	23.7	4.67	3	61.8	0.42	12	5.6	0.67	23	8.9
Missouri	4.48	46	2.16	29	48.3	1.93	43	43.0	0.15	43	3.4	0.24	48	5.3
Montana	6.73	18	2.66	17	39.5	1.42	47	21.1	0.44	11	6.5	2.21	6	32.9
Nebraska	5.40	38	2.41	21	44.5	2.52	37	46.6	0.32	28	5.8	0.16	50	3.0
Nevada	6.42	23	0.00	44	0.0	4.99	2	77.8	0.00	47	0.0	1.42	7	22.2
New Hampshire	3.83	50	0.16	42	4.2	1.54	46	40.2	0.90	2	23.5	1.23	11	32.0
New Jersey	6.45	21	2.69	15	41.6	2.71	29	42.0	0.51	7	7.8	0.55	31	8.6
New Mexico	7.08	14	1.69	38	23.9	3.61	10	51.0	0.36	20	5.1	1.42	8	20.0
New York	6.61	19	3.61	3	54.6	2.08	40	31.5	0.44	10	6.7	0.48	38	7.2
North Carolina	6.36	24	2.96	8	46.6	2.60	33	40.9	0.34	23	5.4	0.46	39	7.2
North Dakota	13.09	2	1.59	39	12.1	4.36	5	33.3	0.56	5	4.3	6.59	2	50.3
Ohio	5.81	33	2.08	31	35.9	2.92	26	50.2	0.06	46	1.0	0.75	19	12.9
Oklahoma	5.53	37	1.81	36	32.8	2.39	39	43.3	0.36	21	6.6	0.96	14	17.3
Oregon	5.78	34	3.95	1	68.3	0.86	49	14.9	0.29	32	5.0	0.68	22	11.7
Pennsylvania	5.86	32	1.86	34	31.7	2.95	24	50.4	0.38	16	6.5	0.67	26	11.4
Rhode Island	6.23	28	2.31	26	37.0	3.21	18	51.6	0.31	30	4.9	0.40	42	6.5
South Carolina	5.25	40	2.02	32	38.5	2.70	30	51.3	0.23	37	4.4	0.30	47	5.7
South Dakota	4.04	49	0.00	44	0.0	3.24	17	80.1	0.10	45	2.4	0.71	21	17.5
Tennessee	4.57	45	0.10	43	2.2	3.31	16	72.4	0.49	8	10.7	0.67	25	14.7
Texas	4.45	47	0.00	44	0.0	3.38	15	76.0	0.00	47	0.0	1.07	13	24.0
Utah	5.96	31	2.69	14	45.1	2.58	35	43.3	0.31	29	5.2	0.38	43	6.4
Vermont	10.36	3	2.39	22	23.0	3.54	12	34.2	0.38	17	3.7	4.06	4	39.1
Virginia	4.94	41	2.81	11	56.8	1.60	45	32.3	0.20	41	4.0	0.34	45	6.9
Washington	5.70	35	0.00	44	0.0	4.47	4	78.5	0.00	47	0.0	1.23	10	21.5
West Virginia	8.45	6	2.82	10	33.3	4.04	7	47.8	0.38	18	4.5	1.21	12	14.3
Wisconsin	6.83	16	2.99	7	43.8	2.93	25	42.9	0.40	15	5.8	0.51	32	7.5
Wyoming	7.19	13	0.00	44	0.0	2.72	28	37.8	0.00	47	0.0	4.47	3	62.2
Mean	6.55		2.05		32.0	2.92		46.6	0.35		5.4	1.22		16.0
Standard Deviation	1.92		1.10			1.05			0.26			1.84		
Coefficient of Variation	29.32		53.57			35.78			73.34			150.80		
NYS Diff. from Mean	0.06		1.56		22.6	(0.84)		(15.1)	0.09		1.3	(0.75)		(8.9)

Source: Moody's Economy.com, U.S. Census Bureau

Comparison of New York State Tax Structure with Other States

Table 4 - 1977 Components and Percentage of Total Local Taxes Per $100 of Personal Income

State	Total	Rank	Property	Rank	Percent of Total	Sales	Rank	Percent of Total	Other	Rank	Percent of Total
Alabama	2.14	47	0.87	50	40.6	0.89	4	41.6	0.38	8	17.9
Alaska	2.94	39	2.31	36	78.6	0.59	14	20.0	0.04	48	1.4
Arizona	4.62	15	3.78	19	81.8	0.74	10	16.0	0.11	31	2.3
Arkansas	2.00	48	1.82	44	90.9	0.12	29	6.1	0.06	41	3.0
California	5.83	4	4.97	8	85.2	0.64	13	11.0	0.22	16	3.8
Colorado	5.16	10	3.91	17	75.9	1.09	3	21.0	0.16	21	3.1
Connecticut	4.99	12	4.95	9	99.1	0.00	44	0.0	0.04	45	0.9
Delaware	1.89	49	1.61	46	85.0	0.00	42	0.2	0.28	12	14.7
Florida	3.19	35	2.69	31	84.4	0.39	20	12.1	0.11	28	3.5
Georgia	3.55	31	2.89	30	81.3	0.54	17	15.2	0.12	26	3.5
Hawaii	2.31	43	1.85	43	80.1	0.22	25	9.4	0.24	15	10.5
Idaho	3.07	37	2.99	28	97.3	0.02	37	0.8	0.06	40	2.0
Illinois	4.52	16	3.70	20	81.9	0.65	12	14.5	0.16	20	3.6
Indiana	3.38	33	3.26	24	96.6	0.01	41	0.1	0.11	30	3.3
Iowa	4.11	20	3.98	16	96.9	0.01	39	0.2	0.12	27	2.9
Kansas	4.33	19	4.08	14	94.1	0.16	27	3.8	0.09	33	2.1
Kentucky	2.37	42	1.59	47	66.9	0.11	31	4.6	0.68	5	28.5
Louisiana	3.12	36	1.52	49	48.5	1.47	1	47.1	0.14	24	4.4
Maine	3.57	29	3.54	22	99.3	0.00	45	0.0	0.03	50	0.7
Maryland	4.98	13	3.24	25	65.1	0.22	24	4.4	1.51	1	30.4
Massachusetts	6.40	3	6.36	1	99.4	0.00	45	0.0	0.04	49	0.6
Michigan	4.37	18	4.01	15	91.6	0.04	35	1.0	0.32	11	7.4
Minnesota	3.72	27	3.57	21	96.0	0.07	33	2.0	0.08	36	2.1
Mississippi	2.28	44	2.16	38	94.5	0.08	32	3.7	0.04	47	1.8
Missouri	3.79	25	2.64	33	69.8	0.77	7	20.2	0.38	9	9.9
Montana	5.18	8	4.98	7	96.1	0.00	45	0.0	0.20	17	3.9
Nebraska	5.41	6	5.04	6	93.3	0.24	22	4.4	0.13	25	2.3
Nevada	3.96	22	2.67	32	67.5	0.74	9	18.7	0.55	6	13.9
New Hampshire	5.75	5	5.64	3	98.1	0.00	45	0.0	0.11	29	1.9
New Jersey	6.48	2	5.85	2	90.1	0.55	16	8.5	0.09	35	1.3
New Mexico	1.87	50	1.53	48	81.7	0.21	26	11.0	0.14	23	7.4
New York	7.79	1	5.33	4	68.4	1.45	2	18.7	1.00	3	12.9
North Carolina	2.55	41	2.10	41	82.4	0.40	19	15.5	0.05	42	2.0
North Dakota	3.40	32	3.28	23	96.5	0.02	38	0.6	0.10	32	3.0
Ohio	3.99	21	3.04	27	76.3	0.14	28	3.5	0.81	4	20.3
Oklahoma	2.88	40	2.02	42	70.0	0.81	6	28.3	0.05	43	1.7
Oregon	4.95	14	4.56	12	92.3	0.11	30	2.2	0.27	13	5.5
Pennsylvania	3.90	24	2.58	35	66.2	0.03	36	0.9	1.28	2	32.9
Rhode Island	4.44	17	4.40	13	99.1	0.00	45	0.0	0.04	46	0.9
South Carolina	2.26	45	2.11	40	93.2	0.00	43	0.1	0.15	22	6.7
South Dakota	5.20	7	4.71	10	90.6	0.24	23	4.6	0.25	14	4.9
Tennessee	3.27	34	2.22	37	67.9	0.86	5	26.3	0.19	18	5.8
Texas	3.66	28	3.14	26	85.8	0.45	18	12.2	0.07	37	2.0
Utah	3.56	30	2.91	29	81.8	0.56	15	15.7	0.09	34	2.6
Vermont	5.17	9	5.10	5	98.7	0.00	45	0.0	0.07	39	1.3
Virginia	3.75	26	2.59	34	69.0	0.75	8	19.9	0.42	7	11.1
Washington	3.02	38	2.12	39	69.9	0.73	11	24.2	0.18	19	5.9
West Virginia	2.18	46	1.78	45	81.8	0.06	34	2.8	0.33	10	15.3
Wisconsin	3.94	23	3.89	18	98.7	0.01	40	0.1	0.05	44	1.2
Wyoming	5.07	11	4.66	11	92.0	0.33	21	6.6	0.07	38	1.4
Mean	3.93		3.33		83.8	0.35		9.6	0.24		6.6
Standard Deviation	1.31		1.31			0.38			0.31		
CV	33.43		39.41			109.40			126.26		
NYS Diff. from Mean	3.86		2.00		(15.3)	1.10		9.1	0.76		6.3

Source: Moody's Economy.com, U.S. Census Bureau

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

Comparison of New York State Tax Structure with Other States

Table 5 - 2013 Components and Percentage of Total Local Taxes Per $100 of Personal Income

State	Total	Rank	Property	Rank	Percent of Total	Sales	Rank	Percent of Total	Other	Rank	Percent of Total
Alabama	3.16	36	1.35	49	42.6	1.33	6	42.0	0.49	8	15.4
Alaska	4.37	14	3.45	13	79.0	0.79	18	18.0	0.13	26	3.0
Arizona	3.79	27	2.44	34	64.5	1.17	9	30.8	0.18	22	4.6
Arkansas	2.01	49	0.86	50	42.6	1.12	11	55.7	0.03	49	1.7
California	3.86	25	2.73	28	70.6	0.86	17	22.3	0.27	17	7.1
Colorado	4.73	8	2.86	25	60.5	1.66	2	35.2	0.21	20	4.3
Connecticut	4.70	9	4.64	5	98.7	0.00	49	0.0	0.06	46	1.3
Delaware	2.11	48	1.75	46	82.9	0.03	46	1.6	0.33	15	15.5
Florida	3.82	26	2.95	22	77.3	0.66	24	17.4	0.21	19	5.4
Georgia	4.08	19	2.66	30	65.2	1.32	7	32.3	0.10	30	2.5
Hawaii	3.12	40	2.13	40	68.2	0.66	25	21.0	0.34	14	10.8
Idaho	2.70	46	2.53	33	93.8	0.05	44	1.8	0.12	29	4.4
Illinois	5.08	5	4.24	8	83.4	0.71	20	14.1	0.13	27	2.5
Indiana	3.24	35	2.57	32	79.5	0.09	39	2.9	0.57	6	17.6
Iowa	4.04	20	3.49	12	86.5	0.41	29	10.1	0.14	25	3.4
Kansas	4.17	17	3.19	14	76.6	0.89	16	21.2	0.09	34	2.2
Kentucky	2.88	43	1.66	47	57.6	0.35	31	12.1	0.87	5	30.3
Louisiana	4.41	13	2.05	42	46.5	2.26	1	51.3	0.10	32	2.2
Maine	4.86	7	4.82	4	99.1	0.01	48	0.3	0.03	50	0.7
Maryland	4.97	6	2.83	26	57.0	0.27	32	5.4	1.87	1	37.6
Massachusetts	3.75	29	3.59	9	95.8	0.09	40	2.3	0.07	42	2.0
Michigan	3.16	37	2.90	24	91.8	0.07	41	2.3	0.19	21	5.9
Minnesota	3.13	39	2.93	23	93.6	0.12	37	3.8	0.08	38	2.6
Mississippi	2.92	42	2.72	29	93.2	0.11	38	3.9	0.08	37	2.9
Missouri	3.93	21	2.36	36	60.1	1.15	10	29.2	0.42	11	10.7
Montana	3.07	41	2.96	21	96.4	0.02	47	0.8	0.09	36	2.8
Nebraska	4.55	12	3.53	11	77.4	0.50	27	11.0	0.53	7	11.6
Nevada	3.46	32	2.26	39	65.4	0.90	15	25.9	0.30	16	8.7
New Hampshire	5.22	3	5.15	2	98.6	0.00	49	0.0	0.07	45	1.4
New Jersey	6.02	2	5.90	1	98.1	0.04	45	0.6	0.07	41	1.2
New Mexico	3.35	33	1.85	44	55.1	1.44	3	42.8	0.07	44	2.1
New York	7.61	1	4.41	6	57.9	1.43	4	18.7	1.78	2	23.4
North Carolina	3.15	38	2.38	35	75.5	0.67	23	21.4	0.10	33	3.1
North Dakota	2.68	47	2.03	43	75.8	0.55	26	20.5	0.10	31	3.7
Ohio	4.63	10	2.97	20	64.1	0.46	28	9.9	1.21	3	26.1
Oklahoma	2.84	45	1.42	48	50.3	1.36	5	48.0	0.05	47	1.8
Oregon	3.91	24	3.17	15	81.2	0.26	33	6.6	0.48	9	12.2
Pennsylvania	4.34	16	3.03	19	69.7	0.23	34	5.2	1.09	4	25.1
Rhode Island	5.22	4	5.09	3	97.5	0.06	43	1.1	0.07	43	1.4
South Carolina	3.93	22	3.09	16	78.7	0.38	30	9.6	0.46	10	11.7
South Dakota	3.78	28	2.74	27	72.6	0.94	13	25.0	0.09	35	2.4
Tennessee	3.29	34	2.12	41	64.4	1.01	12	30.6	0.16	23	5.0
Texas	4.36	15	3.56	10	81.6	0.72	19	16.6	0.08	39	1.8
Utah	3.64	31	2.60	31	71.5	0.91	14	25.1	0.12	28	3.3
Vermont	1.87	50	1.76	45	94.2	0.07	42	3.8	0.04	48	2.0
Virginia	4.09	18	3.04	18	74.4	0.69	21	16.8	0.36	13	8.8
Washington	3.70	30	2.28	38	61.7	1.19	8	32.2	0.23	18	6.1
West Virginia	2.88	44	2.31	37	80.3	0.20	35	7.1	0.36	12	12.6
Wisconsin	4.58	11	4.32	7	94.2	0.19	36	4.1	0.08	40	1.7
Wyoming	3.92	23	3.08	17	78.4	0.68	22	17.4	0.16	24	4.2
Mean	3.86		2.94		75.6	0.62		16.8	0.31		7.6
Standard Deviation	1.02		1.03			0.53			0.40		
CV	26.40		35.05			84.82			131.01		
NYS Diff. from Mean	3.75		1.47		(17.7)	0.81		2.0	1.47		15.7

Source: Moody's Economy.com, U.S. Census Bureau
Note: "Other" includes NYC imposed taxes and all other categories.

Comparison of New York State Tax Structure with Other States

Table 6a - State/Local Split of 1977 Tax-to-Income Ratio				
State	State Taxes	Local Taxes	State/Local Total	Total Rank
Alabama	6.37	2.14	8.51	46
Alaska	14.12	2.94	17.05	1
Arizona	7.02	4.62	11.64	11
Arkansas	6.34	2.00	8.34	48
California	6.50	5.83	12.33	5
Colorado	5.16	5.16	10.32	18
Connecticut	5.63	4.99	10.62	17
Delaware	8.04	1.89	9.93	30
Florida	5.10	3.19	8.29	50
Georgia	5.73	3.55	9.29	38
Hawaii	8.49	2.31	10.80	16
Idaho	6.32	3.07	9.40	36
Illinois	5.56	4.52	10.08	25
Indiana	5.66	3.38	9.03	42
Iowa	6.08	4.11	10.19	20
Kansas	5.83	4.33	10.16	22
Kentucky	7.14	2.37	9.51	34
Louisiana	6.90	3.12	10.02	27
Maine	6.73	3.57	10.30	19
Maryland	6.87	4.98	11.84	9
Massachusetts	6.57	6.40	12.97	3
Michigan	6.75	4.37	11.12	13
Minnesota	8.25	3.72	11.97	8
Mississippi	7.49	2.28	9.77	31
Missouri	4.54	3.79	8.33	49
Montana	6.00	5.18	11.19	12
Nebraska	5.45	5.41	10.85	15
Nevada	5.50	3.96	9.45	35
New Hampshire	3.53	5.75	9.28	39
New Jersey	5.32	6.48	11.81	10
New Mexico	7.72	1.87	9.60	33
New York	7.12	7.79	14.91	2
North Carolina	6.82	2.55	9.36	37
North Dakota	6.77	3.40	10.17	21
Ohio	4.44	3.99	8.43	47
Oklahoma	5.98	2.88	8.86	44
Oregon	5.19	4.95	10.14	24
Pennsylvania	6.26	3.90	10.16	23
Rhode Island	6.54	4.44	10.98	14
South Carolina	6.88	2.26	9.14	41
South Dakota	4.47	5.20	9.68	32
Tennessee	5.59	3.27	8.87	43
Texas	5.07	3.66	8.74	45
Utah	6.37	3.56	9.93	29
Vermont	7.46	5.17	12.62	4
Virginia	5.44	3.75	9.19	40
Washington	7.00	3.02	10.03	26
West Virginia	7.80	2.18	9.98	28
Wisconsin	8.13	3.94	12.07	6
Wyoming	6.91	5.07	11.98	7
Mean Values	6.46	3.93	10.38	
Standard Deviation	1.52	1.31	1.66	
Coefficient of Variation	23.52	33.43	15.94	
NYS Diff. from Avg.	0.66	3.86	4.53	

Source: Moody's Economy.com, U.S. Census Bureau

Table 6b - State/Local Split of 2013 Tax-to-Income Ratio

State	State Taxes	Local Taxes	State/Local Total	Total Rank
Alabama	5.37	3.16	8.53	45
Alaska	13.50	4.37	17.87	1
Arizona	5.56	3.79	9.35	36
Arkansas	7.93	2.01	9.94	26
California	7.19	3.86	11.05	16
Colorado	4.57	4.73	9.30	37
Connecticut	7.66	4.70	12.37	6
Delaware	7.67	2.11	9.78	29
Florida	4.39	3.82	8.21	48
Georgia	4.72	4.08	8.81	43
Hawaii	9.76	3.12	12.88	4
Idaho	6.32	2.70	9.02	42
Illinois	6.44	5.08	11.52	10
Indiana	6.86	3.24	10.09	23
Iowa	6.25	4.04	10.29	20
Kansas	6.01	4.17	10.18	22
Kentucky	6.75	2.88	9.63	31
Louisiana	4.87	4.41	9.28	38
Maine	7.50	4.86	12.37	7
Maryland	6.28	4.97	11.25	14
Massachusetts	6.19	3.75	9.94	25
Michigan	6.46	3.16	9.62	32
Minnesota	8.52	3.13	11.65	9
Mississippi	7.56	2.92	10.48	17
Missouri	4.48	3.93	8.41	46
Montana	6.73	3.07	9.80	28
Nebraska	5.40	4.55	9.96	24
Nevada	6.42	3.46	9.88	27
New Hampshire	3.83	5.22	9.05	40
New Jersey	6.45	6.02	12.46	5
New Mexico	7.08	3.35	10.43	19
New York	**6.61**	**7.61**	**14.23**	**3**
North Carolina	6.36	3.15	9.51	34
North Dakota	13.09	2.68	15.77	2
Ohio	5.81	4.63	10.45	18
Oklahoma	5.53	2.84	8.36	47
Oregon	5.78	3.91	9.69	30
Pennsylvania	5.86	4.34	10.20	21
Rhode Island	6.23	5.22	11.45	11
South Carolina	5.25	3.93	9.18	39
South Dakota	4.04	3.78	7.82	50
Tennessee	4.57	3.29	7.86	49
Texas	4.45	4.36	8.80	44
Utah	5.96	3.64	9.60	33
Vermont	10.36	1.87	12.23	8
Virginia	4.94	4.09	9.03	41
Washington	5.70	3.70	9.40	35
West Virginia	8.45	2.88	11.33	13
Wisconsin	6.83	4.58	11.42	12
Wyoming	7.19	3.92	11.11	15
Mean Values	**6.55**	**3.86**	**10.42**	
Standard Deviation	**1.92**	**1.02**	**1.89**	
Coefficient of Variation	**29.32**	**26.40**	**18.19**	
NYS Diff. from Avg.	**0.06**	**3.75**	**3.81**	

Source: Moody's Economy.com, U.S. Census Bureau

Comparison of New York State Tax Structure with Other States

Table 7 - 2013 Ratios of Tax Collections to Personal Income by Category

State	State PIT	Local PIT	State Corporate	Local Corporate	State Sales	Local Sales	Local Property	All Other	Total State/Local
Alabama	1.86	0.07	0.22	0.00	2.73	1.33	1.35	0.99	8.53
Alaska	0.00	0.00	1.66	0.00	0.66	0.79	3.45	11.32	17.87
Arizona	1.40	0.00	0.27	0.00	3.39	1.17	2.44	0.67	9.35
Arkansas	2.45	0.00	0.37	0.00	3.71	1.12	0.86	1.43	9.94
California	3.61	0.00	0.40	0.00	2.60	0.86	2.73	0.86	11.05
Colorado	2.25	0.00	0.27	0.00	1.74	1.66	2.86	0.52	9.30
Connecticut	3.70	0.00	0.27	0.00	3.21	0.00	4.64	0.55	12.37
Delaware	2.59	0.13	0.71	0.01	1.12	0.03	1.75	3.44	9.78
Florida	0.00	0.00	0.26	0.00	3.64	0.66	2.95	0.70	8.21
Georgia	2.33	0.00	0.21	0.00	1.96	1.32	2.66	0.33	8.81
Hawaii	2.78	0.00	0.20	0.00	6.30	0.66	2.13	0.82	12.88
Idaho	2.28	0.00	0.35	0.00	3.13	0.05	2.53	0.67	9.02
Illinois	2.75	0.00	0.74	0.00	2.45	0.71	4.24	0.63	11.52
Indiana	2.02	0.49	0.32	0.00	4.17	0.09	2.57	0.44	10.09
Iowa	2.56	0.08	0.32	0.00	2.69	0.41	3.49	0.73	10.29
Kansas	2.33	0.00	0.30	0.00	2.95	0.89	3.19	0.51	10.18
Kentucky	2.32	0.73	0.40	0.08	3.19	0.35	1.66	0.90	9.63
Louisiana	1.45	0.00	0.13	0.00	2.63	2.26	2.05	0.76	9.28
Maine	2.96	0.00	0.33	0.00	3.44	0.01	4.82	0.81	12.37
Maryland	2.67	1.57	0.33	0.00	2.55	0.27	2.83	1.03	11.25
Massachusetts	3.33	0.00	0.49	0.00	1.93	0.09	3.59	0.51	9.94
Michigan	2.10	0.12	0.23	0.00	3.19	0.07	2.90	1.01	9.62
Minnesota	3.47	0.00	0.53	0.00	3.58	0.12	2.93	1.02	11.65
Mississippi	1.79	0.00	0.42	0.00	4.67	0.11	2.72	0.76	10.48
Missouri	2.16	0.12	0.15	0.03	1.93	1.15	2.36	0.50	8.41
Montana	2.66	0.00	0.44	0.00	1.42	0.02	2.96	2.30	9.80
Nebraska	2.41	0.00	0.32	0.00	2.52	0.50	3.53	0.69	9.96
Nevada	0.00	0.00	0.00	0.00	4.99	0.90	2.26	1.73	9.88
New Hampshire	0.16	0.00	0.90	0.00	1.54	0.00	5.15	1.30	9.05
New Jersey	2.69	0.00	0.51	0.00	2.71	0.04	5.90	0.63	12.46
New Mexico	1.69	0.00	0.36	0.00	3.61	1.44	1.85	1.49	10.43
New York	3.61	0.90	0.44	0.60	2.08	1.43	4.41	0.76	14.23
North Carolina	2.96	0.00	0.34	0.00	2.60	0.67	2.38	0.55	9.51
North Dakota	1.59	0.00	0.56	0.00	4.36	0.55	2.03	6.69	15.77
Ohio	2.08	1.01	0.06	0.05	2.92	0.46	2.97	0.90	10.45
Oklahoma	1.81	0.00	0.36	0.00	2.39	1.36	1.42	1.01	8.36
Oregon	3.95	0.00	0.29	0.04	0.86	0.26	3.17	1.12	9.69
Pennsylvania	1.86	0.79	0.38	0.06	2.95	0.23	3.03	0.91	10.20
Rhode Island	2.31	0.00	0.31	0.00	3.21	0.06	5.09	0.48	11.45
South Carolina	2.02	0.00	0.23	0.00	2.70	0.38	3.09	0.76	9.18
South Dakota	0.00	0.00	0.10	0.00	3.24	0.94	2.74	0.80	7.82
Tennessee	0.10	0.00	0.49	0.00	3.31	1.01	2.12	0.83	7.86
Texas	0.00	0.00	0.00	0.00	3.38	0.72	3.56	1.15	8.80
Utah	2.69	0.00	0.31	0.00	2.58	0.91	2.60	0.50	9.60
Vermont	2.39	0.00	0.38	0.00	3.54	0.07	1.76	4.09	12.23
Virginia	2.81	0.00	0.20	0.00	1.60	0.69	3.04	0.70	9.03
Washington	0.00	0.00	0.00	0.00	4.47	1.19	2.28	1.45	9.40
West Virginia	2.82	0.00	0.38	0.00	4.04	0.20	2.31	1.57	11.33
Wisconsin	2.99	0.00	0.40	0.00	2.93	0.19	4.32	0.59	11.42
Wyoming	0.00	0.00	0.00	0.00	2.72	0.68	3.08	4.64	11.11
Mean Values	2.05	0.12	0.35	0.02	2.92	0.62	2.94	1.39	10.42
Standard Deviation	1.10	0.32	0.26	0.09	1.05	0.53	1.03	1.83	1.89
Coefficient of Variation	53.57	264.23	73.34	488.37	35.78	84.82	35.05	131.55	18.19
NYS Diff. from Avg.	1.56	0.78	0.09	0.58	(0.84)	0.81	1.47	(0.63)	3.81

Source: Moody's Economy.com, U.S. Census Bureau

Table 8a - State Tax Burdens as a Pct. Of Personal Inc., 1977 - 2013					
Year	Mean	NYS	Standard Deviation	Coefficient of Variation	NY difference from mean
1977	6.46	7.12	1.53	23.76	0.66
1978	6.34	6.64	1.25	19.65	0.30
1979	6.41	6.45	1.58	24.62	0.04
1980	6.40	6.33	2.49	38.95	(0.08)
1981	6.42	6.22	3.71	57.86	(0.20)
1982	6.57	6.36	3.35	50.93	(0.21)
1983	6.38	6.18	2.43	38.06	(0.20)
1984	6.59	6.50	2.23	33.84	(0.09)
1985	6.66	6.67	1.96	29.51	0.01
1986	6.60	6.87	1.91	28.96	0.27
77-86 avg.	6.48	6.53	2.24	34.61	0.05
1987	6.53	6.98	1.29	19.74	0.45
1988	6.61	6.75	1.35	20.45	0.14
1989	6.53	6.36	1.33	20.42	(0.17)
1990	6.51	6.42	1.36	20.92	(0.09)
1991	6.55	6.34	1.51	23.10	(0.21)
1992	6.49	6.35	1.24	19.15	(0.14)
1993	6.70	6.44	1.56	23.26	(0.26)
1994	6.60	6.64	1.21	18.32	0.04
1995	6.71	6.47	1.40	20.80	(0.24)
1996	6.58	6.10	1.31	19.97	(0.48)
87-96 avg.	6.58	6.49	1.36	20.61	(0.10)
1997	6.66	5.89	1.28	19.21	(0.77)
1998	6.57	5.79	1.25	19.05	(0.77)
1999	6.58	5.89	1.29	19.66	(0.69)
2000	6.60	5.93	1.18	17.86	(0.67)
2001	6.52	6.18	1.14	17.43	(0.34)
2002	6.16	5.99	1.07	17.38	(0.17)
2003	6.11	5.71	1.07	17.45	(0.40)
2004	6.22	5.82	1.09	17.59	(0.41)
2005	6.55	6.17	1.32	20.13	(0.38)
2006	6.73	6.39	1.39	20.67	(0.34)
97-06 avg.	6.47	5.98	1.21	18.64	(0.49)
2007	6.80	6.50	1.54	22.69	(0.31)
2008	6.96	6.54	3.14	45.20	(0.42)
2009	6.54	6.70	1.95	29.80	0.17
2010	6.16	6.33	1.69	27.42	0.16
2011	6.31	6.39	1.98	31.34	0.08
2012	6.38	6.45	2.24	35.16	0.07
2013	6.55	6.61	1.92	29.32	0.06

Source: Moody's Economy.com, U.S. Census Bureau

Table 8b - State/Local Tax Burdens as a Pct. Of Personal Inc., 1977 - 2013					
Year	Mean	NYS	Standard Deviation	Coefficient of Variation	NY Difference From Mean
1977	10.38	14.91	1.67	16.11	4.53
1978	10.10	14.11	1.42	14.07	4.01
1979	10.04	13.41	1.66	16.58	3.37
1980	9.89	13.05	2.55	25.78	3.17
1981	9.81	12.79	3.72	37.90	2.97
1982	10.03	12.95	3.41	33.96	2.92
1983	9.92	12.75	2.64	26.60	2.83
1984	10.08	13.04	2.46	24.43	2.96
1985	10.23	13.38	2.27	22.17	3.15
1986	10.23	13.64	2.27	22.15	3.41
77-86 avg.	10.07	13.40	2.41	23.97	3.33
1987	10.29	13.99	1.59	15.46	3.70
1988	10.34	13.55	1.53	14.82	3.21
1989	10.22	13.10	1.37	13.42	2.88
1990	10.27	13.18	1.40	13.64	2.90
1991	10.40	13.51	1.57	15.08	3.11
1992	10.26	13.50	1.31	12.72	3.24
1993	10.56	13.81	1.63	15.45	3.25
1994	10.48	13.97	1.15	10.92	3.49
1995	10.58	13.45	1.31	12.35	2.87
1996	10.35	12.95	1.13	10.94	2.60
87-96 avg.	10.38	13.50	1.40	13.48	3.13
1997	10.41	12.74	1.13	10.83	2.33
1998	10.27	12.58	1.12	10.92	2.30
1999	10.21	12.51	1.03	10.13	2.30
2000	10.12	12.35	1.02	10.05	2.23
2001	10.08	12.43	1.01	10.03	2.35
2002	9.84	12.31	0.95	9.68	2.47
2003	9.86	12.54	0.99	10.08	2.68
2004	9.98	12.87	1.05	10.57	2.89
2005	10.34	13.45	1.22	11.77	3.11
2006	10.53	13.70	1.26	11.95	3.17
97-06 avg.	10.16	12.75	1.08	10.60	2.58
2007	10.63	13.78	1.47	13.80	3.15
2008	10.80	13.85	3.14	29.05	3.05
2009	10.72	14.14	1.99	18.58	3.42
2010	10.28	13.62	1.70	16.52	3.34
2011	10.24	13.65	1.97	19.20	3.41
2012	10.17	13.68	2.24	22.05	3.51
2013	10.42	14.23	1.89	18.19	3.81

Source: Moody's Economy.com, U.S. Census Bureau

Table 9 - 2013 Property Taxes on Owner-Occupied Housing, by County

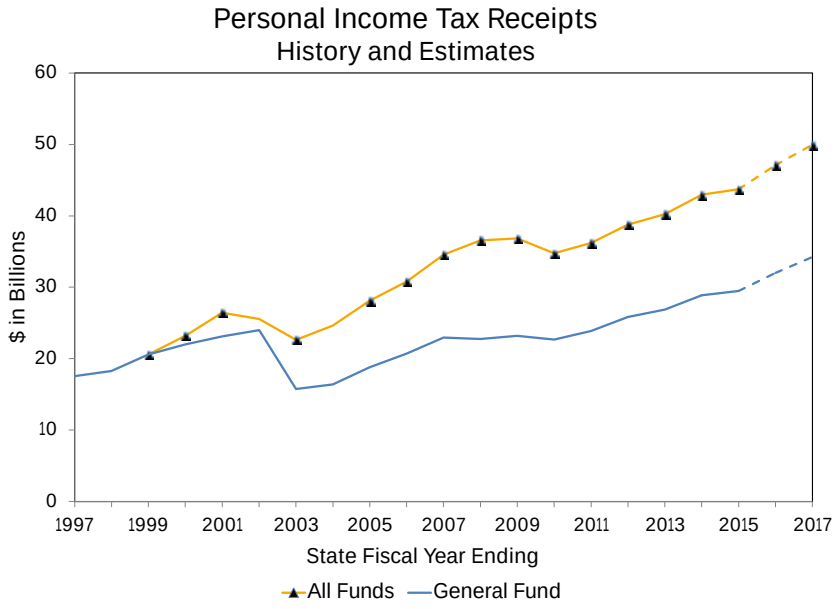
County	Median Property Taxes Paid on Homes	Rank	Median Home Value	Taxes as % of Home Value	Rank	Median Income for Home Owners	Taxes as % of Income	Rank
Niagara County	$3,295	139	$106,100	3.1%	3	$61,145	5.4%	62
Monroe County	$4,328	72	$139,900	3.1%	4	$69,221	6.3%	48
Cattaraugus County	$2,587	227	$85,000	3.0%	5	$51,739	5.0%	82
Wayne County	$3,521	117	$118,000	3.0%	7	$56,107	6.3%	47
Chautauqua County	$2,442	262	$85,700	2.8%	12	$50,920	4.8%	92
Onondaga County	$3,735	100	$132,400	2.8%	14	$70,765	5.3%	67
Steuben County	$2,560	236	$90,900	2.8%	15	$56,751	4.5%	121
Oswego County	$2,605	225	$92,700	2.8%	16	$63,007	4.1%	156
Erie County	$3,526	116	$127,600	2.8%	19	$66,416	5.3%	65
Chemung County	$2,654	216	$96,500	2.8%	21	$58,387	4.5%	115
Broome County	$2,940	174	$107,700	2.7%	22	$62,148	4.7%	95
Schenectady County	$4,443	66	$165,200	2.7%	24	$73,361	6.1%	50
Livingston County	$3,421	125	$129,800	2.6%	26	$67,644	5.1%	76
Oneida County	$2,903	181	$113,600	2.6%	32	$56,929	5.1%	74
Rensselaer County	$4,338	71	$172,200	2.5%	35	$73,661	5.9%	52
Putnam County	$8,950	9	$355,900	2.5%	36	$105,758	8.5%	10
Cayuga County	$2,998	168	$119,800	2.5%	37	$59,404	5.0%	78
Orange County	$6,466	22	$259,300	2.5%	38	$85,997	7.5%	16
Ontario County	$3,591	109	$145,900	2.5%	40	$71,901	5.0%	85
Ulster County	$5,358	36	$218,500	2.5%	41	$71,376	7.5%	17
Sullivan County	$4,098	83	$167,300	2.4%	42	$56,135	7.3%	21
Tompkins County	$4,208	76	$173,100	2.4%	43	$66,932	6.3%	45
Rockland County	$10,001	1	$413,400	2.4%	44	$106,046	9.4%	3
St. Lawrence County	$1,993	352	$82,400	2.4%	45	$52,778	3.8%	219
Nassau County	$9,992	3	$436,000	2.3%	56	$111,098	9.0%	5
Suffolk County	$8,373	12	$368,400	2.3%	60	$97,657	8.6%	8
Madison County	$3,012	163	$135,300	2.2%	69	$66,000	4.6%	112
Dutchess County	$5,886	28	$274,000	2.1%	79	$89,810	6.6%	38
Albany County	$4,294	73	$206,800	2.1%	93	$84,135	5.1%	73
Clinton County	$2,475	254	$121,200	2.0%	97	$58,091	4.3%	139
Westchester County	$10,001	1	$493,800	2.0%	101	$116,720	8.6%	9
Jefferson County	$2,393	276	$143,800	1.7%	186	$61,414	3.9%	188
Saratoga County	$3,665	105	$230,600	1.6%	211	$85,718	4.3%	137
Warren County	$2,879	182	$186,300	1.5%	218	$61,693	4.7%	102
Bronx County	$3,321	134	$369,400	0.9%	523	$74,322	4.5%	125
New York County	$7,366	15	$848,600	0.9%	546	$141,089	5.2%	71
Richmond County	$3,685	104	$432,600	0.9%	567	$92,123	4.0%	172
Queens County	$3,725	102	$439,500	0.8%	570	$76,382	4.9%	87
Kings County	$3,557	114	$557,000	0.6%	716	$79,848	4.5%	127
United States	$2,090	N/A	$173,900	1.2%	N/A	$66,828	3.1%	N/A

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

Tax Receipts

PERSONAL INCOME TAX (millions of dollars)							
	FY 2015 Actual	FY 2016 Estimated	Change	Percent Change	FY 2017 Projected	Change	Percent Change
General Fund	29,485.4	31,983.2	2,497.9	8.5	34,242.2	2,259.0	7.1
Other Funds	14,224.4	15,110.8	886.4	6.2	15,717.8	607.0	4.0
All Funds	43,709.8	47,094.0	3,384.2	7.7	49,960.0	2,866.0	6.1

Note: Totals may differ due to rounding.



PERSONAL INCOME TAX BY FUND (millions of dollars)						
	Gross General Fund	Refunds	General Fund Receipts	Special Revenue Funds[1]	Debt Service Funds[2]	All Funds Receipts
FY 2007	28,450	5,510	22,940	3,994	7,646	34,580
FY 2008	29,365	6,606	22,759	4,664	9,141	36,564
FY 2009	30,367	7,171	23,196	4,434	9,210	36,840
FY 2010	29,296	6,642	22,654	3,409	8,688	34,751
FY 2011	31,687	7,792	23,894	3,263	9,053	36,210
FY 2012	33,106	7,263	25,843	3,233	9,692	38,768
FY 2013	34,100	7,216	26,884	3,286	10,057	40,227
FY 2014	37,478	8,614	28,864	3,357	10,740	42,961
FY 2015	38,024	8,539	29,485	3,297	10,927	43,710
Estimated						
FY 2016	41,309	9,326	31,983	3,337	11,774	47,094
FY 2017						
Current Law	43,522	9,534	33,988	3,468	12,486	49,942
Proposed Law	43,776	9,534	34,242	3,228	12,490	49,960

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

Proposed Legislation

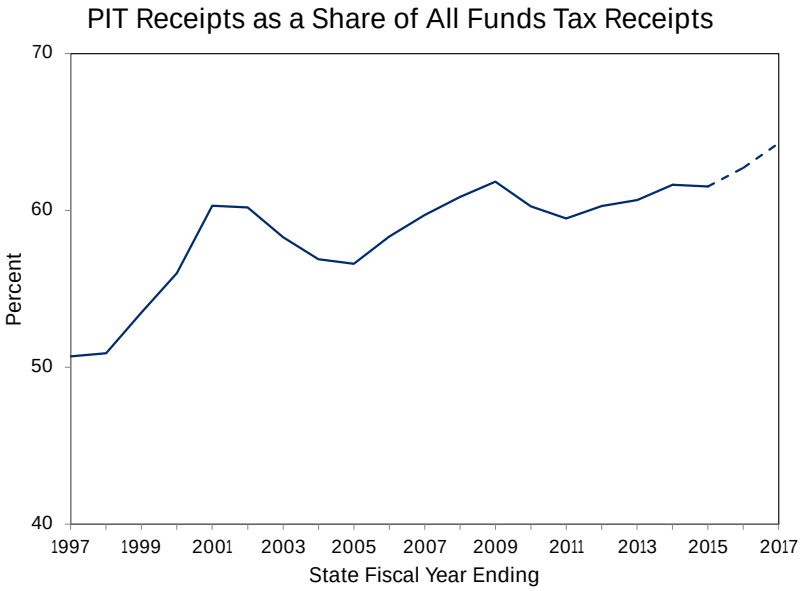
Legislation proposed with this Budget would:

- Extend the Credit for Companies who Provide Transportation to Individuals with Disabilities for six years;
- Provide a corporate and personal income tax small business tax cut;
- Permanently extend the non-custodial Earned Income Tax Credit;
- Establish education tax credits;
- Extend the Clean Heating Fuel Credit for three years;
- Permanently extend tax shelter reporting requirements;
- Extend the Hire-a-Vet Credit for two years;
- Extend the Excelsior Jobs Program for five years;
- Authorize additional credits of $8 million for the Low-Income Housing Credit for each of the next five fiscal years;
- Extend the Empire State Commercial Production Tax Credit for two years;
- Enhance the Urban Youth Jobs Program Tax Credit;
- Establish additional alcohol beverage tax tasting exemptions and production credits;
- Amend the State and New York City corporate tax reform statutes for technical amendments;
- Conform to new federal tax filing dates;
- Establish thruway toll tax credits;
- Convert the STAR benefit into a tax credit for new homeowners;
- Cap annual growth in Basic and Enhanced Exemption Benefit at Zero Percent;
- Convert the New York City personal income tax STAR Credit into a State personal income tax credit;
- Require Enhanced STAR benefit recipients to participate in the Income Verification Program; and

- Allow late filing of Enhanced STAR renewal applications and senior exemptions in cases of hardship.

Description

The personal income tax (PIT) is by far New York State's largest source of tax receipts. The PIT accounted for approximately 62 percent of All Funds tax receipts in FY 2015.



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

Tax Base

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

New York allows either a standard deduction or itemized deductions, whichever is greater. Although New York generally conforms to Federal rules pertaining to itemized deductions, the State imposes some additional limitations. New York limits itemized deductions for taxpayers with New York State Adjusted Gross Incomes (NYSAGI) between $525,000 and $1 million to only 50 percent of federally allowed deductions, and for taxpayers with incomes above $1 million to only 50 percent of charitable contributions. For tax years 2010 to 2017, itemized deductions are

limited to only 25 percent of charitable contributions for taxpayers with NYSAGI above $10 million.

Tax Rates and Structure

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

For tax years 2012 to 2014, four new tax brackets and rates replaced the former bracket and rate applicable to taxpayers with taxable income above $40,000 for married filing jointly returns (with lower levels for other filing categories). The tax rate for taxpayers (married filing jointly returns) with taxable income in the $40,000 to $150,000 and $150,000 to $300,000 brackets was lowered to 6.45 percent and 6.65 percent respectively, while the rate on the $300,000 to $2 million tax bracket remained unchanged from 2008 law at 6.85 percent. The top rate for those earning $2 million and above (married filing jointly returns) was increased (compared to 2008 law) to 8.82 percent. The tax brackets and standard deduction amounts were also indexed to the Consumer Price Index (CPIU) starting in tax year 2013. These brackets and rates, as well as indexing, were extended through tax year 2017 as part of the FY 2014 Enacted Budget.

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

	2002	2003-2005	2006-2008	2009-2011	2012	2013*	2014*	2015*	2016*
Top Rate (Percent)	6.85	7.70	6.85	8.97	8.82	8.82	8.82	8.82	8.82
Thresholds									
Married Filing Jointly	40,000	500,000	40,000	500,000	2,000,000	2,058,550*	2,092,800*	2,125,450*	2,140,900*
Single	20,000	500,000	20,000	500,000	1,000,000	1,029,250*	1,046,350*	1,062,650*	1,070,350*
Head of Household	30,000	500,000	30,000	500,000	1,500,000	1,543,900*	1,569,550*	1,594,050*	1,605,650*
Standard Deduction									
Married Filing Jointly	14,200	14,600	15,000	15,000	15,000	15,400	15,650	15,850	15,950
Single	7,500	7,500	7,500	7,500	7,500	7,700	7,800	7,900	7,950
Head of Household	10,500	10,500	10,500	10,500	10,500	10,800	10,950	11,100	11,150
Dependent Exemption	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000

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

TABLE 2 TAX SCHEDULES FOR 2016 LIABILITY YEAR* (dollars)								
Married - Filing Jointly			Single			Head of Household		
Taxable Income	$/Tax Rate	Of Amt. Over	Taxable Income	Tax Rate Percent	Of Amt. Over	Taxable Income	Tax Rate Percent	Of Amt. Over
0 to 17,050	$0		0 to 8,450	$0		0 to 12,750	$0	
	+4.00%	0		+4.00%	0		+4.00%	0
17,050 to 23,450	$682		8,450 to 11,650	$338		12,750 to 17,550	$510	
	+4.50%	17,050		+4.50%	8,450		+4.50%	12,750
23,450 to 27,750	$970		11,650 to 13,850	$482		17,550 to 20,800	$726	
	+5.25%	23,450		+5.25%	11,650		+5.25%	17,550
27,750 to 42,750	$1,196		13,850 to 21,300	$598		20,800 to 32,000	$897	
	+5.90%	27,750		+5.90%	13,850		+5.90%	20,800
42,750 to 160,500	$2,081		21,300 to 80,150	$1,037		32,000 to 106,950	$1,557	
	+6.45%	42,750		+6.45%	21,300		+6.45%	32,000
160,500 to 321,050	$9,676		80,150 to 214,000	$4,833		106,950 to 267,500	$6,392	
	+6.65%	160,500		+6.65%	80,150		+6.65%	106,950
321,050 to 2,140,900	$20,352		214,000 to 1,070,350	$13,734		267,500 to 1,605,650	$17,068	
	+6.85%	321,050		+6.85%	214,000		+6.85%	267,500
2,140,900 and over	$145,012		1,070,350 and over	$72,394		1,605,650 and over	$108,732	
	+8.82%	2,140,900		+8.82%	1,070,350		+8.82%	1,605,650

* Benefits of graduated tax rates recaptured for taxpayers with adjusted gross incomes above $106,950.

Tax Expenditures

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

Credits

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

Credit	Description
Earned Income Tax Credit (EITC)	Allowed at a rate of 7.5 percent of the Federal credit in 1994, 10 percent in 1995, and 20 percent in 1996 and thereafter. Starting in 1996, the EITC was offset by the amount of the household credit. The EITC was raised to 22.5 percent of the Federal credit in 2000, 25 percent in 2001, 27.5 percent in 2002, and 30 percent in 2003 and thereafter. The credit is fully refundable for New York residents whose credit amount exceeds tax liability. The Federal Economic Growth and Tax Relief Reconciliation Act of 2001 provided marriage penalty relief for married taxpayers filing jointly by increasing the phase-out range for the credit beginning in 2002.

Credit	Description
Household Credit	Permitted for single taxpayers in amounts declining from $75 to $20, as their household income rises to $28,000, and for married couples and heads of households, in amounts declining from $90 to $20, as their household income rises to $32,000. This latter category is also eligible for additional amounts based on the number of eligible exemptions and income level.
Child and Dependent Care Credit	Allowed at a rate of 20 percent or more of the comparable Federal credit. In 1997, the credit became refundable and equal to 60 percent of the Federal credit for those with incomes under $10,000, with a phase-down until it was 20 percent for incomes of $14,000 and above. In 1998, the percentage of the Federal credit increased to 100 percent for those with incomes less than $17,000, with this percentage gradually phasing down to 20 percent for those with incomes of $30,000 or more. For 1999, the phase-down from 100 percent to 20 percent began at incomes of $35,000 and ended at incomes of $50,000. For 2000 and later years, the credit as a share of the Federal credit equaled 110 percent for incomes up to $25,000, phased down from 110 percent to 100 percent for incomes between $25,000 and $40,000, equaled 100 percent for incomes between $40,000 and $50,000, phased down from 100 percent to 20 percent for incomes between $50,000 and $65,000, and equaled 20 percent for incomes over $65,000. The credit is fully refundable for New York residents whose credit amount exceeds tax liability. Federal legislation enacted in 2001 and effective in 2003 increased maximum allowable expenses from $2,400 to $3,000 for one dependent ($4,800 to $6,000 for two or more dependents); the maximum credit rate from 30 percent to 35 percent; and the income at which the credit begins to phase down from $10,000 to $15,000.
College Tuition Tax Credit	Available as an alternative to the college tuition deduction, this refundable credit equals the applicable percentage of allowed tuition expenses multiplied by 4 percent. It was phased in over a four-year period with applicable percentages of allowed tuition expenses beginning at 25 percent in tax year 2001, 50 percent in 2002, 75 percent in tax year 2003, and 100 percent in 2004 and thereafter. For 2004 and thereafter the minimum credit is the lesser of tuition paid or $200 and the maximum credit is $400 (4 percent of expenses up to $10,000).
Empire State Child Credit	Effective in 2006, this refundable credit for children ages 4-16 equals the greater of $100 times the number of children qualifying for the Federal credit or 33 percent of the Federal credit.
Long Term Care Insurance Credit	A non-refundable credit equal to 10 percent of a taxpayer's long-term care insurance premium became effective in 2002. The credit amount was increased to 20 percent in 2004. Unused amounts may be carried forward to future tax years.
Middle-Class Family Tax Credit	Permitted for each taxpayer who, on his or her personal income tax return filed for the taxable year two years prior to the taxable year that the credit is claimed, a) was a resident of New York State; b) claimed one or more dependent children who were under age 17 at the end of the taxable year, c) had NYSAGI of between $40,000 and $300,000; and d) had tax liability that was greater than or equal to $0. Worth $350, the credit is fully refundable and is effective for tax years 2014 through 2016. For tax years 2015 and 2016, the credit qualifications were modified to reference information from the tax year that the credit is claimed, eliminating the two-year lag.

Credit	Description
Real Property Tax Freeze Credit	A refundable credit that offsets up to two years of school and local municipal property taxes for taxpayers in eligible districts. To be eligible, the school district or taxing jurisdiction must be in compliance with the NYS Property Tax Cap. Taxpayers must be STAR exemption-eligible and may not reside in New York City in order to receive the credit. Eligible taxpayers receive a benefit equal to the greater of the actual increase in the property tax bill or the previous year's tax bill multiplied by an inflation factor. In tax year 2014, the credit is calculated based on one year of school district property tax increases. In tax year 2015, the credit is calculated based on up to two years of school district property tax increases and one year of municipal property tax increases. In tax year 2016, the credit is calculated based on up to two years of municipal district property tax increases.
Enhanced Real Property Tax Credit	Available to residents of New York City, a refundable credit based on household gross income (HGI) and qualified property taxes paid (homeowners) or the property tax equivalent (renters). For taxpayers that rent, the property tax equivalent is equal to 15.75 percent of the rental amount paid, excluding charges for heat, gas, electricity, furnishings, and board. For taxpayers with household gross income (HGI) under $100,000, the credit is equal to 4.5 percent of real property taxes or the real property tax equivalent paid in excess of 4 percent of HGI. For taxpayers with HGI between $100,000 and $150,000, the credit is equal to 3 percent of real property taxes or the real property tax equivalent paid in excess of 5 percent of HGI. For taxpayers with HGI between $150,000 and $200,000, the credit is equal to 1.5 percent of real property taxes or the real property tax equivalent paid in excess of 6 percent of HGI.
Property Tax Relief Credit	A four year refundable credit that takes into effect in 2016 to offset real property taxes for properties located within school districts compliant with the 2 percent annual property tax cap. Eligible taxpayer(s) must be full time residents who own and primarily reside on real property located within an eligible school district outside of NYC, and have an annual federal adjusted gross income (AGI) less than $275,000. In tax year 2016, the credit is valued at $130 for all eligible properties located within the Metropolitan Commuter Transportation District (MCTD). For all other eligible properties, the credit is valued at $185. In 2017, for taxpayers with properties receiving the basic STAR Exemption and federal AGI less than $75,000, the credit is equal to 28 percent of the STAR property tax savings associated with the exemption. For other basic STAR recipients, the credit is equal to 20.5 percent of the associated STAR exemption savings for incomes between $75,000 and $150,000, 13 percent for incomes between $150,000 and $200,000, and 5.5 percent for incomes between $200,000 and $275,000. In 2018, these percentages increase to 60 percent, 42.5 percent, 25 percent, and 7.5 percent, respectively. These percentages further increase, in 2019, to 85 percent, 60 percent, 35 percent, and 10 percent, respectively. In addition, for taxpayers with properties receiving the enhanced STAR exemption and federal AGI less than $275,000, the credit is valued at 12% of the STAR tax savings associated with the exemption in 2017, 26% in 2018, and 34% in 2019.

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

Significant Legislation

Significant statutory changes made to the State PIT since 2010 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 2010		
Limited Itemized Deduction	Temporarily further limited the use of itemized deductions to 25 percent of the Federal deduction for charitable contribution for taxpayers with NYSAGI over $10 million.	2010-2012
Tax Credit Deferral	Capped aggregate business related tax credit claims at $2 million per taxpayer for each of tax years 2010, 2011 and 2012. The total amount of credits deferred can be claimed by affected taxpayers on returns for tax years 2013, 2014 and 2015.	January 1, 2010
Loophole Closers	Required certain S corporation gains to be treated as New York source income by nonresident shareholders, made certain termination payments, covenants not to compete and other compensation for past services taxable to nonresidents, and equalized maximum bio-fuel and QETC facilities, operations and training credit caps for corporations and unincorporated businesses.	2010 and after
Limited High Income NYC STAR Benefit	Limited New York City PIT STAR rate reduction credit by eliminating benefits on taxable income in excess of $500,000.	2010 and after
Legislation Enacted in 2011		
Offset Lottery Winnings with Outstanding Tax	Permitted the crediting of lottery prizes exceeding $600 against prize winner's liabilities for taxes owed to the State.	August 1, 2011
STAR	Limited exemption growth to 2 percent annually.	2011-12 school year and after
Excelsior Jobs Program Amendments	Modified the credit to make it more widely available and attractive and created a new energy incentive. It also lengthened the benefit period from five to ten years.	2011 and after
Economic Transformation and Facility Redevelopment Program	Provided tax incentives to businesses to stimulate redevelopment in targeted communities where certain correctional or juvenile facilities are closed (economic transformation areas).	2011 to 2021
PIT Reform	Reformed the PIT by lowering rates for middle income taxpayers and adding three new brackets on taxable income above $150,000 for tax years 2012 through 2014. Also indexed to the CPIU the tax brackets and standard deduction starting in tax year 2013.	January 1, 2012
New York Youth Works Tax Credit Program	Provided a tax credit to businesses that employ at risk youth in part-time or full-time positions in 2012 and 2013.	January 1, 2012
Empire State Jobs Retention Program	Provided a jobs tax credit to businesses that are at risk of leaving the State due to the negative impact on their business from a natural disaster. The tax credit is 6.85 percent of gross wages of jobs that are retained in New York.	January 1, 2012
Legislation Enacted in 2012		
Residential Solar Equipment Credit	The Residential Solar Equipment Credit was extended to leases and purchase power agreements.	2012 and after

Subject	Description	Effective Date
Legislation Enacted in 2013		
Empire State Film Production Credit	Extended the Empire State film production tax credit of $420 million per year for an additional five years (2015 - 2019). For the period 2015 through 2019 certain upstate counties will receive an additional 10 percent credit for wages and salaries paid.	January 1, 2015
	Restrictions on the post production portion of the credit were reduced and additional reporting will be required to document the effectiveness of the credit in creating jobs.	March 28, 2013
New York State Business Incubator and Innovation Hot Spot Program	Created a new high tech incubator program in which start-up businesses will be free of property, sales and business income taxes for the first five years. Hot spots must demonstrate an affiliation with, and the support of, at least one college, university or independent research institution and offer programs consistent with regional economic development strategies.	March 28, 2013
Limitation on Itemized Deductions	Extended, for three additional years, the limitation on itemized deductions for taxpayers with NYSAGI over $10 million.	2013-2015
Royalty Income Loophole	Closed a loophole that allowed New York companies that earn royalty income to avoid paying taxes on that income. New York taxpayers must show on their tax return that the taxpayer's non-New York parent company included the royalty income in its tax liability. The demonstration absolves taxpayers of the obligation to pay tax on their royalty income.	January 1, 2013
Historic Preservation Tax Credit	Extended for five years the Historic Preservation Tax Credit $5 million cap, which had previously been scheduled to revert to $100,000 following the conclusion of tax year 2014, and permanently made the credit refundable for tax years beginning on or after January 1, 2015.	January 1, 2015
Charge NY Electric Vehicle Recharging Equipment Credit	Created a credit equal to 50 percent or $5,000 per station, whichever is less, of the cost of electric vehicle recharging or alternative fuel vehicle refueling equipment. The credit sunsets December 31, 2017.	January 1, 2013
Suspension of Drivers' Licenses of Delinquent Persons	Provided for the suspension of New York State driver's licenses of taxpayers who owe taxes in excess of $10,000.	March 28, 2013
Warrantless Wage Garnishment	Allowed the Department of Taxation and Finance to garnish wages of delinquent taxpayers without filing a warrant and replaced the warrant requirement with a faster public notification requirement.	March 28, 2013 - March 31, 2015
Credit for Rehabilitation of Historic Homes	Extended for five years the maximum credit amount of $50,000 (scheduled to revert to $25,000), and the refundability of the credit for filers with income less than $60,000.	January 1, 2015

Subject	Description	Effective Date
Small Business and Small Farm Income Subtraction	Provided a Federal Adjusted Gross Income (FAGI) modification equal to a percentage of business or farm income for taxpayers with business or farm income not exceeding $250,000. The modification reduces FAGI by 3 percent in tax year 2014, 3.75 percent in tax year 2015, and 5 percent for tax years 2016 and beyond.	January 1, 2014
Hire-a-Vet Tax Credit	Provided a refundable tax credit for tax years 2015 and 2016 equaling 10 percent of the wages paid to a qualified veteran (capped at $5,000) and 15 percent of wages paid to a qualified veteran (capped at $15,000).	January 1, 2015
Middle-Class Family Tax Credit	Provided a refundable $350 credit in each of tax years 2014 through 2016 to taxpayers with dependents under the age of 17, zero or positive tax liability, and income between $40,000 and $300,000.	January 1, 2014
Youth Works Tax Credit	Provided a four year refundable tax credit capped at $6 million per year for tax years 2014 through 2017 for hiring unemployed, low-income or at risk youth ages 16-24 in cities with populations greater than 55,000 or towns with populations greater than 480,000.	January 1, 2014
Minimum Wage Reimbursement Credit	Provided a refundable tax credit for tax years 2014 through 2018 equal to the product of the number of hours worked by qualifying minimum wage-earning employees and 1) $0.75 in tax year 2014; 2) $1.31 in tax year 2015; or 3) $1.35 in tax years 2016 through 2018. Qualifying employees must be students aged 16 to 19, and the credit is reduced if the federal minimum wage is increased to a level in excess of 85 percent of the New York minimum wage.	January 1, 2014
PIT Reform Extension	Extended the December 2011 PIT reform program for three additional tax years, 2015 through 2017.	January 1, 2015
START-UP NY	Established tax-free zones on or near qualifying university and college campuses. Qualifying businesses operating within such zones are exempt from taxation for a ten-year period under the personal income tax. During the first five years of the exemption period, qualifying new employees are fully exempt from New York State and New York City personal income tax on wages earned while working in a tax-free zone. During the last five years of the exemption period, qualifying employees are exempt from taxation on wages up to $200,000 for single filers, $250,000 for head-of-household filers, and $300,000 for joint filers.	January 1, 2014
Excelsior Jobs Program	Changed the job requirement parameters for the Excelsior Jobs Program and allowed a portion of the unallocated tax credits from any taxable year to be used to award tax credits in another taxable year.	May 27, 2013
Trust Taxation Loophole Closer	Closed a loophole that allowed resident taxpayers to completely avoid New York income tax through the creation of an incomplete gift, non-grantor trust. Also taxes the accumulated distribution income of New York resident beneficiaries when the income is distributed by an exempt resident trust.	January 1, 2014

Legislation Enacted in 2014

Middle-Class Family Tax Credit	Modified the delivery of the Middle-Class Family Tax Credit to eliminate the prepayment element for tax years 2015 and 2016.	January 1, 2015
Real Property Tax Freeze Credit	Established, through the use of a refundable credit, a two-year tax relief program to offset school and municipal property tax increases for New York State homeowners. The credit is limited to properties that have STAR property tax exemption eligibility and are located within a New York State Property Tax Cap-compliant school/municipal district.	January 1, 2014
Enhanced Real Property Tax Credit	Established a refundable credit for residents of New York City based on qualifying real property taxes paid or the real property tax equivalent. For taxpayers with household gross income (HGI) under $100,000, the credit is equal to 4.5 percent of real property taxes or the real property tax equivalent paid in excess of 4 percent of HGI. For taxpayers with HGI between $100,000 and $150,000, the credit is equal to 3 percent of real property taxes or the real property tax equivalent paid in excess of 5 percent of HGI. For taxpayers with HGI between $150,000 and $200,000, the credit is equal to 1.5 percent of real property taxes or the real property tax equivalent paid in excess of 6 percent of HGI.	January 1, 2014
Enhanced Earned Income Tax Credit	Extended the noncustodial parent earned income tax credit for two years, through and including tax year 2016.	January 1, 2015
Minimum PIT Repeal	Repealed the additional minimum personal income tax.	January 1, 2014
Length of Service Awards	Provided for an AGI subtraction modification equal to the amount of awards paid to volunteer firefighter or volunteer ambulance worker from a length of service defined contribution plan or defined benefit plan.	January 1, 2014
Property Tax Credit for Manufacturers	Made qualified New York manufacturers eligible for a new tax credit equal to 20 percent of the real property taxes paid.	January 1, 2014
Enhance the Youth Works Tax Credit	Enhanced the credit by providing additional credit for youth retained in either a full-time or part-time status for one additional year, lowered the part-time hourly threshold from 20 hours to 10 hours for full-time high school students and increased the allocation from $6 million to $10 million for programs two through five (2014-2018).	January 1, 2014
Expand the Upstate Counties Eligible for the Enhanced Film Production Tax Credit	Added the counties of Albany and Schenectady to the list of upstate counties eligible for the additional 10 percent credit on wages and salaries.	January 1, 2015
Workers with Disabilities Tax Credit	Provided a non-refundable tax credit for tax years 2015 through 2019 equaling 15 percent of wages paid to a developmentally disabled individual employed full time (capped at $5,000) and 10 percent of wages paid if the individual is employed part time (capped at $2,500). This credit has an annual allocation of $6 million.	January 1, 2015
Musical and Theatrical Production Credit	Provided a refundable tax credit for tax years 2015 through 2018 equaling 25 percent of qualified expenses for qualified musical and theatrical productions in certain upstate theaters. This credit has an annual allocation of $4 million annually.	January 1, 2015

START-UP NY Amendments	Provided a refundable tax credit equal to the excise tax paid on telecommunications services paid by businesses in START-UP NY areas.	January 1, 2014
	Added four correctional facilities owned by the State of New York to be included as START-UP NY areas	July 26, 2014
Empire State Commercial Production Tax Credit	Extended the annual allocation of $7 million for two years through tax year 2016. Also, lowered the minimum required production costs for upstate productions from $200,000 to $100,000.	March 31, 2014
Legislation Enacted in 2015		
Limitation on Itemized Deductions	Extended, for two additional years, the limitation on itemized deductions for taxpayers with NYSAGI over $10 million. The limitation sunsets December 31, 2017.	January 1, 2016
Property Tax Relief Credit	Established a refundable tax credit, administered as an advanced credit payment, to offset property tax increases for all eligible taxpayers who own and primarily reside in real property located within eligible school districts that are compliant with the 2 percent annual property tax cap. The credit sunsets December 31, 2019.	January 1, 2016
Warrantless Wage Garnishment	Extended, for two additional years, authority for the Department of Taxation and Finance to garnish wages of delinquent taxpayers without filing a warrant. The authority to act without warrant sunsets March 31, 2017.	April 1, 2015
Enhanced Real Property Tax Circuit Breaker Extender	Extended the Enhanced Real Property Tax Circuit Breaker credit for four years. The credit sunsets December 31, 2019.	January 1, 2016
Expand the Excelsior Jobs Program	Expanded eligibility for the program to include entertainment companies that meet certain criteria, music production companies and video game software developers.	April 13, 2015
Employee Training and Incentive Program (ETIP) Tax Credit	Provided a refundable tax credit for tax years 2015 and after equaling 50 percent of employee training costs ($10,000 cap per employee) or internship costs ($3,000 cap per intern). The amount of tax credits allocated per year is capped at $5 million and will be allotted from funds available under the Excelsior Jobs Program.	January 1, 2015
Urban Youth Jobs Program	Enhanced the credit (formerly the New York Youth Works Tax Credit) by increasing the allocation from $10 million to $20 million for programs three through five (2015-2017).	April 13, 2015
Alternative Fuel Vehicle Refueling Property Tax Credit	Allowed the credit for spending not covered by a grant. The amount of the credit is amended to equal the lesser of $5,000 or the product of 50 percent and the cost of any property less any costs paid from the proceeds of a grant.	January 1, 2015

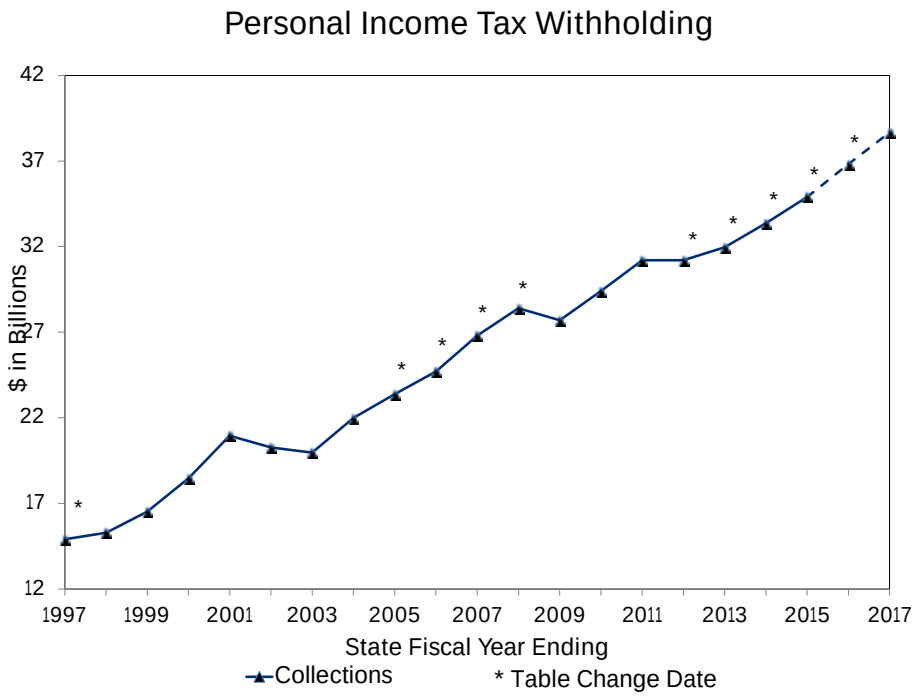
Brownfields Clean-Up Program	Reformed the program and extended the tax credits through March 31, 2026. Reforms included the prioritization of (1) site redevelopment in economically distressed areas, (2) low income housing, or (3) properties that are upside down or underutilized; also provided for the creation of an expedited remediation program (BCP-EZ), a more detailed description of eligible costs for redevelopment tax credits, and allowed the real property tax and environmental remediation insurance credits to sunset.	July 1, 2015
START-UP NY Amendments	Added two airport facilities owned by the State of New York to be included as START-UP NY areas.	April 13, 2015

Withholding Changes

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

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

1/1/12	Rate Schedule	Lowered rates for middle income taxpayers and created a new 8.82 percent tax rate and bracket for tax years through 2014.
1/1/13	Deduction Allowance	Annual deduction increases to reflect inflation (CPI-U) indexing. Has applied to tax years 2013 through 2016.
	Rate Schedule	Annual tax bracket adjustment to reflect indexing. Has applied to tax years 2013 through 2016.[1]



The above graph shows the history of withholding collections beginning in FY 1997. Asterisks denote the dates of withholding table changes.

Limited Liability Companies

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

The annual filing fee has been imposed since 1994 and applies to any LLC that has any income, gain, loss or deduction attributable to New York sources in the taxable year. Filing fees for the tax year are due no later than January 30 of the following year. Table 3 shows historical and

[1] Deduction and tax bracket changes are also scheduled for inflation adjustment in tax year 2017.

estimated (for FY 2016) LLC fees. Fee amounts were temporarily increased for tax years 2003 through 2006, which explains the year-over-year decline between FY 2007 and FY 2008.

The FY 2009 Enacted Budget restructured the flow-through entity level LLC fees such that the existing LLC fees and corporate franchise tax minimum taxes were replaced with new fees/minimum taxes applicable to all LLC partnerships, C corporations, and S corporations based on New York source income. The FY 2010 Enacted Budget further levied fees on non-LLC partnerships with NY-source income at or above $1 million at the same rates applicable to LLC partnerships.

Table 3
Limited Liability Company and Partnership Fees
(thousands of dollars)

SFY	Amount
2006	70,755
2007	78,036
2008	50,973
2009	56,219
2010	67,469
2011	68,667
2012	71,589
2013	71,690
2014	84,129
2015	86,902
2016 Estimated	89,500

Administration

Timing of the Payment of Refunds

The payment of refunds during the final quarter of the State's fiscal year (i.e., the January-March period) has been administratively managed in accordance with cash flow expectations and to minimize potential year-end imbalances in the State's General Fund. The amount of refunds paid during this three-month period totaled $1,512 million for FY 2006 and declined to $1,500 million for both FY 2007 and FY 2008. The refund "cap" increased to $1,750 million for FY 2009 to more closely match the estimate of refunds payable during this three-month period. The refund "cap" was reduced to $1,250 million for FY 2010 for cash management purposes, but reverted to $1,750 million for FYs 2011 through 2013. A one-time increase in the three-month allocation to $2,078 million took place in FY 2014 in response to previously unanticipated strong January 2013 current year estimated tax receipts. Estimated tax receipts in January 2014 were strong once again, which allowed for the payment of $1,950 million in refunds during the last three months of FY 2015. The FY 2016 "cap" on refunds is currently set at $2,250 million.

School Tax Relief Fund

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

Revenue Bond Tax Fund

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

Taxpayer Characteristics

Personal income tax liability and NYSAGI, the income base that determines personal income tax liability, differ noticeably across taxpayer groups. Table 4 examines the changes in NYSAGI and in liability over a span from 2006 to 2013, with a breakdown by taxpayer characteristics. Note that while NYSAGI grew 14.1 percent over this period, the growth in liability was close to twice that -- 26.2 percent. The outsized growth in liability can be accounted for in part by changes in the State personal income tax law enacted in December 2011. The tax reform law replaced the temporary brackets and rates for high-income filers of the 2009-2011 law with new brackets and generally lower tax rates but retained a restriction on the itemized deductions of millionaires to a fraction of their charitable contributions. While the highest rate of the December 2011 reform applies only to millionaires, it was higher than the highest rate under the 2006 brackets and rates.

Both 2006 and 2013 were years of economic expansion for the State. While in 2006 New York State was in its third full year of expansion following the State recession that came after the national recession of 2001, 2013 was the fourth year of the State's recovery from its August 2008-December 2009 recession (which was thus eight months shorter than the national recession). The years differ in their tax structures, as in 2006 the tax structure reverted to its prior configuration after the temporary brackets and rates of 2003-05, while a reformed tax structure was in force for a second year in 2013.

While the share of nonresident returns crept up to 11.2 percent from 10.3 percent over the period, the share of liability accounted for by the two groups was very stable, essentially unchanged.

Not surprisingly, liability for both resident and nonresident taxpayers grew about 26 percent over the 2006-2013 span. Wage growth was similar (18.3 percent for residents, 17.0 percent for nonresidents), but nonwage income (which includes items of income such as dividends, interest received, and capital gains) grew 13.8 percent for nonresidents and just 6.2 percent for residents in that time frame.

With respect to filing status, a comparison of the two years shows that the slow decline in the share of taxpayers filing as "married filing jointly" continued. Despite a 3.9 percent rise in the number of returns filed under this status from 2006 to 2013, the share slipped to 33.9 percent, down from the 35.4 percent share in 2006. Returns filed as "head of household" increased just 1.8 percent with the share dropping a percentage point to 15.4 percent. "Single" returns, though, posted growth of nearly 11 percent over the eight years, driving the share up a percentage point to 49.2 percent in 2013. Despite the rising share of single filers, the money is still with the married filers: in 2006 they accounted for nearly 70 percent of all liability, slipping to just under 69 percent in 2013, while the liability share of single filers was fairly stable at nearly 28 percent. Interestingly head of household filers saw their liability share rise to 3.4 percent from 2.6 percent in 2006.

Taxpayers who itemized their deductions made up 25.9 percent of all filers in 2006, sliding to 22.8 percent in 2013. In 2006, standard deduction returns accounted for 74.1 percent of all returns and 31.9 percent of all liability, while the remaining returns that were itemized made up 68.1 percent of all liability. By 2013 the itemizer share of liability had fallen to 55.6 percent while standard-deduction takers accounted for 44.2 percent of liability. Note that with the continuing limitation on itemized deductions for millionaires many of the high-liability taxpayers likely found themselves better off taking the standard deduction rather than itemizing.

With liability slipping from its traditional two-thirds/one-third split between itemizers and standard deduction takers, it is perhaps not surprising that income components also moved toward equality between 2006 and 2013. In 2006 itemizers had 60.0 percent of NYSAGI while standard deduction takers had 40.0 percent; by 2013 the proportions were nearly equal: 49.2 percent for the itemizers and 50.7 percent for the standard deduction filers. While nonwage income still overwhelmingly accrued to the itemizers (74.5 percent in 2006 and 63.0 percent in 2013), the wage shares flipped, with standard deduction filers getting 56.7 percent of wages in 2013 (up from 46.9 percent in 2006) while the itemizer wage share fell to 43.2 percent in 2013 from 53.1 percent in 2006.

One final note is that especially because of federal tax law changes between 2012 and 2013 income shifting took place, as persons who were able to tried to shift compensation out of 2013 and into 2012. Thus wages for the itemizers fell 3.8 percent when comparing 2006 with 2013 while standard deduction takers saw a 42.9 percent increase over the interval. Nonwage income fell 9.5 percent for itemizers as opposed to a rise of 52.6 percent for persons who used the standard deduction instead.

TABLE 4
PERCENT SHARES OF STATE AGI, WAGES, NONWAGE INCOME AND LIABILITY
BY VARIOUS TAXPAYER CHARACTERISTICS, 2006 AND 2013
(Values for AGI, wages, nonwage income and liability in millions of dollars)

	2006					2013				
	Returns	NYSAGI	Wages	Nonwage Income	Liability	Returns	NYSAGI	Wages	Nonwage Income	Liability
Total	9,316,507	641,807	445,210	204,549	29,587	10,093,636	732,141	525,924	218,728	37,331
percent change						8.3	14.1	18.1	6.9	26.2
Residents	8,352,559	557,134	380,202	183,956	24,747	8,961,329	633,992	449,870	195,292	31,254
percent share	89.7	86.8	85.4	89.9	83.6	88.8	86.6	85.5	89.3	83.7
percent change						7.3	13.8	18.3	6.2	26.3
Nonresidents	963,908	84,673	65,009	20,593	4,841	1,132,307	98,150	76,053	23,437	6,077
percent share	10.3	13.2	14.6	10.1	16.4	11.2	13.4	14.5	10.7	16.3
percent change						17.5	15.9	17	13.8	25.5
Married Filing Jointly	3,297,935	411,789	272,994	143,440	20,650	3,425,052	460,947	316,178	151,668	25,682
percent share	35.4	64.2	61.3	70.1	69.8	33.9	63	60.1	69.3	68.8
percent change						3.9	11.9	15.8	5.7	24.4
Head of Household	1,529,362	53,383	46,736	7,499	763	1,556,377	61,060	53,335	8,940	1,259
percent share	16.4	8.3	10.5	3.7	2.6	15.4	8.3	10.1	4.1	3.4
percent change						1.8	14.4	14.1	19.2	65
Single Filers	4,489,210	176,635	125,481	53,610	8,174	4,968,402	207,219	152,672	57,658	10,397
percent share	48.2	27.5	28.2	26.2	27.6	49.2	28.3	29	26.4	27.9
percent change						10.7	17.3	21.7	7.6	27.2
Itemized Deduction	2,412,986	385,070	236,328	152,315	20,146	2,300,111	360,461	227,287	137,865	20,770
percent share	25.9	60	53.1	74.5	68.1	22.8	49.2	43.2	63	55.6
percent change						-4.7	-6.4	-3.8	-9.5	3.1
Standard Deduction	6,901,749	256,652	208,804	52,227	9,437	7,788,644	371,324	298,393	80,748	16,538
percent share	74.1	40	46.9	25.2	31.9	77.2	50.7	56.7	36.9	44.3
percent change						12.9	44.7	42.9	54.6	75.2

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

Recent Liability History

New York State Adjusted Gross Income, NYSAGI, is the income base that determines PIT liability. Table 5 lists the major components, their growth rates and their respective shares of NYSAGI (see also Economic Backdrop - New York State Adjusted Gross Income section). NYSAGI growth has seen a fair amount of volatility during the years following the recession with strong 8.7 percent growth in 2012 and a small 0.1 percent decline in 2013. The recent growth rates belie the impact of underlying economic drivers and are affected by a considerable amount of income shifting. Lower tax rates established under the Economic Growth and Tax Relief Reconciliation Act of 2001 were originally expected to sunset at the end of 2010. Though the sunset was moved to the end of 2012, evidence suggests that taxpayers shifted income from 2011 to 2010 in anticipation of a possible increase. With the actual tax rates increase at the close of 2012, taxpayers engaged in a more substantial income shift out of 2013 into 2012.

TABLE 5

DISTRIBUTION OF THE MAJOR COMPONENTS OF NEW YORK ADJUSTED GROSS INCOME (NYSAGI)

(millions of dollars)

Component of Income	2009	2010	2011	2012	2013	2014*	2015	2016	2017
	Actual					Estimate			
NYSAGI									
Amount	596,471	638,855	657,298	714,698	714,046	775,126	803,798	843,118	887,810
Percent Change	(9.9)	7.1	2.9	8.7	(0.1)	8.6	3.7	4.9	5.3
Wages									
Amount	463,939	482,433	499,425	515,645	525,924	559,190	579,652	604,568	631,709
Percent Change	(5.9)	4.0	3.5	3.2	2.0	6.3	3.7	4.3	4.5
Share of NYSAGI	77.8	75.5	76.0	72.1	73.7	72.1	72.1	71.7	71.2
Net Capital Gains									
Amount	29,689	44,669	48,800	77,248	68,492	90,051	90,773	95,985	102,591
Percent Change	(44.4)	50.5	9.2	58.3	(11.3)	31.5	0.8	5.7	6.9
Share of NYSAGI	5.0	7.0	7.4	10.8	9.6	11.6	11.3	11.4	11.6
Interest and Dividends									
Amount	29,358	30,200	29,240	33,433	32,604	34,810	36,550	39,467	43,183
Percent Change	(25.1)	2.9	(3.2)	14.3	(2.5)	6.8	5.0	8.0	9.4
Share of NYSAGI	4.9	4.7	4.4	4.7	4.6	4.5	4.5	4.7	4.9
Taxable Pension									
Amount	32,167	35,583	37,052	39,040	40,394	42,754	44,618	46,729	48,971
Percent Change	3.5	10.6	4.1	5.4	3.5	5.8	4.4	4.7	4.8
Share of NYSAGI	5.4	5.6	5.6	5.5	5.7	5.5	5.6	5.5	5.5
Net Business and Partnership Income									
Amount	71,447	74,368	74,148	84,363	83,995	89,923	95,786	102,170	109,793
Percent Change	(2.9)	4.1	(0.3)	13.8	(0.4)	7.1	6.5	6.7	7.5
Share of NYSAGI	12.0	11.6	11.3	11.8	11.8	11.6	11.9	12.1	12.4
All Other Incomes and Adjustments[1]									
Amount	(30,129)	(28,398)	(31,367)	(35,031)	(37,363)	(41,602)	(43,581)	(45,801)	(48,437)
Percent Change	7.3	(5.7)	10.5	11.7	6.7	11.3	4.8	5.1	5.8

* Estimates for 2014 are based on processing data.

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

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

Wages are the largest contributor to NYSAGI and one of the most stable. At the end of the recession in 2009, wages made up 77.8 percent of NYSAGI. Since other components such as capital gains realizations grow relatively faster during recoveries, the share of wage income fell to an estimated 72.1 percent in 2014.

As one of the larger and most volatile components of total taxable income, capital gains realizations contribute prominently to changes in NYSAGI. Much of the volatility in net capital gains realizations growth is the direct result of taxpayers behaving strategically to avoid the higher tax rates on long-term capital gains that were initially anticipated to start in 2011 and then really started in 2013. This strategic taxpayer behavior dwarfed the impact of strong underlying growth in equity and real estate markets. After five years of solid underlying equity and real estate market growth, however, net capital gains income's contribution to NYSAGI more than doubled from 5 percent at the end of the recession in 2009 to and expected 11.6 percent in 2014.

Other income components were also affected by income shifting, though to a lesser extent. For example, companies paid out dividends early so that investors could enjoy the lower rates in

2012, and the strong 13.8 percent partnership, S corporation and business income growth in 2012, followed by a 0.5 percent estimated decline in 2013, suggests that businesses were able to shift some of their incomes as well.

As a result of income shifting, the income base is lower than would otherwise be the case, making the estimated NYSAGI growth rate of 8.6 percent for 2014 stronger than underlying economic conditions would suggest. Going forward, DOB predicts NYSAGI growth of 3.7 percent for 2015, followed by 4.9 percent growth in 2016, and 5.3 percent in 2017.

Note: Values above bars indicate additional liability due to temporary brackets and rates for those tax years as represented by the dark blue shading; "current law" for 2006-2016 includes changes in State and Federal Tax Law that are effective with the 2006 tax year and beyond.
Source: New York State Department of Taxation and Finance; DOB staff estimates.

TABLE 6
LIABILITY AND EFFECTIVE TAX RATES*
Current Law
2002-2016
(millions of dollars)

	NYSAGI		Liability		
	Amount	Growth Rate	Amount	Growth Rate	Effective Tax Rate (percent)
2002	459,919	-4.4	20,731	-7.5	4.51
2003	473,778	3.0	22,456	8.3	4.74
2004	525,964	11.0	25,769	14.8	4.90
2005	571,916	8.7	28,484	10.5	4.98
2006	632,601	10.6	29,838	4.8	4.72
2007	725,245	14.6	35,215	18.0	4.86
2008	662,053	-8.7	31,621	-10.2	4.78
2009	596,471	-9.9	31,162	-1.5	5.22
2010	638,855	7.1	34,836	11.8	5.45
2011	657,298	2.9	36,296	4.2	5.52
2012	714,698	8.7	38,017	4.7	5.32
2013	714,046	-0.1	37,331	-1.8	5.23
2014**	775,126	8.6	41,518	11.2	5.36
2015**	803,798	3.7	43,327	4.4	5.39
2016**	843,118	4.9	46,058	6.3	5.46

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

Risks to the Liability Forecast

The collapse of the housing bubble and financial markets in the crises that attended the Great Recession caused the share of liability originating with the top one percent of taxpayers to fall from 43.1 percent in 2007 to 33.2 percent in 2009 on a constant-law basis. Over time the State has become increasingly reliant on its high-income taxpayers as a source of income tax revenues. The reformed State tax law enacted in December 2011 and effective with the 2012 tax year increased this proportion to 43.2 in its first year, a recent high. While income shifting in conjunction with federal tax law changes in December 2012 helped bring the proportion for 2013 down to 39.9 percent, the Budget Division expects the proportion to be over 41 percent in both 2015 and 2016 under the current tax regime. But this implies that changes in the economy, or in the institutional practices of firms (i.e., the timing and types, not to mention the size, of bonus payments), that affect a small number of taxpayers in the high-income groups can have disproportionately large effects on State tax revenues.

TABLE 7
PERCENT DISTRIBUTION OF RETURNS, LIABILITY AND AGI BY INCOME GROUPS UNDER CURRENT LAW

	2013 (Actual)			2016 (Forecast)		
Income Group	Returns	Liability	AGI	Returns	Liability	AGI
0 - $50,000	65.8	3.4	14.2	63.8	2.5	14
$50,000 - $100,000	19	15.1	19.1	19.1	12.7	16.7
$100,000 - $200,000	10.4	19.5	20	11	17.6	18.5
$200,000 - $1,000,000	4.3	25.1	22	5.5	26.9	23.7
$1,000,000 and above	0.5	36.9	24.7	0.6	40.2	27

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

TABLE 8
CHANGES IN THE SHARE OF LIABILITY ORIGINATING WITH THE TOP ONE PERCENT OF NYS TAXPAYERS

	1995-2002, 2006-08 Tax Law			2003-05, 2009-11 Brackets and Rates; Reformed Law Begins in 2012		
Year	Liability, Top 1 Percent (millions)	Liability, All Taxpayers (millions)	Share of Total Liability, Top 1 (Percent)	Liability, Top 1 Percent (millions)	Liability, All Taxpayers (millions)	Share of Total Liability, Top 1 (Percent)
2002	6,681	20,731	32.2	--	--	--
2003	7,146	21,173	33.8	8,079	22,456	36
2004	8,487	24,218	35	9,607	25,769	37.3
2005	9,794	26,741	36.6	11,093	28,484	38.9
2006	11,539	29,587	39	--	--	--
2007	15,195	35,215	43.1	--	--	--
2008	11,890	31,621	37.6	--	--	--
2009	9,138	27,522	33.2	12,194	31,162	39.1
2010	10,548	30,349	34.8	14,282	34,836	41
2011	10,733	31,596	34	14,513	36,296	40
2012	12,976	35,258	36.8	16,408	38,017	43.2
2013	11,925	35,214	33.9	14,913	37,331	39.9
2014*	13,801	39,386	35	17,319	41,518	41.7
2015*	14,315	41,239	34.7	17,966	43,327	41.5
2016*	15,191	43,829	34.7	19,101	46,058	41.5

* Estimated

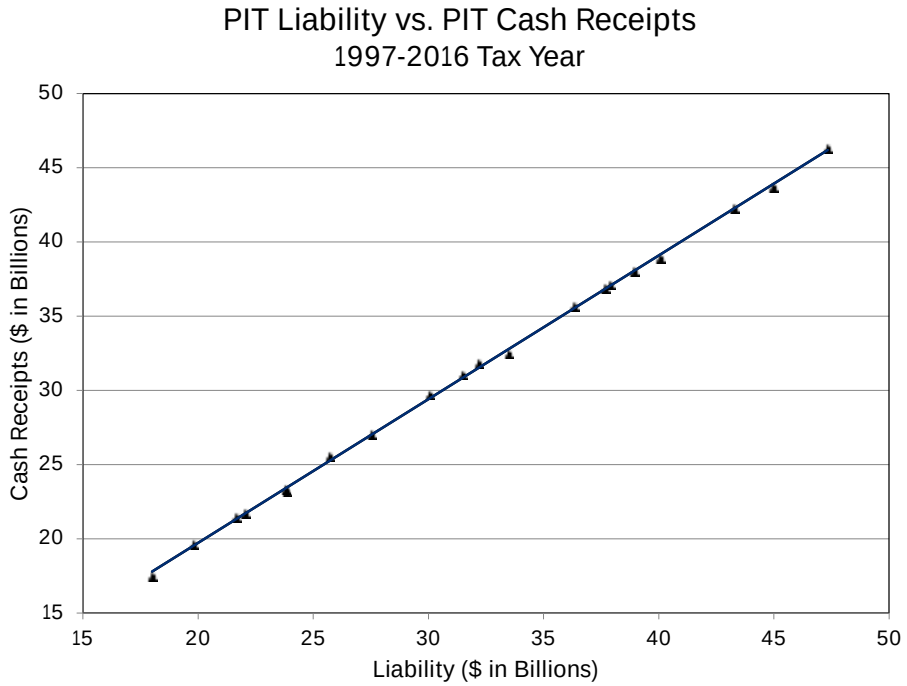
Note: The 2003-2005 surcharges expired at the end of the 2005 tax year.

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

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

Tax Liability and Cash Payments

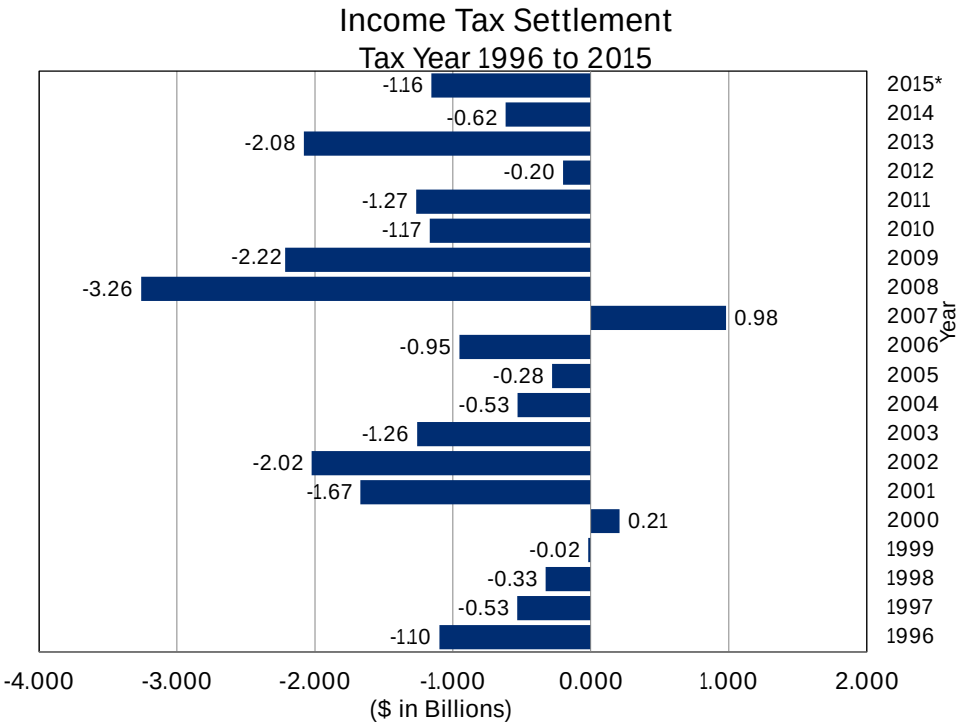
Although significant risks necessarily remain in any estimates of income tax liability, the estimation of the level of tax liability for a particular tax year leads, with a high degree of confidence, to the approximate level of cash receipts that can be expected for the particular tax year. The consistency in this relationship is shown in the graph below, which shows a trend line for the history of liability and cash receipts beginning in 1997, and data points to denote actual liability and cash results or estimates.



Despite the strong relationship between tax-year liability and cash receipts, estimation of cash payments is subject to an important complication that pervades forecasts for the Executive Budget and other State Financial Plan updates. This complication is determining the portions of tax-year liability that will occur in particular State fiscal years. Income tax prepayments – withholding tax and quarterly estimated tax payments – tend to be received not long after income is earned. For example, most withholding tax payments and quarterly estimated tax payments for the 2015 tax year will be received before the end of FY 2016. Settlement payments – those payments received when taxpayers file final returns for a tax year – tend to be received in the next State fiscal year after the end of a tax year. Thus, settlement payments for the 2015 tax year will be received largely in FY 2017.

As is evident in the following graph showing net settlement payments for the 1996 through 2015 tax years, the amount of liability received in the settlement can vary widely from year to year. In most years, the net settlement has been very negative, with State settlement outlays (such as refunds and offsets) far exceeding taxpayer settlement payments (such as those sent with returns

and extension requests). There have been some important exceptions to this pattern – most notably during times of tax reform and rapid economic growth, and during periods with large increases in non-wage income.



* Projection

Several different settlement patterns have occurred in recent years. With the rapid growth of the New York economy in the late 1990s, the settlement became much less negative than it traditionally had been. This pattern resulted generally from prepayment growth rates that fell short of liability growth rates, leading to the need for increased settlement payments with final returns. With the weak economy of 2001 and 2002, taxpayers, in aggregate, dramatically reduced their settlement payments and the total settlement became very negative again, with the net amount paid out by the State exceeding $2 billion for the 2002 tax year. Due to the temporary tax increases enacted in 2003, the net settlement payout by the State was negative by $530 million for the 2004 tax year and $280 million for tax year 2005. However, the 2006 settlement was negative by $950 million, due mainly to refund claims for the new child credit. Due to strength of the 2007 tax year, the 2007 settlement was highly positive at $980 million. Due to the subsequent recessionary economic environment, the 2008 settlement turned negative again ($3.26 billion), while the 2009 settlement was a significantly less negative $2.22 billion. Due to strong extension payments, the 2010 settlement ended at a smaller negative $1.17 billion. Extension payments declined in 2011, leading to a slightly more negative net settlement of $1.27 billion. In 2012, strong end-of-year capital gains realizations (due to impending Federal Tax Law changes) led to record-high April extension payments, improving the settlement to negative $200 million. The net settlement for tax year 2013 shifted to a firmly negative $2.08 billion, the result of a nearly 35 percent decline in extension payments following

an inflated 2012 base. Driven by robust growth in nonwage income, extension payments and final returns related to tax year 2014 grew rapidly while refund payments increased conservatively, ultimately improving the net settlement to approximately negative $620 million. The alteration in Family Tax Relief credit payment timing, from an advanced credit to a "standard" credit, is expected to provide strong growth in current refunds related to tax year 2015, resulting in a net settlement of negative $1.16 billion.

For tax years 2009, 2010 and 2011, New York temporarily added two new tax rates: 7.85 percent on taxable income over $300,000 for married joint filers (lower level for others) and 8.97 percent on taxable income over $500,000 for all filers. Further, laws enacted in 2009 completely disallowed the use of itemized deductions (except for 50 percent of charitable contributions) for taxpayers with NYSAGI over $1 million. For tax years 2010, 2011, and 2012, the itemized deduction for charitable contributions was further reduced from 50 percent to 25 percent for taxpayers with NYSAGI over $10 million. The 25 percent limitation was subsequently extended, on two separate occasions, to apply to tax years ending before 2018.

For tax years 2012 to 2014, four new tax brackets and rates replaced the former bracket and rate applicable to taxpayers with taxable income above $40,000 for married filing jointly returns (with lower levels for other filing categories). The tax rate for taxpayers (married filing jointly returns) with taxable income in the $40,000 to $150,000 and $150,000 to $300,000 brackets were lowered to 6.45 percent and 6.65 percent respectively, while the rates on the $300,000 to $2 million tax bracket remained unchanged from 2008 law at 6.85 percent. The top rate for those earning $2 million and above (married filing jointly returns) was reduced (when compared to tax years 2009-2011) to 8.82 percent. The tax brackets and standard deduction amounts were also indexed to the CPIU starting in tax year 2013. These brackets and rates, including CPIU indexing, were subsequently extended through the end of tax year 2017 as part of the FY 2014 Enacted Budget.

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

Receipts: Estimates and Projections

All Funds

FY 2016 Estimates

All Funds preliminary receipts through December are $34,010 million, an increase of $3,836 million (12.7 percent) from the comparable period in the prior fiscal year.

All Funds FY 2016 receipts are estimated to be $47.1 billion, an increase of $3.4 billion (7.7 percent) from FY 2015. This primarily reflects moderate growth in both withholding and current estimated payments for tax year 2015, coupled with robust growth in both extension (i.e., prior year estimated) payments for tax year 2014 and final returns. Growth in these components

is partially offset by a modest decline in delinquency collections and a substantial increase in total refund payments.

Withholding in FY 2016 is projected to be $1.9 billion (5.5 percent) higher compared to the prior year. This reflects the net effect of moderate wage growth offset by reduced revenue attributable to the withholding table inflation adjustment. Total estimated payments are expected to increase by $1.9 billion (14.1 percent). Estimated payments for tax year 2015 are projected to increase by $768 million (7.4 percent) due to a combination of modest nonwage income growth and payments calculated based on safe-harbor provisions. Extension payments (i.e., prior year estimated) for tax year 2014 are estimated to increase substantially ($1.2 billion or 34.6 percent) following a tax year 2013 base that was weakened by an acceleration of capital gains realizations into 2012, which took place in anticipation of higher federal income tax rates in 2013. Delinquent collections are projected to be $100 million (7.2 percent) lower, while final return payments are projected to increase by $427 million (19.4 percent).

The increase in total refunds of $787 million (9.2 percent) reflects increases of $179 million (3.6 percent) in prior refunds related to tax year 2014, $300 million (15.4 percent) in current year refunds related to tax year 2015 (due to an increase in the January to March 2016 administrative refund cap to $2.25 billion), $97 million (16.5 percent) in the state-city offset, $190 million (41.4 percent) in refunds related to tax years prior to 2014 and $21 million (3.7 percent) in advanced credit payments attributable to tax year 2015. The growth in prior refunds related to tax year 2014 reflects a $128 million decline in the administratively determined refund "cap" between FY 2014 and FY 2015, coupled with the first year of the Enhanced Real Property Tax Circuit Breaker credit. The increase in advanced credit payments is attributable to the first year of the municipal tax component and the second year of the school tax component of the Real Property Tax Freeze credit, partially offset by the change in payment timing of the Family Tax Relief credit from an advanced payment credit to a "standard" credit.

Table 9 shows the components of the PIT from FY 2015 through FY 2017.

TABLE 9
FISCAL YEAR COLLECTION COMPONENTS
ALL FUNDS
(millions of dollars)

	FY 2015 (Actual)	FY 2016 (Estimated)	FY 2017 (Projected)
Receipts			
Withholding	34,907	36,816	38,675
Estimated Payments	13,743	15,678	16,741
Current Year	10,367	11,135	12,045
Prior Year*	3,376	4,543	4,696
Final Returns	2,206	2,633	2,720
Current Year	254	274	280
Prior Year*	1,952	2,359	2,440
Delinquent Collections	1,392	1,292	1,358
Gross Receipts	52,248	56,419	59,494
Refunds			
Prior Year*	4,961	5,140	5,622
Previous Years	458	648	718
Current Year*	1,950	2,250	1,750
Advanced Credit	579	600	756
State-City Offset*	591	688	688
Total Refunds	8,539	9,326	9,534
Net Receipts	43,709	47,093	49,960

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

The primary risks to the FY 2016 receipts estimate result from uncertainty surrounding both bonus payments paid by financial services companies and the fourth quarterly estimated tax payment. With respect to financial sector bonuses, a large portion of these payments are typically paid in the last quarter of the state fiscal year. Consequently, complete information about such payments is not available when Budget estimates are constructed. Similarly, the fourth quarterly estimated tax payment is consistently the largest payment, and a significant portion of this revenue is not received until after the Division's forecast has been produced.

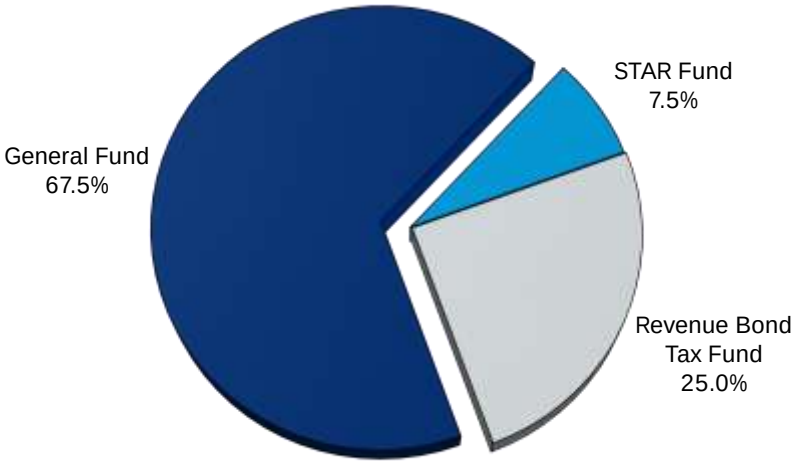
FY 2017 Projections

All Funds FY 2017 receipts are projected to be $50 billion, an increase of $2.9 billion (6.1 percent) from FY 2016.

This increase primarily reflects increases of $1.9 billion (5 percent) in withholding and $1.1 billion (6.8 percent) in total estimated payments, partially offset by a $208 million (2.2 percent) increase in total refunds. The increase in total refunds is attributable to the second tax year of the Family Tax Relief credit. The Family Tax Relief credit will not account for a significant amount of FY 2016 refunds due to the one-time accelerated payment of first-year credits into FY 2015. The growth in withholding is driven by projected FY 2017 wage growth of 4.5 percent. The growth in total estimated payments includes increases of $910 million (8.2 percent) in estimated payments related to tax year 2016 and $153 million (3.4 percent) in extension (i.e., prior year estimated) payments for tax year 2015. The moderate growth in estimated payments related to tax year 2016 is in response to projected nonwage income growth of 6.4 percent, including 5.7 percent growth in net capital gains, and includes an increase of $18 million due to the Executive Budget proposal to extend tax shelter reporting.

Payments from final returns are expected to increase $87 million (3.3 percent) and delinquent collections are projected to increase by $66 million (5.1 percent) compared to the prior year. The aforementioned increase in total refunds of $208 million reflects increases of $482 million (9.4 percent) in prior year refunds for tax year 2015, $70 million (10.8 percent) in previous years refunds related to tax years prior to 2015, and $156 million (26 percent) in advanced credit payments for tax year 2016, partially offset by a decline of $500 million (22.2 percent) in tax year 2016-related current refunds (due to an expected decline in the administrative refund cap in January to March of 2017 to $1.75 billion).

Fund Shares of Net Receipts
2014-15



General Fund

General Fund net PIT receipts are estimated to be $31,983 million in FY 2016 and are projected to be $34,242 million in FY 2017.

Other Funds

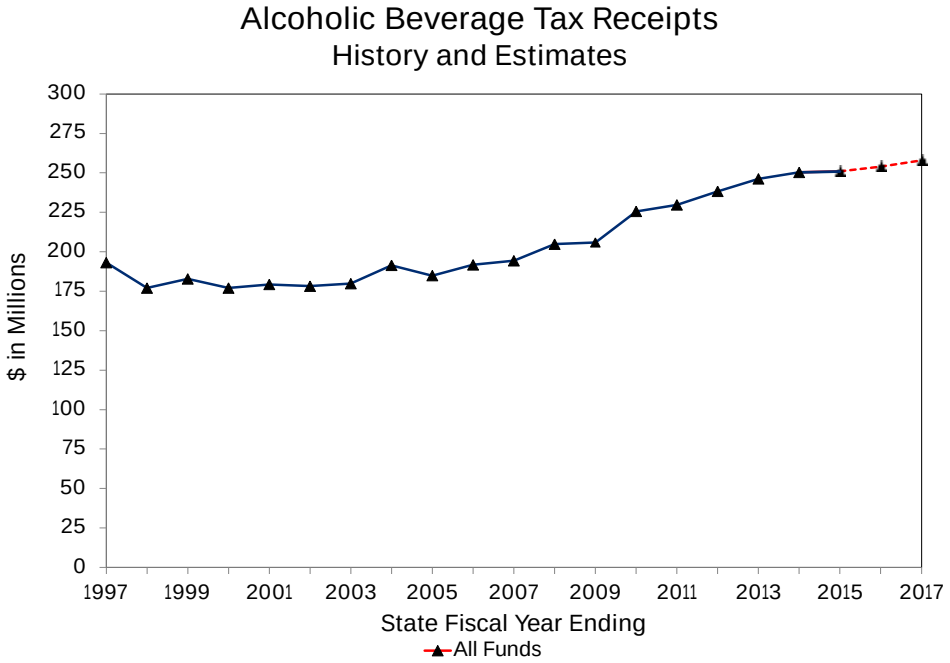
In FY 2016 and FY 2017, respectively, dedicated PIT receipts of $3,337 million and $3,228 million will be deposited into the School Tax Relief Fund. The decline in FY 2017 deposits is attributable to Executive Budget proposals that provide for $240 million in reduced deposits.

In FY 2016 and FY 2017, respectively, dedicated receipts of $11,774 million and $12,490 million will be deposited into the Revenue Bond Tax Fund (RBTF). This increase reflects the growth in net income tax collections upon which the RBTF is based.

Alcoholic Beverage Taxes

ALCOHOLIC BEVERAGE TAXES (millions of dollars)							
	FY 2015 Actual	FY 2016 Estimated	Change	Percent Change	FY 2017 Projected	Change	Percent Change
General Fund	250.9	254.0	3.1	1.2	258.0	4.0	1.6
Other Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All Funds	250.9	254.0	3.1	1.2	258.0	4.0	1.6

Note: Totals may differ due to rounding.



ALCOHOLIC BEVERAGE TAXES BY FUND (thousands of dollars)				
	Gross General Fund	Refunds	General Fund	All Funds Receipts
FY 2007	194,379	83	194,296	194,296
FY 2008	205,375	546	204,829	204,829
FY 2009	205,913	5	205,908	205,908
FY 2010	225,647	87	225,560	225,560
FY 2011	229,698	0	229,698	229,698
FY 2012	238,379	116	238,263	238,263
FY 2013	246,240	23	246,217	246,217
FY 2014	250,312	6	250,306	250,306
FY 2015	250,895	12	250,882	250,882
Estimated				
FY 2016	254,100	100	254,000	254,000
FY 2017				
Current Law	259,100	100	259,000	259,000
Proposed Law	258,100	100	258,000	258,000

Proposed Legislation

Legislation proposed with this Budget would establish additional alcoholic beverage tax tasting exemptions and production credits.

Description

Tax Base and Rate

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

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

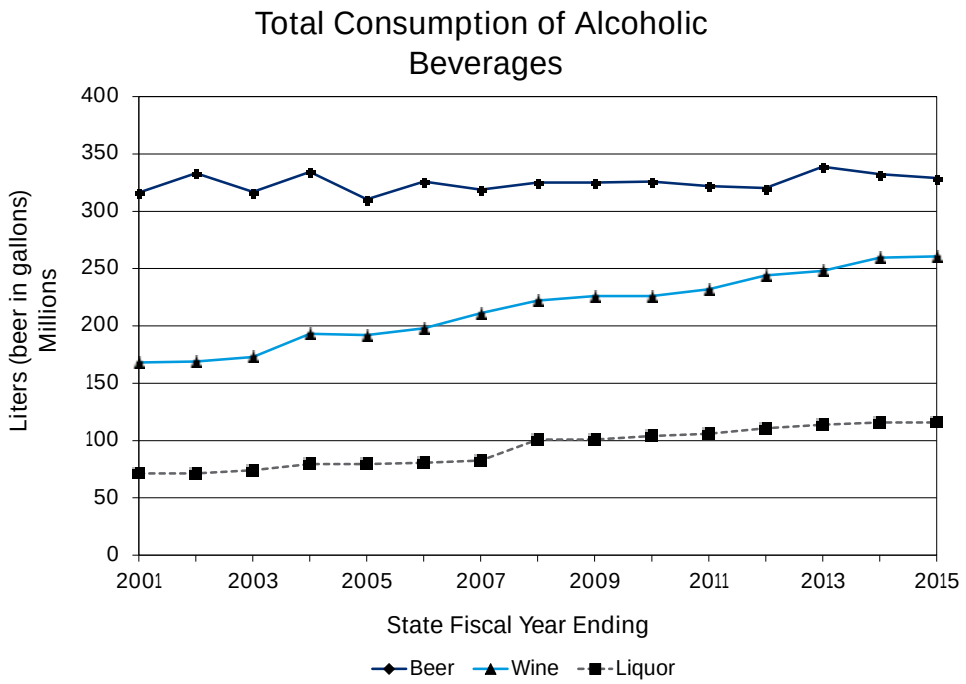
Administration

Generally, the tax is remitted by licensed distributors and noncommercial importers of such beverages in the month following the month of delivery. Small taxpayers file the tax annually.

Significant Legislation

Significant statutory changes to this tax since 2010 are summarized below.

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



Tax Liability

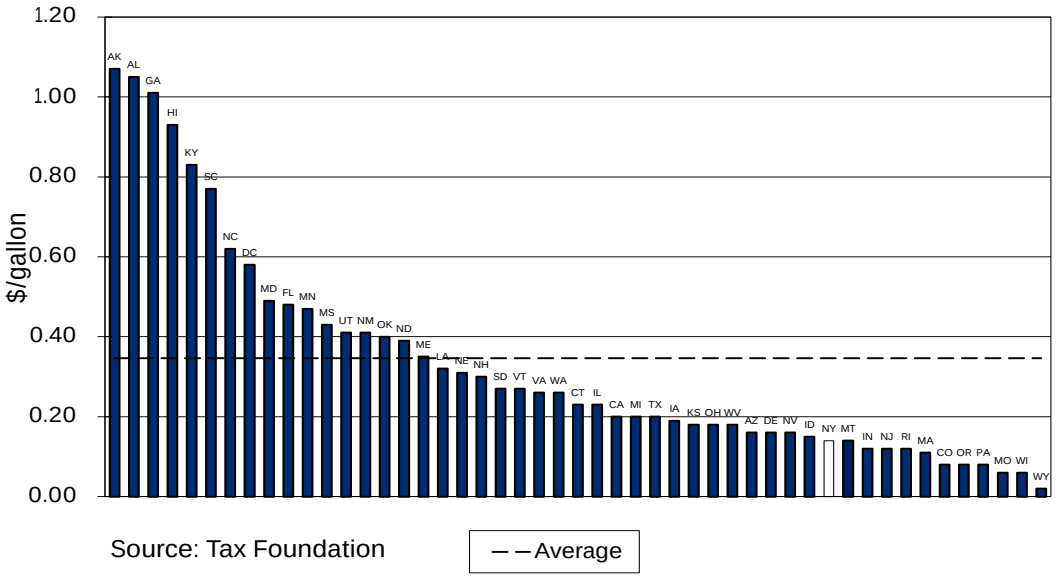
Generally, consumption of taxed wine and liquor has increased annually since FY 2008, while taxable beer consumption has remained relatively flat, with a few exceptions, during the same period.

Other States

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

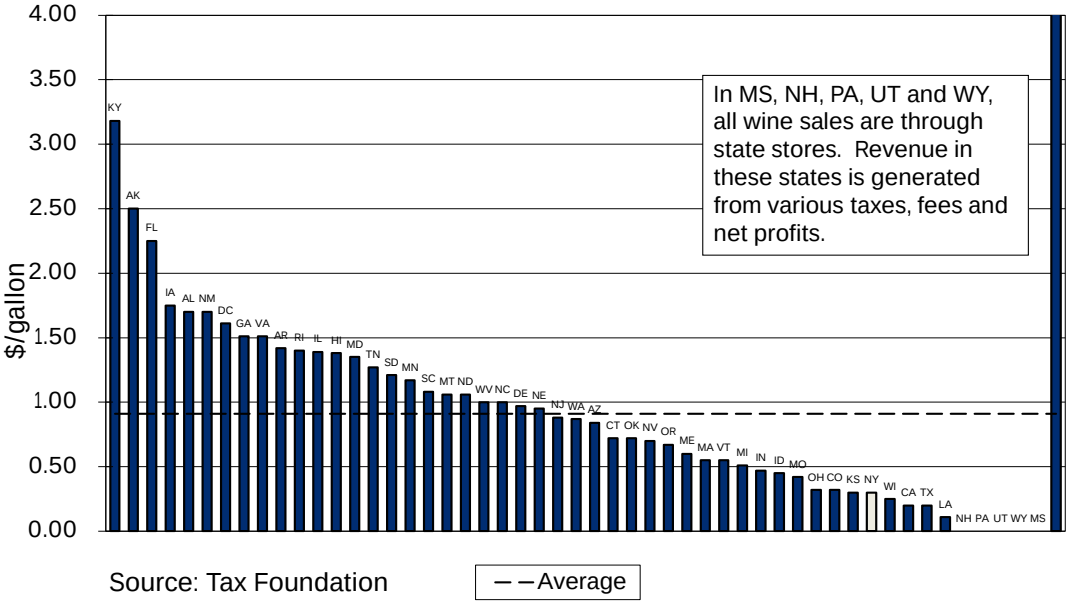
- The twelfth lowest beer tax;
- The fifth lowest wine tax (of those participating states); and
- The twenty-first highest liquor tax (of those participating states).

Beer Tax Rates by State
(January 2015)

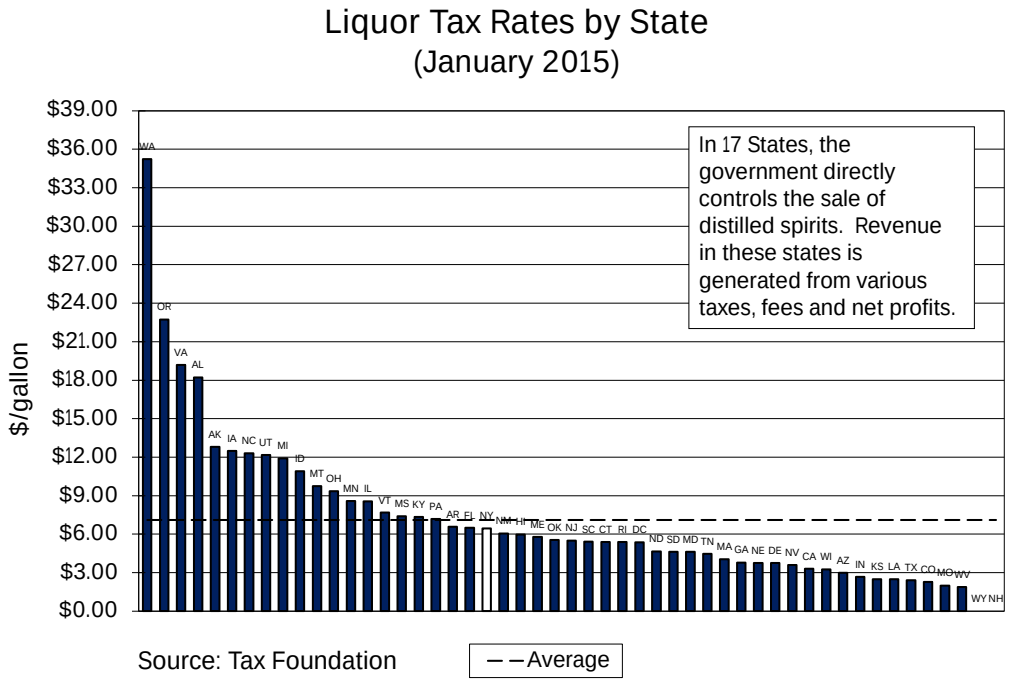


Source: Tax Foundation

Wine Tax Rates By State
(January 2015)



Source: Tax Foundation



Note: 17 States have direct control over the sale of distilled spirits. The implied excise tax rate is calculated using methodology designed by the Distilled Spirits Council of the United States (DISCUS).

The New York State tax on liquor is relatively high compared to other forms of alcohol but still below the average of all states. The alcoholic beverage enforcement provisions summarized below have provided some protection to the State's liquor industry and tax base, thereby improving State alcoholic beverage tax receipts.

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

ALCOHOLIC BEVERAGE TAX ENFORCEMENT PROVISIONS

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

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

Receipts: Estimates and Projections

All Funds

FY 2016 Estimates

All Funds preliminary receipts through December are $191.8 million, an increase of $3 million (1.6 percent) from the comparable period in the prior fiscal year.

All Funds FY 2016 receipts are estimated to be $254 million, an increase of $3.1 million (1.2 percent) from FY 2015. Estimated growth is primarily based on the continuation of recent wine and liquor consumption trends.

Of the total estimated receipts, $187.9 million is projected to be derived from liquor, $46.2 million from beer and $19.9 million from wine and other taxed beverages.

COMPONENTS OF ALCOHOLIC BEVERAGE TAXES RECEIPTS
(millions of dollars)

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	Estimated FY 2016	Projected FY 2017
Beer	45.0	44.7	47.6	46.7	46.0	46.2	46.2
Liquor	166.5	174.5	179.5	183.8	185.3	187.9	191.6
Wine & Other	18.2	19.1	19.1	19.8	19.6	19.9	20.2
Total	229.7	238.3	246.2	250.3	250.9	254.0	258.0

FY 2017 Projections

All Funds FY 2017 receipts are projected to be $258 million, an increase of $4 million (1.6 percent) from FY 2016. The proposed tasting exemptions are estimated to reduce receipts by $1 million annually.

Liquor and wine receipts are expected to grow modestly and beer consumption is expected to remain flat.

Of total projected alcoholic beverage tax receipts, $191.6 million is projected to be derived from liquor, $46.2 million from beer, and $20.2 million from wine and other specialty beverages.

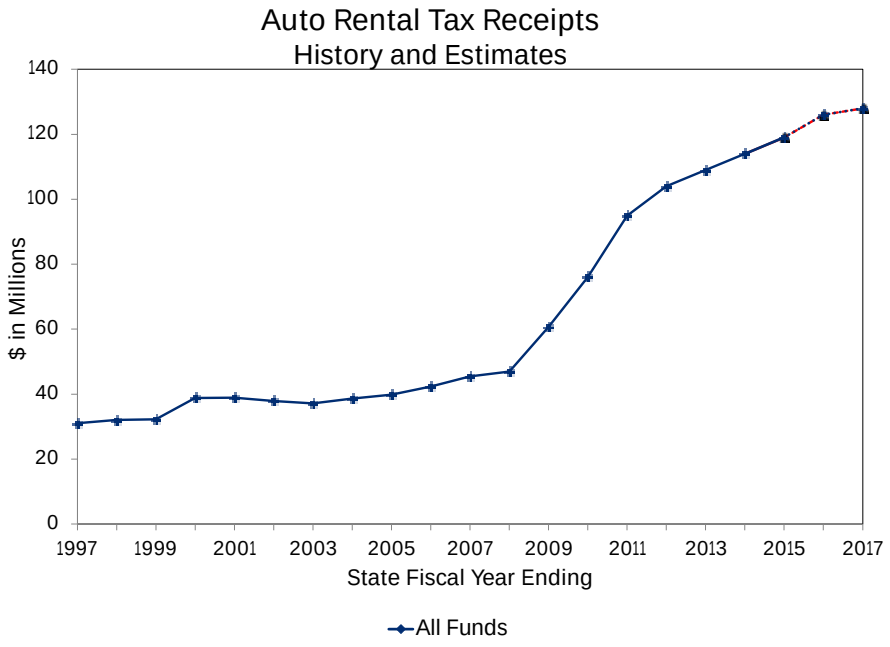
General Fund

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

Auto Rental Tax

AUTO RENTAL TAX (millions of dollars)							
	FY 2015 Actual	FY 2016 Estimated	Change	Percent Change	FY 2017 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	119.1	126.0	6.9	5.8	128.0	2.0	1.6
All Funds	119.1	126.0	6.9	5.8	128.0	2.0	1.6

Note: Totals may differ due to rounding.



AUTO RENTAL TAX BY FUND (millions of dollars)			
	Capital Project Funds[1]	Special Revenue Funds[2]	All Fund Receipts
FY 2007	46	0	46
FY 2008	47	0	47
FY 2009	61	0	61
FY 2010	52	24	76
FY 2011	60	35	95
FY 2012	65	39	104
FY 2013	68	41	109
FY 2014	71	43	114
FY 2015	74	45	119
Estimated			
FY 2016	79	47	126
FY 2017			
Current Law	80	48	128
Proposed Law	80	48	128

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

Proposed Legislation

No new legislation is proposed with this Budget.

Description

Tax Base and Rate

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

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

Administration

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

Tax Liability

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

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

Receipts: Estimates and Projections

All Funds

FY 2016 Estimates

All Funds preliminary receipts through December are $104.5 million, an increase of $5.1 million (5.2 percent) from the comparable period in the prior fiscal year.

All Funds FY 2016 receipts are estimated to be $126 million, an increase of $6.9 million (5.8 percent) from FY 2015. This growth reflects a continuing increase in New York tourism spending.

FY 2017 Projections

All Funds FY 2017 receipts are projected to be $128 million, an increase of $2 million (1.6 percent) from FY 2016. This increase reflects projected growth in New York tourism spending.

General Fund

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

Other Funds

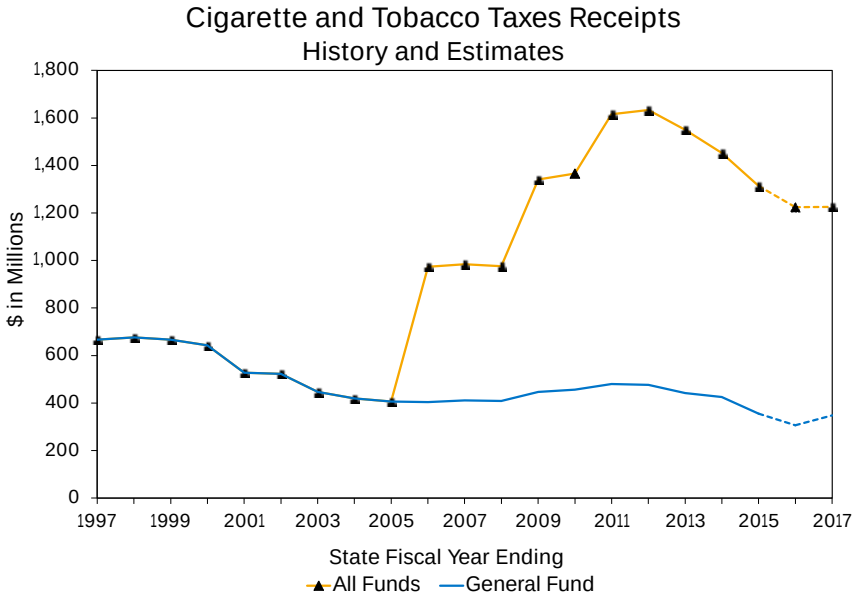
All receipts from the State auto rental tax are deposited to the Dedicated Highway and Bridge Trust Fund. Receipts are estimated to be $79 million in FY 2016 and $80 million in FY 2017.

All receipts from the supplemental tax on passenger cars in the MCTD are deposited to the MTA Aid Trust Account of the MTA Financial Assistance Fund. Receipts are estimated to be $47 million in FY 2016 and $48 million in FY 2017.

Cigarette and Tobacco Taxes

CIGARETTE AND TOBACCO TAXES (millions of dollars)							
	FY2015 Actual	FY2016 Estimated	Change	Percent Change	FY2017 Projected	Change	Percent Change
General Fund	355.4	307.0	(48.4)	(13.6)	348.0	41.0	13.4
Other Funds	958.4	917.0	(41.4)	(4.3)	878.0	(39.0)	(4.3)
All Funds	1,313.8	1,224.0	(89.8)	(6.8)	1,226.0	2.0	0.2

Note: Totals may differ due to rounding.



CIGARETTE AND TOBACCO TAXES BY FUND (millions of dollars)					
	Gross General Fund	Refunds	General Fund	Special Revenue Funds*	All Funds Receipts
FY 2007	412	1	411	574	985
FY 2008	410	1	409	567	976
FY 2009	447	1	446	894	1,340
FY 2010	457	1	456	910	1,366
FY 2011	481	1	480	1,136	1,616
FY 2012	472	1	471	1,162	1,633
FY 2013	447	4	443	1,108	1,551
FY 2014	430	4	426	1,027	1,453
FY 2015	394	39	355	958	1,314
Estimated					
FY 2016	371	64	307	917	1,224
FY 2017					
Current Law	353	5	348	878	1,226
Proposed Law	353	5	348	878	1,226

*Between March 2000 and March 2005, a portion of the State's cigarette tax receipts was deposited in the off-budget Tobacco Control and Insurance Initiatives Pool established in the Heath Care Reform Act of 2000. After March 2005, that portion is deposited in the HCRA Resources Pool which is a Special Revenue Fund within the State's Fund structure.

Proposed Legislation

Legislation proposed with this budget would expand jeopardy assessments to the cigarette and tobacco tax.

Tax Base and Rate

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

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

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

State	Rate (cents)	Federal	Rate (cents)	New York City	Rate (cents)
July 1, 1939	2	Before November 1, 1951	7	Before May 1, 1959	1
January 1, 1948	3	November 1, 1951	8	May 1, 1959	2
April 1, 1959	5	January 1, 1983	16	June 1, 1963	4
April 1, 1965	10	January 1, 1991	20	January 1, 1976	8
June 1, 1968	12	January 1, 1993	24	July 2, 2002	150
February 1, 1972	15	January 1, 2000	34		
April 1, 1983	21	January 1, 2002	39		
May 1 1989	33	April 1, 2009	101		
June1 1990	39				
June 1, 1993	56				
March 1, 2000	111				
April 3, 2002	150				
June 3, 2008	275				
July 1, 2010	435				

The State also imposes a tax on other tobacco products, such as chewing tobacco, snuff, cigars, pipe tobacco and roll-your-own cigarette tobacco, at a rate of 75 percent of their wholesale price except for snuff products, which are taxed at a rate of $2.00 per ounce. Cigars with a weight of less than 4 pounds per 1,000 are taxed at a rate equivalent to the state cigarette tax. The Federal government also imposes an excise tax on manufacturers and importers of tobacco products at various rates, depending on the type of product.

Retail establishments that sell cigarettes are required to register with the Department of Taxation and Finance. Vending machine owners are required to purchase stickers from the Department. The following table provides a comparison of state cigarette tax rates.

CIGARETTE TAX RATES
Cents Per Pack Ranked by State Tax Rate
As of October 1, 2015

Rank (High to Low)	State Rate	Rank (High to Low)	State Rate
New York	435.0	South Dakota	153.0
Rhode Island	375.0	Texas	141.0
Connecticut	365.0	Iowa	136.0
Massachusetts	351.0	Florida	133.9
Hawaii	320.0	Oregon	131.0
Vermont	308.0	Kansas	129.0
Washington	302.5	Arkansas	115.0
Minnesota	290.0	Oklahoma	103.0
New Jersey	270.0	Indiana	99.5
Wisconsin	252.0	California	87.0
Dist. of Columbia	250.0	Louisiana	86.0
Alaska	200.0	Colorado	84.0
Arizona	200.0	Mississippi	68.0
Maine	200.0	Alabama	67.5
Maryland	200.0	Nebraska	64.0
Michigan	200.0	Tennessee	62.0
Illinois	198.0	Kentucky	60.0
Nevada	180.0	Wyoming	60.0
New Hampshire	178.0	Idaho	57.0
Montana	170.0	South Carolina	57.0
Utah	170.0	West Virginia	55.0
New Mexico	166.0	North Carolina	45.0
Delaware	160.0	North Dakota	44.0
Pennsylvania	160.0	Georgia	37.0
Ohio	160.0	Virginia	30.0
U. S. Median	160.0	Missouri	17.0

Source: www.tobaccofreekids.org.

Administration

State-registered stamping agents, who are mostly wholesalers, purchase tax stamps from the State and affix the stamps to cigarette packages to be sold by New York State registered retailers,. The excise tax is paid by the stamping agent and is passed on. Purchasers of non-State stamped cigarettes, such as cigarettes sold out-of-State or on Native American lands, must remit the cigarette excise tax directly to the Department of Taxation and Finance. An individual may bring two cartons into the State without being subject to the excise tax.

Tax Evasion

Cigarette tax evasion is a serious problem in New York and throughout the Northeast. The most significant area of concern is the importation of cigarettes from low-tax states. Widespread evasion not only reduces State and local revenues, but also reduces the income of legitimate wholesalers and retailers. The Department of Taxation and Finance has acted vigorously to curb cigarette bootlegging through investigatory and enforcement efforts. These efforts may lead to less severe declines in taxable cigarette consumption than otherwise would have occurred.

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

In 2014, a multi-agency task force was formed to reduce illegal tobacco trafficking and sales. The multi-agency Cigarette Strike Force is composed of state, local and federal agencies dedicated to stopping the influx of counterfeit and untaxed tobacco products into New York. The Strike Force also focuses on tracing any illicit financial earnings from that criminal activity.

Significant Legislation

Significant statutory changes to cigarette and tobacco taxes since 2010 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 2010		
Cigarette Tax Increase	Increased the cigarette excise tax from $2.75 per pack to $4.35 per pack.	July 1, 2010
Enforcement Provisions	Required all cigarettes sold to Native American nations or tribes and reservation cigarette sellers to bear a tax stamp, established a prior approval system for sales of untaxed, stamped cigarettes to reservation retailers, and allowed the governing body of an Native American nation or tribe to opt to use the coupon system for the purchase of tax exempt cigarettes for sales to its members.	September 1, 2010
Tobacco Tax	Increased the tobacco products tax to 75 percent of the wholesale price from 46 percent; increased the tax on snuff to $2.00 per ounce from $0.96 per ounce; and created a new category under the tobacco products tax imposing a tax on "little cigars" at a rate equivalent to the cigarette tax rate.	August 1, 2010
Legislation Enacted in 2011		
Cigarette Tax	Repealed the graduated annual retail registration fee of between $1,000 and $5,000 annually and replaced it with a flat $300 annual fee.	January 1, 2010
Legislation Enacted in 2013		
Cigarette Tax	Increased the penalty for possession of unstamped or unlawfully stamped cigarettes from a maximum of $150 per carton or fraction of a carton to a maximum of $600 per carton or fraction of a carton.	June 1, 2013

Tax Liability

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

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

Receipts: Estimates and Projections

All Funds

FY 2016 Estimates

All Funds preliminary receipts through December are $989.9 million, a decrease of $55.6 million (5.3 percent) from the comparable period in the prior fiscal year.

All Funds FY 2016 receipts are estimated to be $1,224 million, a decrease of $89.8 million (6.8 percent) from FY 2015. The large decrease is due, in part, to cigar tax refunds (see "General Fund" below).

FY 2017 Projections

All Funds FY 2017 receipts are projected to be $1,226 million, an increase of $2 million (0.2 percent) from FY 2016. The increase results from a low prior-year base created by cigar tax refunds.

Health Care Reform Act (HCRA)

Currently, 76 percent of the proceeds from the State cigarette tax of $4.35 are deposited in the HCRA Resources Pool.

HCRA preliminary receipts through December are $726.8 million, a decrease of $34.8 million (4.6 percent) from the comparable period in the prior fiscal year. HCRA FY 2016 receipts are estimated to be $917 million, a decrease of $41.4 million (4.3 percent) from FY 2015.

HCRA FY 2017 receipts are projected to be $878 million, a decrease of $39 million (4.3 percent) from FY 2016.

As part of the agreement allowing New York City to increase its cigarette tax from eight cents to $1.50 per pack in July 2002, the City provides the State with 46 percent of the receipts generated through its tax. These receipts are deposited into the HCRA Resources Pool. The New York State share of the City's cigarette tax is projected to be $39 million in FY 2016 and $36 million in FY 2017.

General Fund

General Fund preliminary receipts through December are $263.1 million, a decrease of $20.7 million (7.3 percent) from the comparable period in the prior fiscal year.

General Fund FY 2016 receipts are estimated to be $307 million, a decrease of $48.4 million (13.6 percent) from FY 2015. Receipts from the cigarette tax are projected to be $290 million, a decrease of $13 million (4.3 percent) from FY 2015. This decrease reflects declines in taxable consumption observed during the current fiscal year, at least in part due to bootlegging. Receipts from the tobacco products tax are projected to be $10 million due to the impact of a change in the way the wholesale cigar tax is administered as a result of a Department of Taxation and Finance technical memorandum issued December 5, 2013, which allows that wherever the manufacturer's price cannot be directly established by invoice it is deemed to be 38 percent of the wholesale price. This effectively amounts to a 62 percent tax cut from the manner in which the tax had been previously administered. The fiscal impact is $60 million in FY 2016, the result of accumulated refunds from periods prior to the issuance of the technical memorandum noted above.

Receipts from retail cigarette registrations are estimated to be $7 million in FY 2016, unchanged from FY 2015.

General Fund FY 2017 receipts are projected to be $348 million, an increase of $41 million (13.4 percent) from FY 2016. Cigarette tax receipts are expected to be $277 million, or $13 million below FY 2016. The cigarette tax decrease reflects greater than trend declines in cigarette consumption, though a gradual return to trend declines is ultimately expected through implementation of enforcement efforts of the Cigarette Strike Force. Tobacco products tax receipts are estimated to be $64 million, an increase of $54 million from FY 2016 as the issuance of refunds is non-recurring. Receipts from retail registrations are projected to be $7 million in FY 2017.

CIGARETTE AND TOBACCO TAXES RECEIPTS
(millions of dollars)

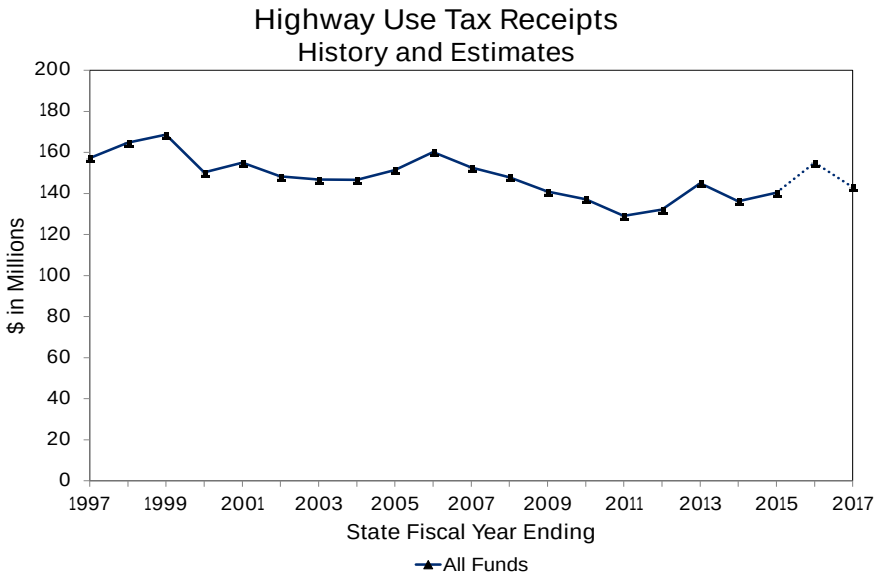
Fiscal	General Fund Cigarette Tax	General Fund Tobacco Tax	General Fund Other	General Fund Total	HCRA Cigarette Tax*	General Fund HCRA
FY2007	364	44	3	411	574	985
FY2008	359	47	3	409	567	976
FY2009	395	48	3	446	894	1,340
FY2010	378	64	14	456	910	1,366
FY2011	382	96	3	481	1,136	1,616
FY2012	367	103	2	471	1,162	1,633
FY2013	348	91	3	443	1,108	1,551
FY2014	324	95	7	426	1,027	1,453
FY2015	303	46	7	355	959	1,314
Estimated						
FY2016	290	10	7	307	917	1,224
FY2017	277	64	7	348	878	1,226

Note: Components may not add to total due to rounding.

Highway Use Tax

HIGHWAY USE TAX (millions of dollars)							
	FY 2015 Actual	FY 2016 Estimated	Change	Percent Change	FY 2017 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	140.4	155.0	14.6	10.4	143.0	(12.0)	(7.7)
All Funds	140.4	155.0	14.6	10.4	143.0	(12.0)	(7.7)

Note: Totals may differ due to rounding.



HIGHWAY USE TAX COLLECTIONS BY FUND (millions of dollars)				
	Gross Capital Projects Funds [1]	Refunds	Net Capital Projects Funds [1]	Net All Funds Receipts
FY 2007	155	2	153	153
FY 2008	150	2	148	148
FY 2009	143	2	141	141
FY 2010	139	2	137	137
FY 2011	131	2	129	129
FY 2012	134	2	132	132
FY 2013	147	2	145	145
FY 2014	138	2	136	136
FY 2015	142	2	140	140
Estimated				
FY 2016	157	2	155	155
FY 2017				
Current Law	145	2	143	143
Proposed Law	145	2	143	143

[1] Dedicated Highway and Bridge Trust Fund.

Proposed Legislation

No new legislation is proposed with this Budget.

Description

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

Truck Mileage Tax

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

BASE TRUCK MILEAGE TAX RATES

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

Fuel Use Tax

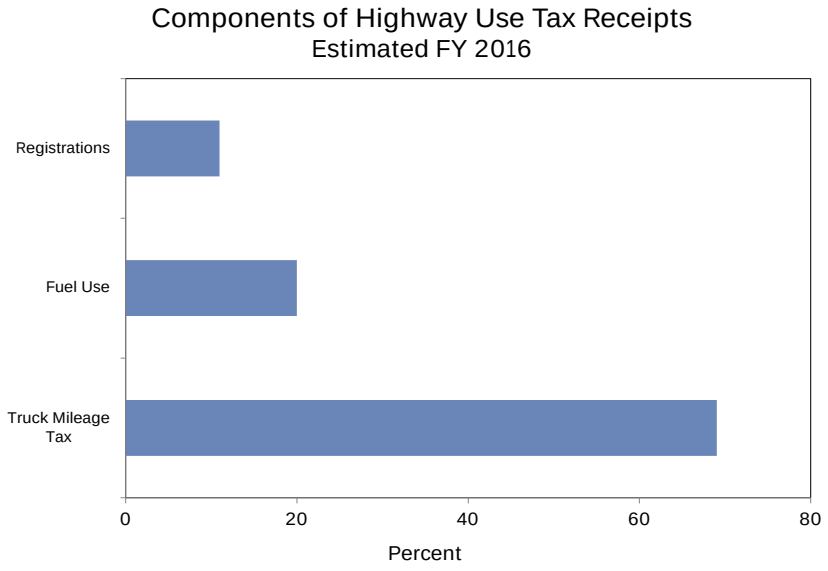
The fuel use tax is a complement to the motor fuel tax and the sales tax, and is levied on commercial vehicles: (1) having two axles and a gross vehicle weight of more than 26,000 pounds; (2) having three or more axles, regardless of weight; or (3) used in combination when the gross vehicle weight exceeds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

The aggregate fuel use tax rate is the sum of the appropriate motor fuel tax rate and the sales tax rate. The motor fuel tax component is eight cents per gallon. The sales tax component is derived by adding the amount from the State sales tax rate and the amount from the lowest county sales tax rate. The current fuel use tax rate is $0.22. A credit or refund is allowed for motor fuel tax, petroleum business tax or sales tax paid on fuels purchased in New York, but not used within the State.

Registration System

The current registration system is based on the license plate number of each vehicle and a registration decal. The Commissioner can deny registration if the carrier has not paid monies due from any other tax and there is a civil penalty for any person who fails to obtain a certificate of registration when it is required. 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.

The application fee for a certificate of registration for any vehicle subject to HUT is $15. The cost of a decal is $4.



Administration

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

Significant Legislation

Significant statutory changes to the highway use tax since 2010 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 2011		
Alternative Fuel	Extended the exemption on alternative fuels through August 31, 2012.	September 1, 2011
Legislation Enacted in 2012		
Alternative Fuel	Extended the exemption on alternative fuels through August 31, 2014.	September 1, 2012
Legislation Enacted in 2014		
Alternative Fuel	Extended the exemption on alternative fuels through August 31, 2016.	September 1, 2014

Tax Liability

Highway use tax receipts are a function of the demand for trucking, which fluctuates with national and State economic conditions.

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

Receipts: Estimates and Projections

All Funds

FY 2016 Estimates

All Funds preliminary receipts through December are $123.2 million, an increase of $15 million (13.9 percent) from the comparable period in the prior fiscal year.

All Funds FY 2016 receipts are estimated to be $155 million, an increase of $14.6 million (10.4 percent) from FY 2015. Net truck mileage tax receipts are estimated at $107 million, fuel use tax

receipts at $31 million and registration fees at $17 million. The increase is primarily the result of triennial registration renewals due in FY 2016.

FY 2017 Projections

All Funds FY 2017 receipts are projected to be $143 million, a decrease of $12 million (7.7 percent) from FY 2016. The decrease is attributable to a decline in registration fees as FY 2017 is not a triennial registration renewal year.

General Fund

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

Other Funds

Currently, all highway use tax receipts are directed to the Dedicated Highway and Bridge Trust Fund.

MEDICAL MARIHUANA (millions of dollars)							
	FY 2015 Actual	FY 2016 Estimated	Change	Percent Change	FY 2017 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	0.0	1.0	1.0	N/A	4.0	3.0	300.0
All Funds	0.0	1.0	1.0	N/A	4.0	3.0	300.0

Note: Totals may differ due to rounding.

MEDICAL MARIHUANA TAX BY FUND (millions of dollars)		
	Special Revenue Funds	All Fund Receipts
FY 2007	N/A	N/A
FY 2008	N/A	N/A
FY 2009	N/A	N/A
FY 2010	N/A	N/A
FY 2011	N/A	N/A
FY 2012	N/A	N/A
FY 2013	N/A	N/A
FY 2014	N/A	N/A
FY 2015	N/A	N/A
Estimated		
FY 2016	1.0	1.0
FY 2017		
Current Law	4.0	4.0
Proposed Law	4.0	4.0

Proposed Legislation

No new legislation is proposed with this Budget.

Description

Tax Base and Rate

On July 5, 2014, the medical use of marihuana was authorized for the regulated treatment of the following conditions and ailments:

- Cancer;
- Positive status for human immunodeficiency virus or acquired immune deficiency syndrome;
- Amyotrophic lateral sclerosis;

- Parkinson's disease;
- Multiple sclerosis;
- Damage to the nervous tissue of the spinal cord with objective neurological indication of intractable spasticity;
- Epilepsy;
- Inflammatory bowel disease;
- Neuropathies; and
- Huntington's disease.

In addition, medical marihuana can be prescribed for a complication of treatment for:

- Cachexia or wasting syndrome;
- Severe or chronic pain;
- Severe nausea;
- Seizures; and
- Severe or persistent muscle spasms.

The Commissioner of the Department of Health has the authority to add conditions to either list. The product must be administered in a smokeless form.

A seven percent excise tax is imposed when a New York dispensary sells the product to a patient or designated caregiver, and is remitted by the dispensary. The tax amount cannot be added as a separate charge on a receipt given to the retail customer.

Administration

The statutory maximum of five manufacturers was selected in 2015, and each manufacturer can have up to four dispensing sites. The manufacturers and dispensaries are geographically distributed throughout the State, as statutorily required.

MANUFACTURERS AND RELATED DISPENSARY LOCATIONS		
Organzation Name	Manufacturing	Dispensing
Bloomfield Industries Inc.	Queens	Nassau
		Manhattan
		Onondaga
		Erie
Columbia Care NY LLC	Monroe	Manhattan
		Suffolk
		Clinton
		Monroe
Etain, LLC	Warren	Albany
		Ulster
		Westchester
		Onondaga
PharmaCann LLC	Orange	Erie
		Onondaga
		Albany
		Bronx
Vireo Health of NY LLC	Fulton	Broome
		Albany
		Westchester
		Queens

Revenues from the State excise tax will be directed to the medical marihuana trust fund. 55 percent of the monies must be appropriated in the following manner, with the remainder appropriated by discretion annually:

- 22.5 percent transferred to the counties in which the medical marihuana was manufactured and allocated in proportion to the gross sales originating from medical marihuana manufactured in each such county;
- 22.5 percent transferred to the counties in which the medical marihuana was dispensed and allocated in proportion to the gross sales occurring in each such county;
- 5 percent transferred to the Office of Alcoholism and Substance Abuse Services. The monies will be used for additional drug abuse prevention, counseling and treatment services; and
- 5 percent transferred to the Division of Criminal Justice Services. The monies will be used to provide discretionary grants to state and local law enforcement agencies. These grants could be used for personnel costs of state and local law enforcement agencies.

Receipts: Estimates and Projections

All Funds

FY 2016 Estimates

The dispensing of medical marihuana began on January 7, 2016.

All Funds FY 2016 receipts are estimated to be $1 million.

FY 2017 Projections

All Funds FY 2017 receipts are projected to be $4 million, an increase of $3 million from FY 2016. This increase reflects the first full-year imposition of the tax.

General Fund

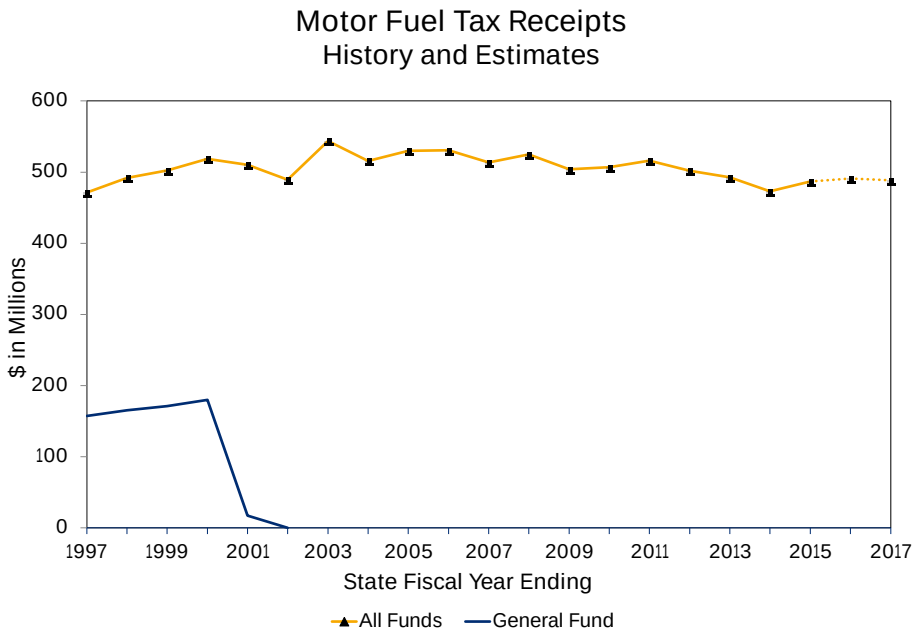
No medical marihuana receipts are deposited into the General Fund.

Other Funds

All receipts from the medical marihuana tax are deposited to the Medical Marihuana Trust Fund. Receipts are estimated to be $1 million in FY 2016 and $4 million in FY 2017.

MOTOR FUEL TAX (millions of dollars)							
	FY 2015 Actual	FY 2016 Estimated	Change	Percent Change	FY 2017 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	487.0	491.0	4.0	0.8	488.5	(2.5)	(0.5)
All Funds	487.0	491.0	4.0	0.8	488.5	(2.5)	(0.5)

Note: Totals may differ due to rounding.



MOTOR FUEL TAX BY FUND (millions of dollars)					
	Gross All Funds Receipts	Special Revenue Funds[1]	Capital Projects Funds[2]	All Funds Refunds	All Funds Receipts
FY 2007	526	107	406	13	513
FY 2008	543	110	415	18	525
FY 2009	528	106	398	24	504
FY 2010	523	106	401	16	507
FY 2011	540	108	408	24	516
FY 2012	527	105	396	25	502
FY 2013	513	103	389	21	492
FY 2014	495	99	375	22	473
FY 2015	518	101	386	31	487
Estimated					
FY 2016	516	103	388	25	491
FY 2017					
Current Law	514	103	386	25	489
Proposed Law	514	103	386	25	489

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

Proposed Legislation

Legislation proposed with this Budget would extend the current alternative fuels exemption an additional five years, until September 1, 2021.

Description

Tax Base

Gasoline motor fuel and diesel motor fuel taxes are imposed by Article 12-A of the Tax Law upon the sale, generally for highway use, of motor fuel and diesel motor fuel, respectively. The motor fuel tax is levied primarily on fuel used in motor vehicles operating on the public highways of the State or on fuel used in recreational motorboats operating on the State's waterways. Exemptions, credits and refunds are allowed for certain other uses of gasoline and diesel motor fuel.

Tax Rate

The motor fuel tax on gasoline motor fuel and diesel fuel is eight cents. A motor fuel tax of two cents was imposed on gasoline motor fuel in 1929. The tax on gasoline was increased to 3 cents in 1932, to four cents in 1937, to six cents in 1956, to seven cents in 1959 and to eight cents in 1972. A motor fuel tax of two cents was imposed on diesel motor fuel in 1936. The tax on diesel fuel was increased to four cents in 1947, to six cents in 1956, to nine cents in 1959 and to ten cents in 1972. The tax on diesel fuel was reduced to eight cents in 1996.

RANKING OF STATE TAXES PER GALLON
(January 1, 2016) [1]

State	State Motor Fuel Tax (cents per gallon)	Total State Tax [2] (cents per gallon)
PENNSYLVANIA	0.0	50.3
WASHINGTON	44.5	44.5
CONNECTICUT**	25.0	41.2
N. CAROLINA	35.0	35.0
CALIFORNIA*	30.0	34.5
W. VIRGINIA	20.5	33.2
NEW YORK*	8.0	33.0
RHODE ISLAND	33.0	33.0
MARYLAND	32.6	32.6
IDAHO	32.0	32.0
ILLINOIS*	19.0	31.8
MICHIGAN*	19.0	30.9
WISCONSIN	30.9	30.9
IOWA	30.8	30.8
MAINE	30.0	30.0
OREGON	30.0	30.0
VERMONT	12.1	29.5
UTAH	29.4	29.4
MINNESOTA	28.5	28.5
INDIANA*	18.0	28.0
OHIO	28.0	28.0
S. DAKOTA	28.0	28.0
HAWAII*	17.0	27.5
MONTANA	27.0	27.0
NEBRASKA	14.3	26.8
GEORGIA	26.0	26.0
KENTUCKY	24.6	24.6
KANSAS	24.0	24.0
MASSACHUSETTS	24.0	24.0
WYOMING	23.0	24.0
DIST. OF COLUMBIA	23.5	23.5
DELAWARE	23.0	23.0
NEVADA	23.0	23.0
N. DAKOTA	23.0	23.0
NEW HAMPSHIRE	22.2	22.2
COLORADO	22.0	22.0
ARKANSAS	21.5	21.5
TENNESSEE	20.0	21.0
LOUISIANA	20.0	20.0
TEXAS	20.0	20.0
ARIZONA	18.0	18.0
MISSISSIPPI	18.0	18.0
FLORIDA	4.0	17.3
MISSOURI	17.0	17.0
NEW MEXICO	17.0	17.0
VIRGINIA	16.2	16.2
ALABAMA	16.0	16.0
OKLAHOMA	16.0	16.0
S. CAROLINA	16.0	16.0
NEW JERSEY	10.5	14.5
ALASKA	8.0	8.0

NOTES:
(1) Assumes a base price of $2.00.
(2) Includes applicable State taxes (local taxes not included)

* State sales tax applies on sales of gasoline in these states - NYS's rate capped at 8 cents per gallon

** Includes other tax based on price of fuel.
Source: OTPA compilation from various sources including CCH Tax Guides & FTA

Administration

Although the motor fuel tax is imposed on the consumer, the tax is remitted upon importation into New York. This tax-on-first-import system is designed to reduce gasoline tax evasion, which previously involved bootlegging from other states and successions of tax-free sales among "dummy" corporations masked by erroneous record keeping and reporting.

Prior to 1988, the diesel motor fuel tax was collected at the time of retail sale or use by a bulk user. Since 1988, taxes on diesel motor fuel have been collected upon the first non-exempt sale in the State. Interdistributor sales of highway diesel motor fuel sold below the rack are considered tax-exempt.

The tax is generally remitted monthly, although vendors whose average monthly tax is less than $200 may remit quarterly. Chapter 55 of the Laws of 1992 required accelerated remittance of the tax by taxpayers with annual liability of more than $5 million for motor fuel and petroleum business tax (PBT) combined. These taxpayers are required to remit taxes electronically or by certified check by the third business day following the first 22 days of each month. Taxpayers can choose to make either a minimum payment of three-fourths of the comparable month's tax liability for the preceding year, or 90 percent of actual liability for the first 22 days. Taxes for the balance of the month are remitted by the twentieth of the following month.

Tax Expenditures

Exemptions from the motor fuel tax include:

- kerosene and crude oil;
- fuel not used in motor vehicles. "Motor vehicle" is defined as any vehicle propelled by power, except muscular power. However, vehicles such as boats (other than pleasure craft), road building machinery and tractors used exclusively for agricultural purposes are excluded from the definition of motor vehicles;
- fuel used in tanks of vehicles entering New York State;
- sales to state, local and Federal governments, the United Nations and qualifying Native American nations; and
- certain exempt organizations.

Other exemptions apply only to the diesel motor fuel tax, including certain sales for heating purposes and sales of kero-jet fuel for use in airplanes.

Full and partial refunds and credits for tax paid are available for fuel used by:

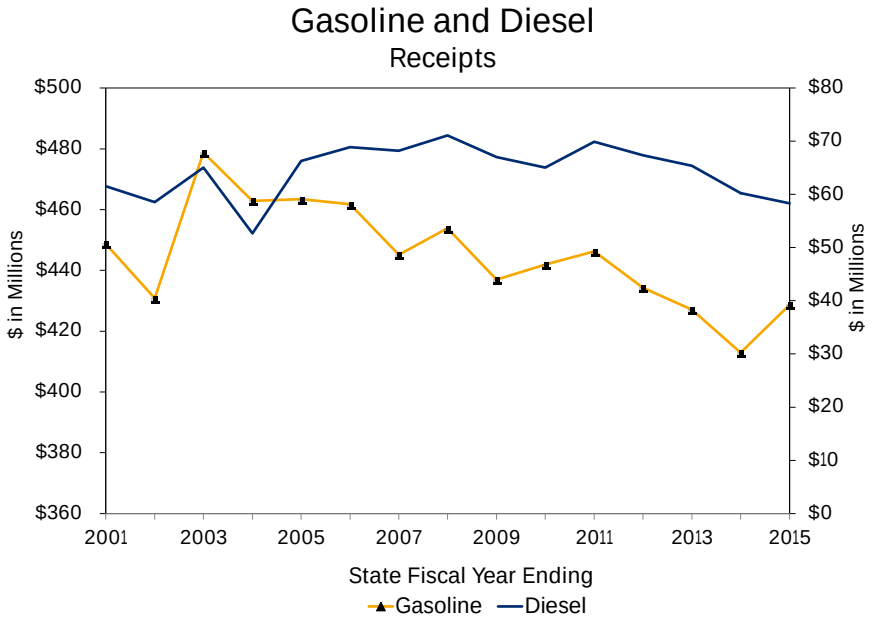
- omnibus carriers or taxicabs;
- nonpublic school vehicle operators, exclusively for education-related purposes; and
- volunteer ambulance services.

Significant Legislation

Significant statutory changes to the motor fuel tax since 2010 are summarized below.

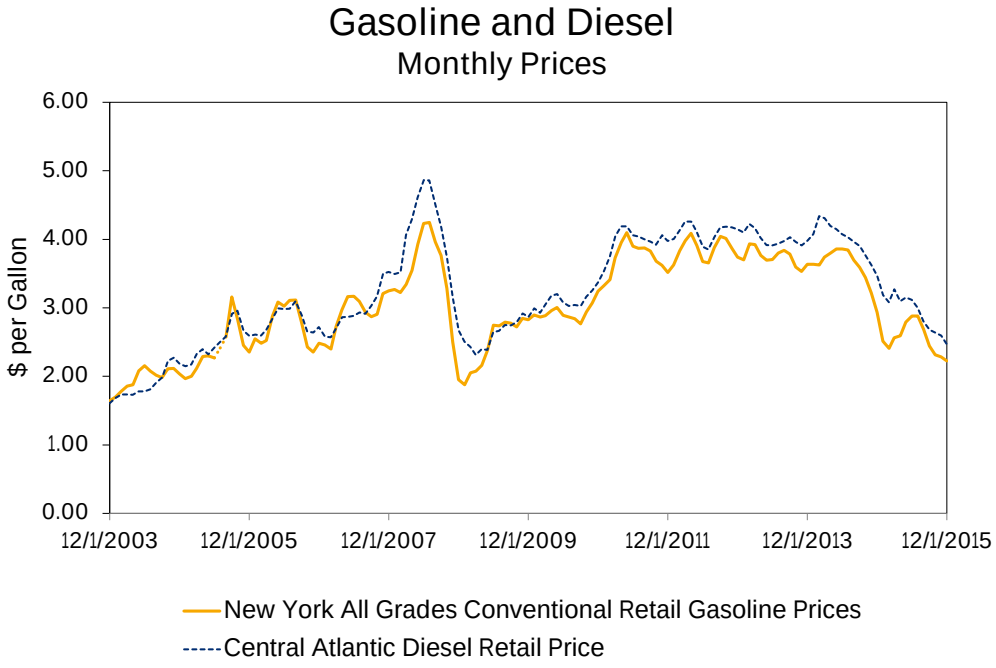
Subject	Description	Effective Date
Legislation Enacted in 2011		
Modernize Fuel Definitions	Modernized fuel definitions to conform with changes in Federal and State Law.	September 1, 2011
Alternative Fuel	Extended the exemption on alternative fuels through August 31, 2012.	September 1, 2011
Legislation Enacted in 2012		
Alternative Fuel	Extended the exemptions on alternative fuels through August 31, 2014.	September 1, 2012
Legislation Enacted in 2013		
Interdistributor Sales	Allowed for tax free interdistributor sales of highway diesel motor fuel sold below the rack (i.e., not delivered by truck).	August 1, 2013
Legislation Enacted in 2014		
Alternative Fuel	Extended the exemption on alternative fuels through August 31, 2016.	September 1, 2014

Tax Liability



Gasoline taxable receipts are driven more heavily by fuel prices. Reduced fuel demand at the beginning of the Great Recession caused fuel prices to drop, with NY gasoline prices falling from a peak of $4.25 per gallon in July 2008 to $1.89 in January 2009. Prices quickly began to rise, reaching over $3 in November 2010 and fluctuating between $3.50 and $4.08 until late 2014. This was due to improved economic conditions and increased oil demand in the developing world. Since then, crude oil prices have experienced a significant decline, which in turn contributed to gasoline prices declining sharply, as well. In December 2014, gas prices dropped below $3.00 and have remained below that level ever since. The most recent decline in crude oil prices is largely the result of an increase in OPEC oil production contributing to an ever-growing global supply, as well as falling global oil consumption. Crude oil prices are expected to remain relatively low in the short-run. As of December 2015, the NY gasoline price average is $2.22 per gallon.

A further discussion of energy prices can be found in the Economic Backdrop section of this volume.



Source: U.S. Department of Energy, Energy Information Administration (EIA)

Diesel fuel receipts generally follow NY State economic activity and are more susceptible to economic events. The September 11th terrorist attacks caused a prolonged recession that had a severe negative impact on the NY economy and therefore diesel receipts. Diesel receipts were $53 million in FY 2004. With the collapse of the financial markets and the deterioration of labor markets in the Great Recession, diesel receipts declined from $71.1 million in FY 2008 to $65 million in FY 2010. As the economy slowly began to recover, diesel receipts rebounded in FY 2011 to $69.9 million. In recent years, diesel receipts have declined mainly due to the amount of refunds that were processed due to multiple Wall Street firms selling off large quantities of tax-paid gallons of highway diesel fuel. These large refunds were paid out for highway diesel motor fuel gallons that were sold outside of New York State up to two years after the tax was originally collected. Effective August 1, 2013, interdistributor sales of highway diesel motor fuel are no longer taxable, meaning the tax is not imposed on highway diesel until it is sold at the rack.

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

Receipts: Estimates and Projections

All Funds

FY 2016 Estimates

All Funds preliminary receipts through December are $380.5 million, an increase of $7.5 million (2 percent) from the comparable period in the prior fiscal year.

All Funds FY 2016 receipts are estimated to be $491 million, an increase of $4 million (0.8 percent) from FY 2015. Gasoline receipts are estimated to increase by 0.6 percent due to an expected decline in refunds combined with the continued impact of lower gasoline prices, partially offset by an expected decline in audit collections. Diesel receipts are estimated to increase 2.7 percent due to an expected decline in refunds combined with anticipated economic growth, partially offset by an expected decline in audit collections.

FY 2017 Projections

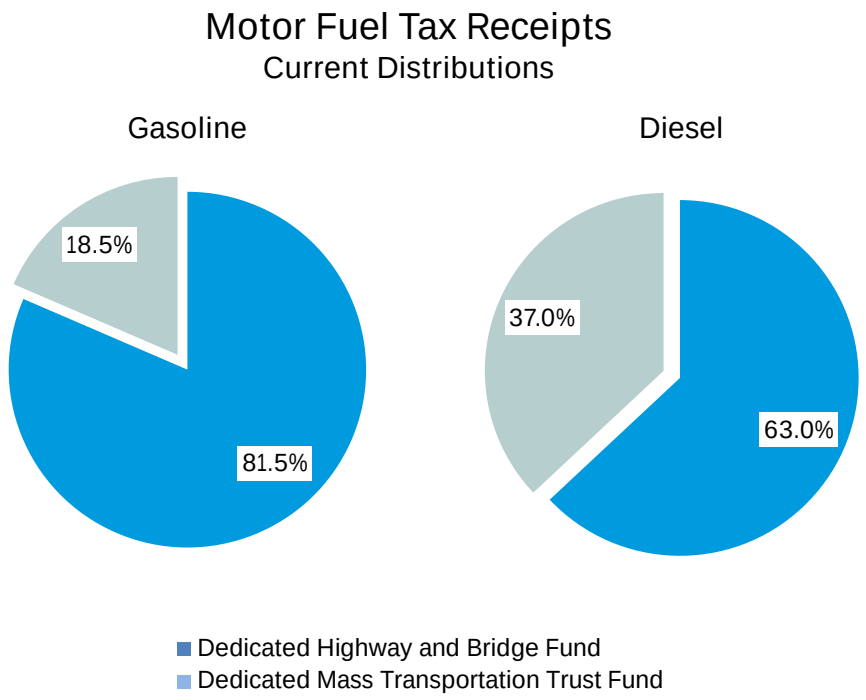
All Funds FY 2017 receipts are projected to be $488.5 million, a decrease of $2.5 million (0.5 percent) from FY 2016. In FY 2017, it is projected that there will be a decrease in gasoline receipts and a slight increase in diesel receipts. The decrease in gasoline receipts is mainly due to an expected decline in audit collections combined with anticipated increases in average fuel economy, partially offset by minor growth in gasoline consumption. The projected increase in diesel receipts is due to the long-term expectation that economic growth, and therefore heavy-duty vehicles miles traveled, will outpace increases in heavy-duty vehicle fuel economy, partially offset by an expected decline in audit collections. The proposed alternative fuels exemption extender lowers the FY 2017 total by $0.5 million.

General Fund

No motor fuel tax receipts are deposited into the General Fund.

Other Funds

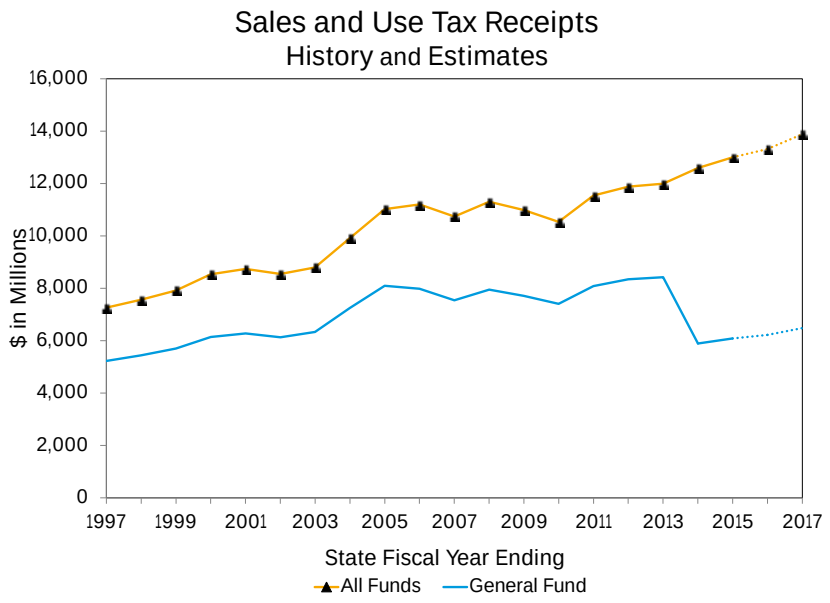
The current law distribution of motor fuel tax receipts is shown below.



Motor fuel tax receipts in FY 2016 are estimated to be $387.9 million for the DHBTF and $103.1 million for the DMTTF. Motor fuel tax receipts in FY 2017 are projected to be $386 million for DHBTF and $102.5 million for the DMTTF.

SALES AND USE TAX (millions of dollars)							
	FY 2015 Actual	FY 2016 Estimated	Change	Percent Change	FY 2017 Projected	Change	Percent Change
General Fund	6,084.3	6,219.5	135.2	2.2	6,482.8	263.3	4.2
Debt Service	6,053.1	6,219.5	166.4	2.7	6,482.8	263.3	4.2
MTOAF	854.2	878.0	23.8	2.8	911.0	33.0	3.8
All Funds	12,991.7	13,317.0	325.4	2.5	13,876.6	559.6	4.2

Note: Totals may differ due to rounding.



SALES AND USE TAX BY FUND (millions of dollars)						
	Gross General Fund	Refunds	General Fund	Special Revenue Funds[1]	Debt Service Funds[2]	All Fund Receipts
FY 2007	7,593	54	7,539	688	2,512	10,739
FY 2008	8,009	64	7,945	705	2,646	11,296
FY 2009	7,771	64	7,707	711	2,567	10,985
FY 2010	7,457	53	7,404	656	2,467	10,527
FY 2011	8,168	83	8,085	756	2,697	11,538
FY 2012	8,448	102	8,346	750	2,780	11,875
FY 2013	8,487	64	8,423	758	2,809	11,989
FY 2014	5,947	62	5,885	802	5,901	12,588
FY 2015	6,164	80	6,084	854	6,053	12,992
Estimated						
FY 2016	6,300	80	6,220	878	6,220	13,317
FY 2017						
Current Law	6,543	60	6,483	911	6,483	13,877
Proposed Law	6,543	60	6,483	911	6,483	13,877

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

Proposed Legislation

Legislation proposed with this Budget would:

- Extend the alternative fuels tax exemptions for five years; and
- Simplify the taxation of re-marketed hotel rooms.

Description

Tax Base

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

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

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

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

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

Effective with the 2003 personal income tax filing year, the New York State personal income tax return contains a line on which taxpayers may enter the amount of use tax owed for the preceding calendar year. New York State collected $38.1 million from this program in FY 2014 and $40.6 million in FY 2015.

Tax Rate

The sales and compensating use tax was enacted in 1965 at a rate of 2 percent. The tax rate was increased to 3 percent in 1969, to 4 percent in 1971 and temporarily to 4.25 percent in 2003. The rate reverted to 4 percent on June 1, 2005.

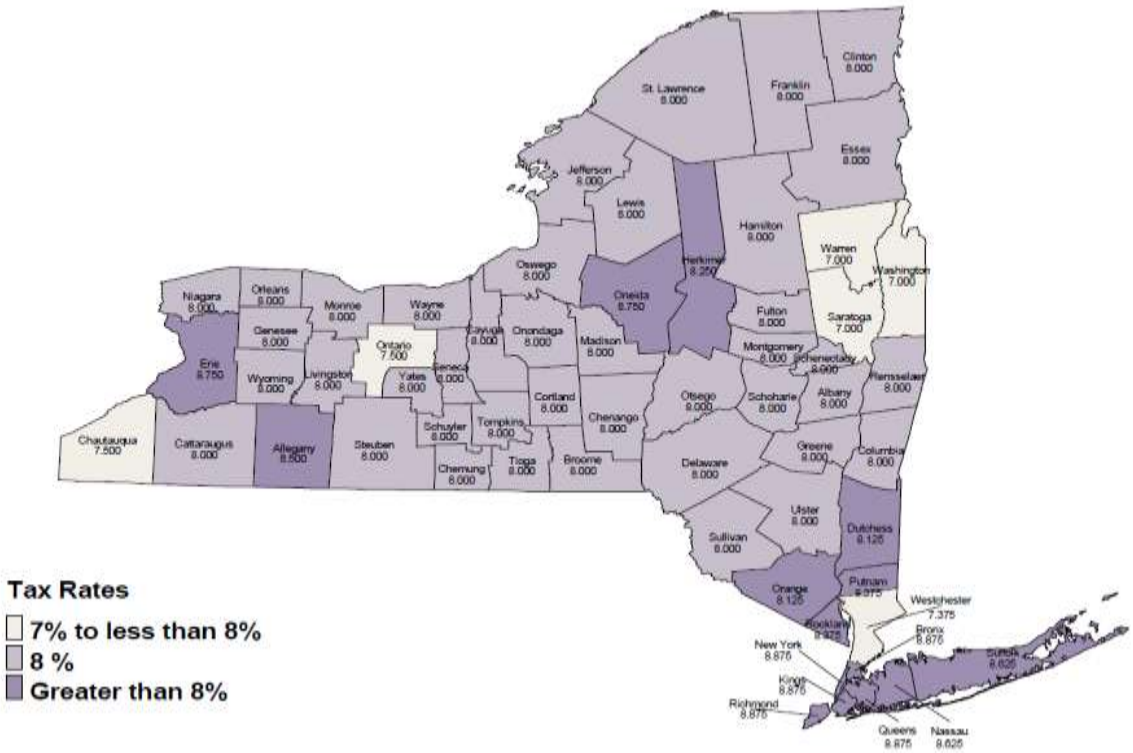
Effective June 1, 2006, the State sales tax rate on motor fuel and diesel motor fuel was capped at 8 cents per gallon.

An additional 5 percent sales tax is imposed on the receipts from the sale of telephone entertainment services that are exclusively delivered aurally.

Counties and cities are authorized to impose general sales tax rates up to 3 percent. Of the 57 counties that impose the general sales tax, only four counties (Saratoga, Warren, Washington and Westchester) impose at the statutory 3 percent maximum general sales tax rate. Of the 20 cities that impose the general sales tax, only three cities (New York City, Oswego and Yonkers) received legislative authority to impose additional rates of tax above the statutory 3 percent general sales tax rate. Over 93 percent of the State's population resides in an area where the tax rate equals or exceeds 8 percent.

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

Combined State and Local Sales Tax Rate
Effective December 1, 2015



Administration

There are currently 545,486 sales tax vendors selling taxable property or services who are required to register with the Department of Taxation and Finance. Vendors generally are required to remit the tax quarterly. However, vendors with more than $300,000 of taxable sales and purchases in one of the immediately preceding four quarters must remit the tax monthly by the twentieth of the month following the month of collection. Vendors collecting less than $3,000 yearly may elect to file annually, in March.

Monthly vendors with an annual sales and use tax liability exceeding $500,000 or with an annual liability for prepaid sales tax on motor fuel and diesel motor fuel exceeding $5 million are required to file using the Tax Department's PrompTax program. The payment schedule requires tax for the first 22 days of a month to be paid within three business days thereafter. Roughly 68 percent of sales tax receipts are remitted by the 7,118 vendors that are required to remit by PrompTax. Effective May 30, 2011, all filers are subject to a $50 penalty for each failure to e-file unless the taxpayer can show that the failure was due to reasonable cause.

SALES TAX VENDORS AND TAXABLE SALES			
Filing Status	Number of Active Vendors*	Percent of Total Vendors	Percent of State and Local Receipts
Monthly PrompTax	7,118	1.3	68.0
Monthly Other	41,992	7.7	20.7
Quarterly	250,895	46.0	10.9
Annual	245,481	45.0	0.4
Total	545,486	100.0	100.0

*Vendors identified as of November 17, 2015
Selling period March 1, 2013 through February 28, 2014
Source: New York State Department of Taxation and Finance

Quarterly and annual sales tax filers are allowed to retain a portion of the sales tax that they have collected, both as partial compensation for the administrative costs of collecting and remitting the tax and as an incentive for timely payment of the tax to the State. The vendor allowance applies to non-monthly filers and is 5 percent of tax liability, up to a maximum of $200 per quarter for returns filed on time.

To reduce tax evasion, special provisions for remitting the sales tax on motor fuel and cigarettes have been enacted. Since 1985, the sales tax on gasoline has been remitted by the first importer of the fuel into New York. Effective June 1, 2014, there are three regions for computing the prepaid sales tax. Region 1 (MCTD, excluding Long Island) is 17.5 cents per gallon; Region 2 (Long Island) is 21 cents per gallon; and Region 3 (all other counties) is 16 cents per gallon. The cigarette prepayment rate is 8 percent and is prepaid by cigarette agents at the same time as payment for cigarette excise tax stamps.

Tax Expenditures

A myriad of exemptions from the sales tax have been enacted over the life of the tax. Broad exemptions have been provided for sales for resale and for machinery and equipment used in production or in research and development. These particular exemptions prevent multiple taxation of the same property, a situation known as tax pyramiding.

Other exemptions, such as sales to exempt organizations, certain vending machine sales and certain other coin-operated sales, are also provided. Legal, medical and other professional services, sales of real property, and rental payments are also excluded from the base of the sales tax. For a more detailed discussion of tax expenditures, see the Annual Report on New York State Tax Expenditures, prepared by the Department of Taxation and Finance and the Division of the Budget.

Significant Legislation

Significant statutory changes to the sales and use tax since 2010 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 2010		
Sales - Clothing and Footwear Exemption	Repealed the $110 clothing and footwear exemption until March 31, 2012 and provided a temporary $55 exemption from April 1, 2011, to March 31, 2012.	October 1, 2010
Sales - Vendor Credit	Repealed the vendor credit for monthly filers.	September 1, 2010
Sales - Room Remarketer	Clarified that room remarketers must collect sales and NYC occupancy taxes.	September 1, 2010
Transportation	Exempted livery service in NYC from the sales tax.	June 1, 2009
Affiliate Nexus	Narrowed affiliate nexus provisions.	June 1, 2009
PLC	Repealed private label credit card provisions.	June 1, 2010
Legislation Enacted in 2011		
Electronic News Exemption	Provided an exemption for certain electronic news services and electronic periodicals.	March 1, 2012
Alternative Fuels	Extended alternative fuel exemptions through August 31, 2012.	September 1, 2011
Economic Transformation and Facility Redevelopment Program	Provided tax incentives to businesses to stimulate redevelopment in targeted communities where certain correctional or juvenile facilities are closed (economic transformation areas). This program will expire on December 31, 2021.	March 31, 2011
Legislation Enacted in 2012		
Alternative Fuels	Extended alternative fuel exemptions through August 31, 2014.	September 1, 2012
Flag exemption	Tax exemption for blue star and gold star banners and prisoner of war flags.	December 1, 2012
Segregated Bank Accounts	Extension of the requirement to deposit sales tax into a separate bank account until December 31, 2013.	January 1, 2012
Legislation Enacted in 2013		
New York Innovation Hot Spots Program	Created a new high tech incubator program in which start-up businesses will be free of property, sales and business income taxes for the first five years. Hot spots must demonstrate an affiliation with, and the support of, at least one college, university or independent research institution and offer programs consistent with regional economic development strategies.	March 28, 2013
Segregated Bank Accounts	Extension of the requirement to deposit sales tax into a separate bank account until December 31, 2016.	January 1, 2014
IDA reform	Placed restrictions on Industrial Development Agencies (IDAs) ability to provide assistance for retail projects and added new clawback requirements.	March 28, 2013
Drivers' License Suspension	Ability to suspend drivers' licenses of taxpayers with a past-due tax liability of $10k or more.	April 1, 2013

START-UP NY	Established tax-free zones on or near qualifying university and college campuses. Qualifying businesses operating within such zones are exempt from taxation.	January 1, 2014
Protection Programs	Tax exemption for water and sewer service line protection programs sold to residential property owners.	October 21, 2013
Vehicles Sold To Military Members	Tax exemption for vehicles purchased out-of-State by an active military member.	December 18, 2013
Legislation Enacted in 2014		
Vending Machine	Increased the sales tax exemption from $0.75 to $1.50 on certain food and drink items sold through vending machines.	June 1, 2014
Fuel Prepaid	Established three regions for the prepaid sales tax on fuel to reduce evasion at retail.	June 1, 2014
Lower Manhattan	Retroactively extended the lease period for commercial office space for the Murray Street area. The exemption for the Murray Street area is extended to December 1, 2016, and the lower Manhattan area is extended to December 1, 2018.	March 31, 2014
Alternative Fuels	Extended alternative fuel exemptions through August 31, 2016.	September 1, 2014
Legislation Enacted in 2015		
Alcoholic Beverage Tastings	Exempted beer, cider and liquor used at tastings (per ABC Law) from the use tax, as well as bottles, corks and labels used in packaging. Also clarified that items used in wine packaging at tastings are exempt, and wine tastings held on or off-premises may qualify.	June 1, 2015
Prepaid Mobile Calling Services	Clarified that the imposition of tax is sourced to [1] the location of the retailer of such services; [2] unless an item is shipped directly to a consumer, in which case the tax is sourced to the shipping address; or [3] the billing address of the consumer if an item is neither shipped nor sold at a retail location.	April 1, 2015
Solar Power Purchase Agreements	Exempted certain solar-generated electricity produced by equipment located at the customer's residence and owned by a person other than the purchaser of the electricity from tax.	December 1, 2015
Cap Tax on Boats	Exempted the portion of the purchase or lease of a boat in excess of $230,000; and provided a 90-day "safe harbor" from use tax for boats brought in from out-of-State by conforming the imposition of such tax to the Department of Motor Vehicles' registration requirements.	June 1, 2015
General Aviation Aircraft Exemption	Exempted general aviation aircraft and machinery or equipment installed on such aircraft from tax.	September 1, 2015
Dodd-Frank Conformity	Exempted certain related-party sales arising as a result of the Federal Dodd-Frank Wall Street Reform and Consumer Protection Act. The exemption expires on July 1, 2019.	September 1, 2015
Small Brewer Informational Returns	Exempted certain brewers that produce less than 60,000 barrels of beer annually from filing informational tax returns.	August 14, 2015
Small Winery Informational Returns	Exempted certain wineries that produce less than 150,000 gallons annually from filing informational tax returns.	November 20, 2015

Tax Liability

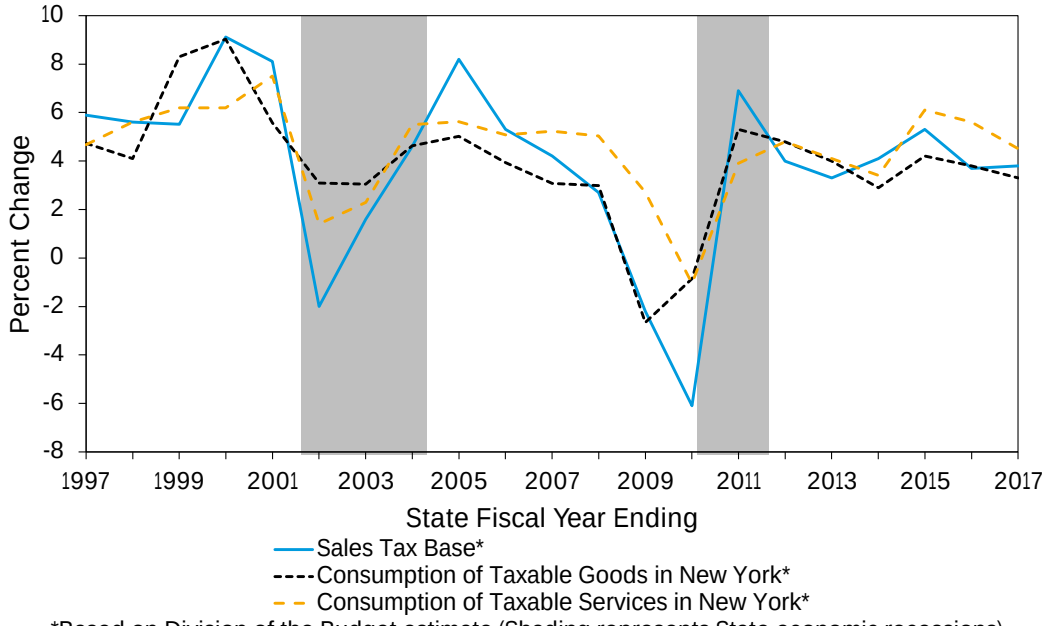
The sales and compensating use tax, which accounted for 18.3 percent of FY 2015 All Funds tax receipts, is the second largest State tax revenue source (the personal income tax is the largest).

In the long run, sales tax receipts are a function of changes in the tax rate and economic activity, as measured by such factors as disposable income and employment. Short-run fluctuations in receipts can result from rapid changes in consumer prices, auto sales, and home sales. The following table and graphs show the growth rate of major economic factors affecting the sales tax. For a more detailed discussion of the methods and models used to develop estimates and projections for the sales and use tax, please see the Economic, Revenue, and Spending Methodologies at www.budget.ny.gov.

MAJOR ECONOMIC FACTORS AFFECTING SALES TAX RECEIPTS
FY 2008 to FY 2017
Percent Change

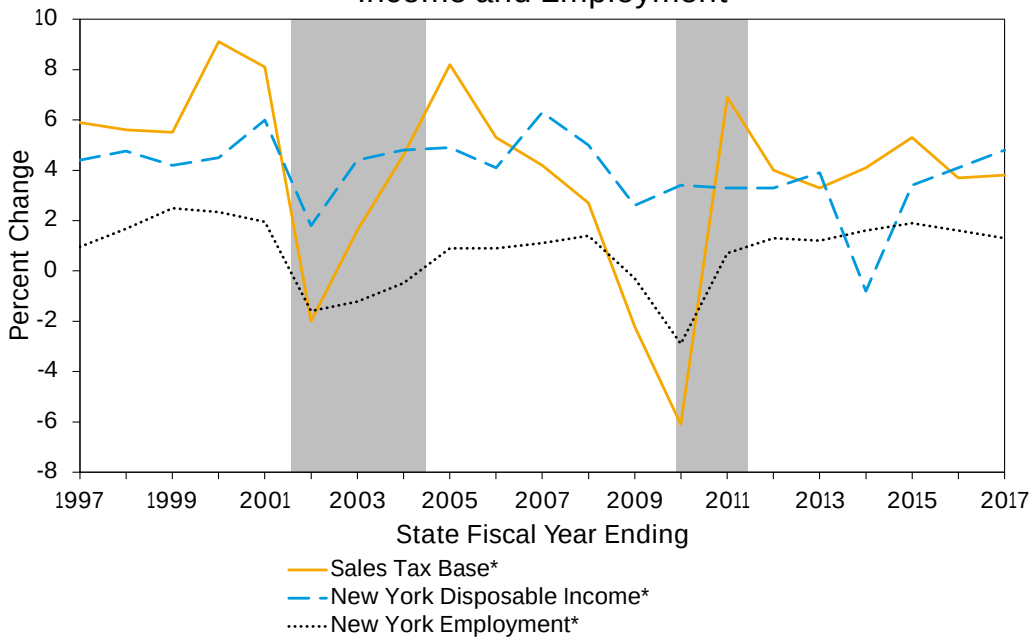
	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	Estimated FY 2016	Projected FY 2017
Consumption of Taxable Goods in NY	3.0	(2.7)	(0.9)	5.3	4.8	4.0	2.9	4.2	3.8	3.3
Consumption of Taxable Services in NY	5.0	2.7	(1.2)	3.9	4.8	4.1	3.4	6.1	5.6	4.5
NY Employment	1.4	(0.3)	(2.9)	0.7	1.3	1.2	1.6	1.9	1.6	1.3
NY Disposable Income	5.0	2.6	3.4	3.3	3.3	3.9	(0.8)	3.4	4.1	4.8
NY Nominal Value of New Auto and Light Truck Sales	8.0	(20.3)	(1.7)	21.8	4.6	10.9	7.0	6.4	7.2	5.6
Sales Tax Base	2.7	(2.2)	(6.1)	6.9	4.0	3.3	4.1	5.3	3.7	3.8

Historical Growth in State Sales Tax Base and Taxable Consumption



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

Historical Growth in State Sales Tax Base Income and Employment



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

Although numerous exemptions from tax on the sales of tangible personal property have been enacted (see Tax Expenditure Report), roughly 46 percent of total sales and purchases subject to the sales and use tax are collected by the retail trade industry. The increase in the retail trade share after 2008 reflects repeal of the clothing exemption from October 2010 to April 2012 and the increase in online sales tax collections. In addition, there has been a shift of industry share from wholesalers to retailers due to gasoline wholesalers' divesting of their convenience stores and gasoline stations. The service industry (including accommodations, food and administrative services) collects roughly 27 percent of the statewide total and accounts for the next largest share of taxable sales and purchases.

History of Industry Shares of New York Sales Tax Receipts

FYE[1]	Retail Trade	Services	Wholesale Trade	Information	Other[2]	Utilities	Manufacturing	Construction	Unclassified
2005	52.0	20.4	8.0	7.2	4.0	3.1	2.4	2.1	0.9
2006	50.0	21.0	8.6	7.1	4.2	3.5	2.4	2.1	1.2
2007	45.8	23.4	8.7	7.5	4.7	3.4	2.7	2.4	1.4
2008	44.1	25.0	8.8	7.6	4.8	3.5	2.8	2.5	1.0
2009	44.2	25.1	9.0	7.7	4.6	3.6	2.7	2.5	0.7
2010	45.1	25.4	8.4	7.8	4.6	3.5	2.5	2.3	0.4
2011[3]	48.2	25.7	5.0	6.4	4.5	3.5	4.3	2.3	0.2
2012	48.4	26.2	5.2	6.0	4.5	3.1	4.2	2.4	0.0
2013	46.4	26.7	5.5	7.0	4.6	3.1	4.2	2.5	0.1
2014[4]	45.7	27.4	5.5	6.8	4.5	3.3	4.1	2.6	0.1

[1] March to February

[2] Includes Agriculture, Mining, Transportation, FIRE (Finance, Insurance and Real Estate), Education, and Government.

[3] The shift in industry shares in 2011 reflects the updating of NAICS code during the re-registration process and suspension of the clothing exemption.

[4] Preliminary

Source: New York State Department of Taxation and Finance.

Receipts: Estimates and Projections

All Funds

FY 2016 Estimates

All Funds preliminary receipts through December are $10,153 million, an increase of $264.5 million (2.7 percent) from the comparable period in the prior fiscal year.

All Funds FY 2016 receipts are estimated to be $13,317 million, an increase of $325.4 million (2.5 percent) from FY 2015. Through November, there has been year-over-year taxable sales growth in most of the industries measured. The three largest sales tax collection industries, food services, motor vehicles and wholesale trade, exhibited growth of 7.7 percent, 8.2 percent and

3.7 percent, respectively. These factors help to explain base growth rates (i.e., growth absent law changes) during the first three fiscal year quarters of 4.2 percent, 3.1 percent and 5.0 percent, respectively. Base growth during the final quarter of FY 2016 is estimated to be 2.5 percent. This equates to total base growth of 3.7 percent for FY 2016.

Cash receipts were reduced relative to base growth as a result of (1) a distribution shift from the State and MTA to local sales tax ($238 million) and (2) an agreement between certain mobile telecommunications providers and the State to allow such providers to remit less sales tax for a period in lieu of receiving State refunds due them under Tax Law Section 184 ($47 million). This agreement resulted from acknowledgement by the Department of Taxation and Finance that a mobile telecommunications provider was not subject to the Tax Law Section 184 franchise tax imposed on them between 2005 and 2014.

The dramatic decline in fuel prices during FY 2016 does not affect State sales tax receipts due to the sales tax cap (8 cents per gallon) on motor fuel.

FY 2017 Projections

All Funds FY 2017 receipts are projected to be $13,876.6 million, an increase of $559.6 million (4.2 percent) from FY 2016. Projected base growth of 3.8 percent is based on the economic factors noted earlier. Cash growth exceeds base growth primarily due to the non-recurring nature of the sales tax distribution shift that occurred in FY 2016. This positive growth impact is partially offset by an increase (to $178 million) in the Section 184 amount due taxpayers.

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

General Fund

Direct deposits to the General Fund for FY 2016 are estimated to be $6,219.5 million, an increase of $135.2 million (2.2 percent) from FY 2015 receipts. General Fund receipts for FY 2017 are projected to be $6,482.8 million, an increase of $263.3 million (4.2 percent) from FY 2016 receipts.

Local Government Assistance Corporation Fund

The Local Government Assistance Corporation (LGAC) was created in 1990 to help the State eliminate its annual spring borrowing. To pay the debt service on the bonds issued by LGAC, the State has diverted an amount equal to the yield of one-fourth of net sales and use tax collections from the 4 percent statewide sales tax to the Local Government Assistance Tax Fund (LGATF). Sales tax deposits to LGATF are estimated to be $3,109.8 million in FY 2016, and $3,241.4 million in FY 2017. LGATF receipts in excess of debt service requirements on LGAC bonds are transferred to the General Fund.

Sales Tax Revenue Bond Fund

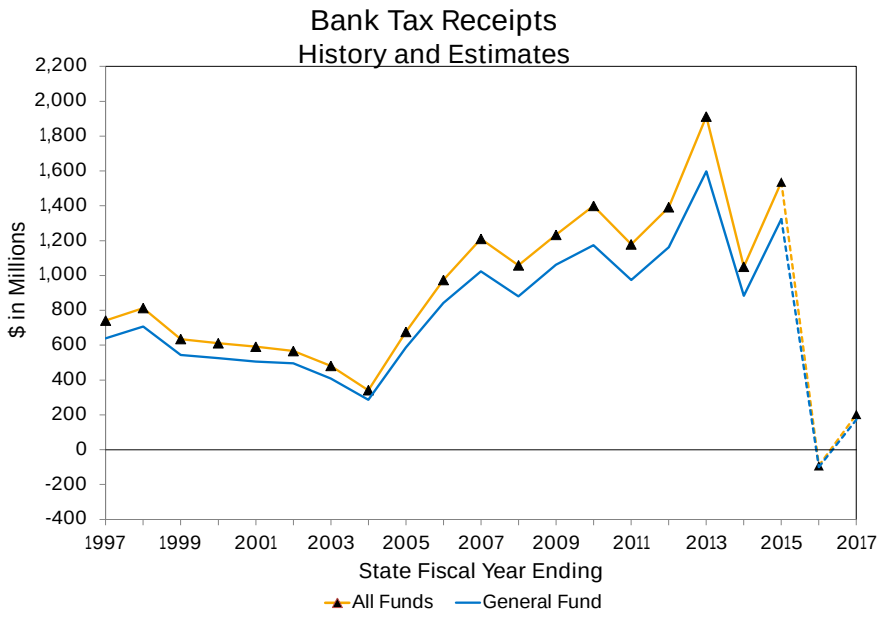
Effective April 1, 2013, receipts from one percent of the State's four percent sales tax rate are directed to the Sales Tax Revenue Bond Fund (STBF). This increases to a two percent rate when LGAC bonds have been retired or defeased. Sales tax deposits to the STBF are estimated to be $3,109.8 million in FY 2016 and $3,241.4 million in FY 2017. STBF receipts in excess of debt service requirements on STBF bonds are transferred to the General Fund.

Mass Transportation Operating Assistance Fund

The MTOAF was created in 1981 to finance State public transportation needs. MTOAF derives part of its revenues from the 0.375 percent sales and compensating use tax imposed in the MCTD. MTOAF will receive an estimated $878 million in FY 2016 and $911 million in FY 2017. All proceeds from the MCTD tax are earmarked for MTOAF.

BANK TAX (millions of dollars)	FY 2015 Actual	FY 2016 Estimated	Change	Percent Change	FY 2017 Projected	Change	Percent Change
General Fund	1,323.4	(100.0)	(1,423.4)	(107.6)	173.0	273.0	(273.0)
Other Funds	212.8	8.0	(204.8)	(96.2)	30.0	22.0	275.0
All Funds	1,536.2	(92.0)	(1,628.2)	(106.0)	203.0	295.0	(320.7)

Note: Totals may differ due to rounding.



BANK TAX BY FUND (millions of dollars)	Gross General Fund	Refunds	General Fund	Gross Special Revenue Funds	Refunds	Special Revenue Funds[1]	All Funds Receipts
FY 2007	1,098	74	1,024	193	7	186	1,210
FY 2008	1,002	122	880	196	18	178	1,058
FY 2009	1,296	234	1,062	208	36	172	1,234
FY 2010	1,243	70	1,173	241	15	226	1,399
FY 2011	1,199	226	973	245	40	205	1,178
FY 2012	1,280	117	1,163	254	25	229	1,392
FY 2013	1,741	144	1,597	326	11	315	1,912
FY 2014	991	103	888	178	16	162	1,050
FY 2015	1,525	202	1,323	264	51	213	1,536
Estimated							
FY 2016 [2]	34	134	(100)	24	16	8	(92)
FY 2017	199	26	173	34	4	30	203

[1] Receipts from the MTA surcharge are deposited in the Mass Transportation Operating Assistance Fund.
[2] Corporate tax reform merged the bank tax with the corporation franchise tax.

Description

Effective with tax years beginning on and after January 1, 2015, the bank tax (Article 32) is merged with the corporation franchise tax (Article 9-A). Chapter 59 of the Laws of 2014 enacted corporate tax reform which established a single modern system of taxation for general business corporations and banking corporations by repealing the separate provisions of the Tax Law for banking corporations (Article 32) and amending the business corporation tax under Article 9-A to accommodate changes in the financial services industry and make other modernization changes.

Receipts: Estimates and Projections

BANK TAX
(millions of dollars)

	FY 2015 Actual	FY 2016 [1] Estimated	Change	Percent Change	FY 2017 Projected	Change	Percent Change
General Fund							
Non-Audit Receipts	638	(343)	(981)	(153.8)	(70)	273	(79.6)
Audit Receipts	685	243	(442)	(64.5)	243	0	0.0
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	1,323	(100)	(1,423)	(107.6)	173	273	(273.0)
Other Funds							
Non-Audit Receipts	89	(33)	(122)	(137.1)	(11)	22	(66.7)
Audit Receipts	124	41	(83)	(66.9)	41	0	0.0
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	213	8	(205)	(96.2)	30	22	275.0
All Funds							
Non-Audit Receipts	727	(376)	(1,103)	(151.7)	(81)	295	(78.5)
Audit Receipts	809	284	(525)	(64.9)	284	0	0.0
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	1,536	(92)	(1,628)	(106.0)	203	295	(320.7)

Note: Totals may differ due to rounding.
[1] Corporate tax reform merged the bank tax into the corporation franchise tax.

All Funds

FY 2016 Estimates

All Funds preliminary receipts through December are $(86.7) million, a decrease of $1,348.7 million (106.7 percent) from the comparable period in the prior fiscal year.

All Funds FY 2016 receipts are estimated to be $(92) million, a decrease of $1,628.2 million (106 percent) from FY 2015. This decrease is attributable to the repeal of the bank tax and resultant imposition of the corporate franchise tax on bank taxpayers, effective for Tax Year 2015.

FY 2017 Projections

All Funds FY 2017 receipts are projected to be $203 million, an increase of $295 million (320.7 percent) from FY 2016. This increase is attributable to a reduced number of prior period adjustments.

General Fund

General Fund FY 2016 receipts are expected to be $(100) million, a decrease of $1,423.4 million (107.6 percent) from FY 2015. General Fund collections reflect the same trends impacting FY 2016 All Funds receipts.

For FY 2017, General Fund receipts are projected to be $173 million, an increase of $273 million (273 percent) from FY 2016. General Fund collections reflect the trends described above for FY 2017 All Funds receipts.

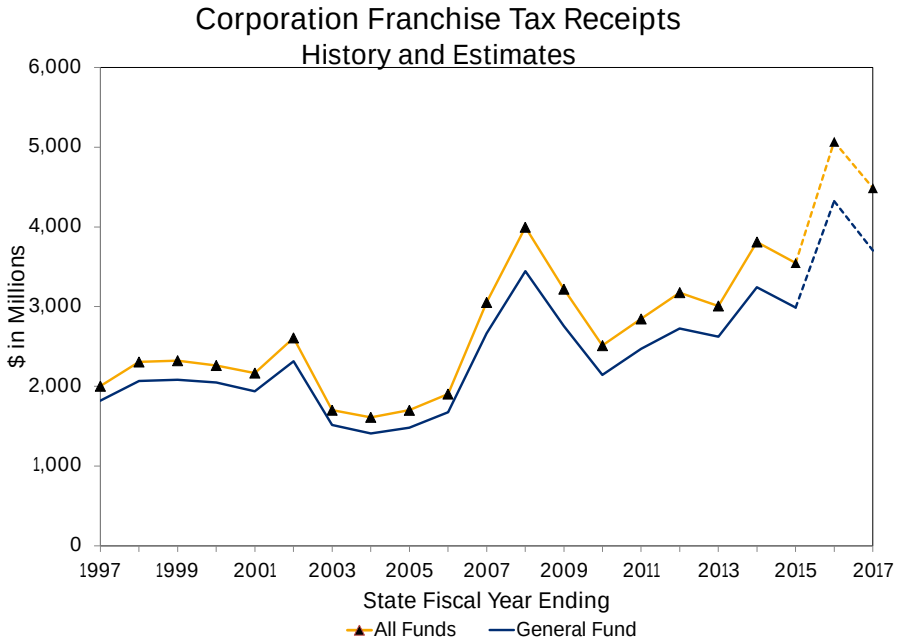
Other Funds

Bank tax receipts from the business tax surcharge deposited to MTOAF generally reflect the All Funds trends described above. The MCTD business tax surcharge will result in MTOAF deposits of an estimated $8 million in FY 2016 and a projected $30 million in FY 2017.

Corporation Franchise Tax

CORPORATION FRANCHISE TAX (millions of dollars)							
	FY 2015 Actual	FY 2016 Estimated	Change	Percent Change	FY 2017 Projected	Change	Percent Change
General Fund	2,990.0	4,325.0	1,335.0	44.6	3,703.0	(622.0)	(14.4)
Other Funds	558.0	744.0	186.0	33.3	784.0	40.0	5.4
All Funds	3,548.0	5,069.0	1,521.0	42.9	4,487.0	(582.0)	(11.5)

Note: Totals may differ due to rounding.



CORPORATION FRANCHISE TAX BY FUND (millions of dollars)							
	Gross General Fund	Refunds	General Fund	Gross Special Revenue Funds	Refunds	Special Revenue Funds[1]	All Funds Receipts
FY 2007	4,010	333	3,677	576	25	551	4,228
FY 2008	4,035	589	3,446	592	41	551	3,997
FY 2009	3,579	824	2,755	541	76	465	3,220
FY 2010	2,942	797	2,145	442	76	366	2,511
FY 2011	3,234	762	2,472	458	84	374	2,846
FY 2012	3,432	708	2,724	495	43	452	3,176
FY 2013	3,283	659	2,624	434	49	385	3,009
FY 2014	3,878	633	3,245	613	46	567	3,812
FY 2015	3,898	908	2,990	598	40	558	3,548
Estimated							
FY 2016 [2]	5,418	1,093	4,325	823	79	744	5,069
FY 2017							
Current Law	5,123	1,420	3,703	865	81	784	4,487
Proposed Law	5,123	1,420	3,703	865	81	784	4,487

[1] Receipts from the MTA surcharge are deposited in the Mass Transportation Operating Assistance Fund.
[2] Corporate tax reform merged the bank tax into the corporation franchise tax.

Proposed Legislation

Legislation proposed with this Budget would:

- Extend the Hire-a-Vet Tax Credit for two years;
- Extend the Excelsior Jobs Program for five years;
- Authorize additional credits of $8 million for the Low-Income Housing Credit for each of the next five fiscal years;
- Extend the Empire State Commercial Production Tax Credit for two years;
- Enhance the Urban Youth Jobs Program Tax Credit;
- Reduce the net income tax rate for small businesses;
- Extend the credit for companies who provide transportation to individuals with disabilities for six years;
- Establish education tax credits;
- Extend the Clean Heating Fuel Credit for three years;
- Permanently extend tax shelter reporting requirements;
- Establish alcohol beverage tax tasting exemptions and additional production credits;
- Establish thruway toll tax credits;
- Amend the State and NYC corporate tax reform statutes for technical amendments; and
- Conform to new federal tax filing dates.

Description

Tax Base and Rate

Chapter 59 of the Laws of 2014 enacted corporate tax reform which established a single modern system of taxation for general business corporations and banking corporations by repealing the separate provisions of the Tax Law for banking corporations (Article 32) and amending the business corporation tax under Article 9-A to accommodate changes in the financial services industry and make other modernization changes. This was accomplished by replacing the entire

net income base with a similar business income base, effective January 1, 2015, subject to a fully effective tax rate of 6.5 percent effective January 1, 2016.

The corporation franchise tax is levied by Articles 9-A and 13 of the Tax Law. Article 9-A imposes a franchise tax on domestic and foreign corporations for the privilege of exercising their corporate franchise or doing business, employing capital, owning or leasing property, or maintaining an office in New York. The Article 9-A tax is made up of business entities classified as either C corporations or S corporations. Article 13 of the Tax Law imposes a 9 percent tax on certain not-for-profit entities on business income earned from activities not related to their exempt purpose.

For C corporations, current law requires corporation franchise tax liability to be computed under three alternative bases, with tax due based on the highest tax calculated under three alternative bases. The three alternative bases are:

- A business income base, which begins with Federal taxable income before net operating loss deductions and special deductions, and is further adjusted by the exclusion, deduction or addition of certain items. The resulting base is allocated to New York and subject to a tax rate of 6.5 percent (effective January 1, 2016). Certain manufacturers and qualified emerging technology companies are subject to the rates as shown in the table below.

Type of Business	Tax Year 2015	Tax Year 2016	Tax Year 2017	Tax Year 2018 and Thereafter
Qualified New York Manufacturers	0%	0%	0%	0%
Qualfied Emerging Technology Companies (QETCs)	5.7%	5.5%	5.5%	4.875%
Small Businesses	6.5%	6.5%	6.5%	6.5%
Remaining Taxpayers	7.1%	6.5%	6.5%	6.5%

- A capital base, imposed at a rate of 0.125 percent (effective January 1, 2016) on business and investment capital allocated to New York. For most taxpayers, the maximum annual tax is $5 million. The capital base is being phased out over six years according to the schedule shown below.

Type of Business	Tax Year 2015	Tax Year 2016	Tax Year 2017	Tax Year 2018	Tax Year 2019	Tax Year 2020	Tax Year 2021 and Thereafter
Qualified New York Manufacturers & QETCs	0.132%	0.106%	0.085%	0.056%	0.038%	0.019%	0%
Cooperative Housing Corporations	0.040%	0.040%	0.040%	0.040%	0.040%	0.025%	0%
Remaining Taxpayers	0.150%	0.125%	0.100%	0.075%	0.050%	0.025%	0%

- A fixed dollar minimum tax, which is based on a taxpayer's New York receipts as shown in the following schedule.

QUALIFIED NEW YORK MANUFACTURER C CORPORATIONS AND QETCS FIXED DOLLAR MINIMUM TAXES				
New York Receipts	Tax Year 2015	Tax Year 2016	Tax Year 2017	Tax Year 2018 and Thereafter
$100,000 or less	$22	$21	$21	$19
$100,001 - $250,000	$66	$63	$63	$56
$250,001 - $500,000	$153	$148	$148	$131
$500,001 - $1,000,000	$439	$423	$423	$375
$1,000,001 - $5,000,000	$1,316	$1,269	$1,269	$1,125
$5,000,001 - $25,000,000	$3,070	$2,961	$1,961	$2,625
Over $25,000,000	$4,385	$4,230	$4,230	$3,750

REMAINING C CORPORATION TAXPAYERS FIXED DOLLAR MINIMUM TAXES	
New York Receipts	Tax Year 2015 and Thereafter
$100,000 or less	$25
$100,001 - $250,000	$75
$250,001 - $500,000	$175
$500,001 - $1,000,000	$500
$1,000,001 - $5,000,000	$1,500
$5,000,001 - $25,000,000	$3,500
$25,000,001 - $50,000,000	$5,000
$50,000,001 - $100,000,000	$10,000
$100,000,001 - $250,000,000	$20,000
$250,000,001 - $500,000,000	$50,000
$550,000,001 - $1,000,000,000	$100,000
Over $1 billion	$200,000

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

S CORPORATIONS FIXED DOLLAR MINIMUM TAXES	
New York Receipts	S Corp Min Tax
$100,000 or less	$25
$100,001 - $250,000	$50
$250,001 - $500,000	$175
$500,001 - $1,000,000	$300
$1,000,001 - $5,000,000	$1,000
$5,000,001 - $25,000,000	$3,000
Over $25,000,000	$4,500

Additionally, corporations conducting business in the Metropolitan Commuter Transportation District (MCTD) are subject to a surcharge on the portion of the total State tax liability allocated to the MCTD region. The tax year 2015 surcharge tax rate is 25.6 percent. The Department of Taxation and Finance will compute the surcharge tax rate for each tax year beginning with tax year 2016 with the goal of achieving revenue neutrality for the MCTD based on the most recent Enacted Budget forecast. Additionally, the MCTD surcharge is now permanent. The collections from the surcharge are deposited into the Mass Transportation Operating Assistance Fund (MTOAF).

Administration

Corporations that reasonably expect their tax liability to exceed $1,000 for the current tax year are required to make a mandatory first installment of estimated tax and three additional estimated payments. The mandatory first installment is due 75 days from the end date of a taxpayer's fiscal year. The remaining three estimated tax payments are due on the 15th day of the third month of the fiscal year quarter. The majority of taxpayers have a fiscal year that ends December 31. The mandatory first installment for these taxpayers is due March 15 with the remaining three estimated payments due on June 15, September 15 and December 15. A final payment is also required of all taxpayers. This payment is due with the mandatory first installment. Taxpayers that expect their tax liability to exceed $100,000 for the current tax year are required to make a mandatory first installment equal to 40 percent of their prior year liability. Taxpayers with expected liability greater than $1,000 and less than $100,000 must make a mandatory first installment equal to 25 percent of their prior year liability. Taxpayers may make periodic adjustments to these payments after the close of the tax year as their actual liability for a given tax year becomes more definite.

Tax Expenditures

Tax expenditures are defined as features of the Tax Law that by exclusion, exemption, deduction, allowance, credit, deferral, preferential tax rate or other statutory provisions reduce the amount of a taxpayer's liability to the State by providing either economic incentives or tax relief to particular entities to achieve a public purpose. The corporation franchise tax structure includes various tax expenditures, and the distribution of these benefits varies widely among firms and industries. Among the major tax expenditure items for the corporation franchise tax are modifications to Federal Taxable income for qualified residential loan portfolios and community banks and small thrifts and deductions for investment income and other exempt income from New York business income as well as the investment tax credit, Empire Zones, the Excelsior Jobs Program, Brownfields and Film Production tax credits, and the preferential tax rates for manufacturers. For a more detailed discussion of tax expenditures, see the Annual Report on New York State Tax Expenditures, prepared by the Department of Taxation and Finance and the Division of the Budget.

Significant Legislation

Significant statutory changes to the corporation franchise tax since 2010 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 2010		
Make REITs/RICs Loophole Closer Permanent	Made permanent the provisions that address the closely-held REIT and RIC loophole, which would have otherwise expired on December 31, 2010.	August 11, 2010
Tax Credit Deferral	Capped aggregate business related tax credit claims at $2 million per taxpayer for each of tax years 2010, 2011 and 2012. The total amount of credits deferred can be claimed by affected taxpayers on returns for tax years 2013, 2014 and 2015.	January 1, 2010
Technical Changes to Empire Zones Program	Made technical corrections to the 2009-10 Enacted Budget Empire Zones Program changes. Clarified that the Legislature intended to decertify certain businesses retroactively to the 2008 tax year, clarified reporting provisions, and allowed qualified investment projects to claim the investment tax credit and employee incentive tax credit after June 30, 2010.	August 11, 2010
Empire State Film Production Tax Credit	Authorized an additional $420 million for calendar years 2010 through 2014, $7 million of which is dedicated to a new post production tax credit. This measure also imposed various reforms to enhance the State's return on investment.	August 11, 2010
REIT Technical Amendments	Clarified that certain publicly traded REITs with fractional ownership shares in non-related U.S. REITs are not subject to provisions relating to "closely-held" REITs that were enacted in 2008-09.	July 1, 2010
Legislation Enacted in 2011		
Excelsior Jobs Program Amendments	Modified the credit to make it more widely available and attractive and created a new energy incentive. It also lengthened the benefit period from five to ten years.	March 31, 2011
Economic Transformation and Facility Redevelopment Program	Provided tax incentives to businesses to stimulate redevelopment in targeted communities where certain correctional or juvenile facilities are closed (economic transformation areas). This program will expire on December 31, 2021.	March 31, 2011
Manufacturing Tax Reduction	Reduced the rate on the entire net income base, the rate on the alternative minimum taxable income base and the fixed dollar minimum tax by 50 percent for eligible qualified manufacturers for tax years 2012, 2013, and 2014. The Tax Department will administer an annual total tax benefit limit of $25 million by directing tax relief to economic regions with special economic challenges.	January 1, 2012
New York Youth Works Tax Credit Program	Provided a tax credit to businesses that employ at-risk youth in part-time or full-time positions in 2012 and 2013.	January 1, 2012

Subject	Description	Effective Date
Empire State Jobs Retention Program	Provided a jobs tax credit to businesses that are at risk of leaving the State due to the negative impact on their business from a natural disaster. The tax credit is 6.85 percent of gross wages of jobs that are retained in New York.	January 1, 2012
Legislation Enacted in 2012		
Empire State Commercial Production Tax Credit	Extended the annual allocation of $7 million in tax credits for two years through 2014. Also, changed the distribution of the tax credits between the MTA district and the rest of the State.	January 1, 2012
New York Youth Works Tax Credit Program	Extended the deadline for participation in the program and for youths to commence employment by an additional six months to November 30, 2012 and December 31, 2012, respectively.	January 1, 2012
Empire State Post Production Tax Credit	Increased post-production credit percentage from 10 percent to 30 percent within the MTA region and to 35 percent in areas outside the MTA region.	July 24, 2012
Legislation Enacted in 2013		
Film Production Credit	Extended the Empire State film production tax credit allocation of $420 million per year for an additional five years (2015 - 2019). For the period 2015 through 2019 certain upstate counties will receive an additional 10 percent credit for wages and salaries paid.	January 1, 2015
	Restrictions on the post production portion of the credit were reduced and additional reporting will be required to document the effectiveness of the credit in creating jobs.	March 28, 2013
Royalty Income Loophole	Closed a loophole that allowed New York companies earning royalty income to avoid paying taxes on that income. New York taxpayers must show on their tax return that the taxpayer's Non-New York parent company included the royalty income in its tax liability. The demonstration absolves taxpayers of the obligation to pay tax on their royalty income.	January 1, 2013
New York Innovation Hot Spots Program	Created a new high tech incubator program in which start-up businesses will be free of property, sales and business income taxes for the first five years. Hot spots must demonstrate an affiliation with, and the support of, at least one college, university or independent research institution and offer programs consistent with regional economic development strategies.	March 28, 2013
Hire-a-Vet Tax Credit	Provided a refundable tax credit for tax years 2015 and 2016 equaling 10 percent of the wages paid to a qualified veteran (capped at $5,000) and 15 percent of wages paid to a qualified veteran (capped at $15,000).	January 1, 2015

Subject	Description	Effective Date
Youth Works Tax Credit	Provided a four year refundable tax credit capped at $6 million per year for tax years 2014 through 2017 for hiring unemployed, low-income or at risk youth ages 16-24 in cities with populations greater than 55,000 or towns with populations greater than 480,000.	January 1, 2014
Excelsior Jobs Program	Changed the job requirement parameters for the Excelsior Jobs Program and allowed a portion of the unallocated tax credits from any taxable year to be used to award tax credits in another taxable year.	May 27, 2013
Manufacturer Tax Reduction	Provided a phased in manufacturing tax reduction of 9.2 percent in tax year 2014, 12.3 percent in 2015, 15.4 percent in 2016 and 2017, and 25 percent effective for tax years beginning in 2018.	January 1, 2014
Historic Properties Tax Credit	Extended for five years the maximum Historic Preservation Tax Credit amount of $5 million, which had previously been scheduled to revert to $100,000 following the conclusion of tax year 2014, and permanently made the credit refundable for tax years beginning on or after January 1, 2015.	January 1, 2015
Charge NY Electric Vehicle Recharging Equipment Credit	Created a credit equal to 50 percent or $5,000 per station, whichever is less, of the cost of electric vehicle recharging or alternative fuel vehicle refueling equipment. The credit sunsets December 31, 2017.	January 1, 2013
Minimum Wage Reimbursement Credit	Provided a refundable tax credit for tax years 2014 through 2018 equal to the product of the number of hours worked by qualifying minimum wage-earning employees and 1) $0.75 in tax year 2014; 2) $1.31 in tax year 2015; and 3) $1.35 in tax years 2016 through 2018. Qualifying employees must be students aged 16 to 19, and the credit is reduced if the federal minimum wage is increased to a level in excess of 85 percent of the New York minimum wage.	January 1, 2014
START-UP NY	Established tax-free zones on or near qualifying university and college campuses. Qualifying businesses operating within such zones are exempt from taxation under the Corporate Franchise Tax.	January 1, 2014
Legislation Enacted in 2014		
Corporate Tax Reform	Merged the bank tax with the corporation franchise tax. Repealed the separate provisions of the bank tax and amended the corporate franchise tax to accommodate changes in the financial services industry and make other modernization changes.	January 1, 2015
	Lowered the business income tax rate from 7.1 percent to 6.5 percent for non-manufacturers.	January 1, 2016
	Phased out the capital base over a 6-year period.	January 1, 2016
	Made the MTA surcharge permanent.	January 1, 2015

Subject	Description	Effective Date
Property Tax Credit for Manufacturers	Made qualified New York manufacturers eligible for a new tax credit equal to 20 percent of the real property taxes paid.	January 1, 2014
Enhance the Youth Works Tax Credit	Enhanced the credit by providing additional credit for youth retained in either a full-time or part-time status for one additional year, lowered the part-time hourly threshold from 20 hours to 10 hours for full-time high school students and increased the allocation from $6 million to $10 million for programs two through five (2014-2017).	January 1, 2014
Expand the Upstate Counties Eligible for the Enhanced Film Production Tax Credit	Added the counties of Albany and Schenectady to the list of upstate counties eligible for the additional 10 percent credit on wages and salaries.	January 1, 2015
Workers with Disabilities Tax Credit	Provided a non-refundable tax credit for tax years 2015 through 2019 equaling 15 percent of wages paid to a developmentally disabled individual employed full time (capped at $5,000) and 10 percent of wages paid if the individual is employed part time (capped at $2,500). This credit has an annual allocation of $6 million.	January 1, 2015
Musical and Theatrical Production Credit	Provided a refundable tax credit for tax years 2015 through 2018 equaling 25 percent of qualified expenses for qualified musical and theatrical productions in certain upstate theaters. This credit is capped at $4 million annually.	January 1, 2015
START-UP NY Amendments	Provided a refundable tax credit equal to the excise tax paid on telecommunications services paid by businesses in START-UP NY areas.	January 1, 2014
	Added four correctional facilities owned by the State of New York to be included as START-UP NY areas	January 1, 2014
Entire Net Income Tax Rate for Qualified Manufacturers	Lowered the entire net income tax rate to zero percent.	January 1, 2014
Empire State Commercial Production Tax Credit	Extended the annual allocation of $7 million for two years through tax year 2016. Also, lowered the minimum required production costs for upstate productions from $200,000 to $100,000.	March 31, 2014
Legislation Enacted in 2015		
Expand the Excelsior Jobs Program	Expanded eligibility for the program to include entertainment companies that meet certain criteria, music production companies and video game software developers.	April 13, 2015
Employee Training and Incentive Program (ETIP) Tax Credit	Provided a refundable tax credit for tax years 2015 and after equaling 50 percent of employee training costs ($10,000 cap per employee) or internship costs ($3,000 cap per intern). The amount of tax credits allocated per year is capped at $5 million and will be allotted from funds available under the Excelsior Jobs Program.	January 1, 2015

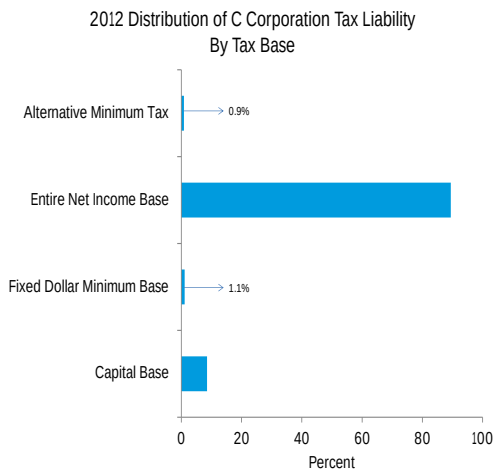
Subject	Description	Effective Date
Section 186-e on Mobile Telecommunication Services	Imposed a state excise tax rate of 2.9 percent and a 0.721 percent MCTD rate on the sale of mobile communications services and dedicated 7.6 percent of Section 186-e receipts to the MTOAF and the DHBTF. Both of these changes are effective May 1, 2015.	May 1, 2015
Urban Youth Jobs Program	Enhanced the credit (formerly the New York Youth Works Tax Credit) by increasing the allocation from $10 million to $20 million for programs three through five (2015-2017).	April 13, 2015
Alternative Fuel Vehicle Refueling Property Tax Credit	Allowed the credit for spending not covered by a grant. The amount of the credit is amended to equal the lesser of $5,000 or the product of 50 percent and the cost of any property less any costs paid from the proceeds of a grant.	January 1, 2015
Brownfields Clean-Up Program	Reformed the program and extended the tax credits through March 31, 2026. Reforms included the prioritization of (1) site redevelopment in economically distressed areas, (2) low income housing, or (3) properties that are upside down or underutilized; also provided for the creation of an expedited remediation program (BCP-EZ), a more detailed description of eligible costs for redevelopment tax credits, and allowed the real property tax and environmental remediation insurance credits to sunset.	July 1, 2015
START-UP NY Amendments	Added two airport facilities owned by the State of New York to be included as START-UP NY areas.	April 13, 2015
Corporate Tax Reform Technical Amendments	Made several changes to the 2014 Corporate Tax Reform statute.2014 including: changes to the definition of investment capital and income; changes to the apportionment rules for qualified financial instruments (QFI); clarifications to the economic nexus test, certain tax rates for QETC and qualified manufacturers, net operating losses, and the alternative base tax credit.	January 1, 2015

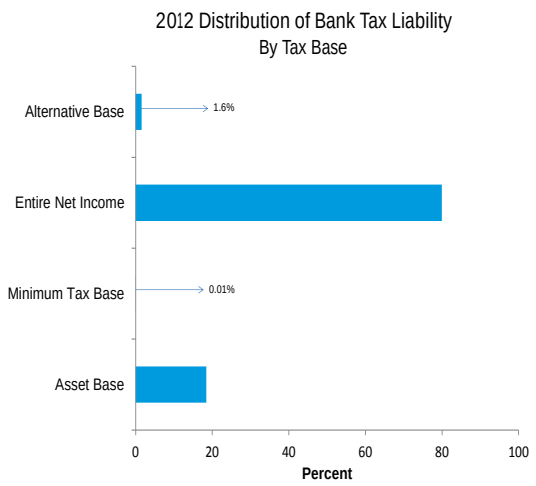
Tax Liability

The Corporation Franchise Tax Study File, which is compiled by the Department of Taxation and Finance's Office of Tax Policy Analysis (OTPA), contains the most recent tax liability data available for corporations filing under Article 9-A. The most current liability information is for the 2012 tax year. Liability for tax years 2010 through 2012 is artificially inflated as a result of 2010 legislation that deferred certain tax credit claims (to tax years 2013 through 2015) that would have otherwise been included on tax returns for tax years 2010 through 2012. Due to the repeal of Article 32 and absorption of former Article 32 taxpayers into Article 9-A effective January 1, 2015, select Article 32 information for tax year 2012 is also included in this section for informational purposes.

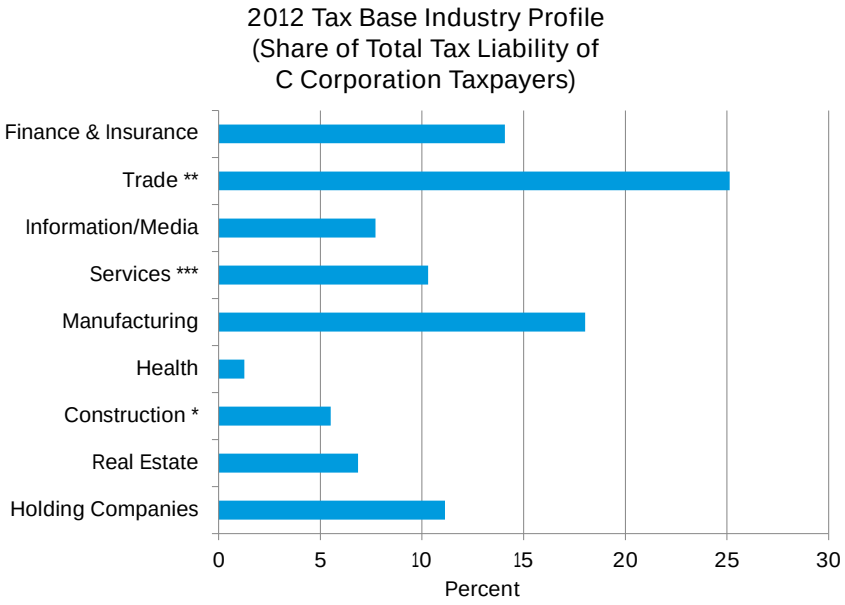
Although the Corporation Franchise Tax Study File does not include information on non-allocating fixed dollar minimum tax filers and S corporations, OTPA compiles corporate tax return data relating to the total number of C and S corporations and tax liability for these entities. The 2011 New York State Corporate Tax Statistical Report, the most recent data available, indicates that 263,258 taxpayers filed as C corporations, while 395,953 taxpayers filed as S corporations. With the exception of 2009, when the number of C corporations and S corporations grew 2.8 percent and 1.6 percent, respectively, annual growth has been 1 percent or less for each group of taxpayers over the last few years. In contrast, the Bank Tax Study File for 2012 indicates that 705 taxpayers filed tax returns as banking corporations. Therefore, beginning in tax year 2015, the tax liability for Article 9-A taxpayers will be significantly influenced by existing Article 9-A taxpayers and not former bank taxpayers due to the larger number of pre-existing Article 9-A taxpayers.

C corporations paid under the highest of four alternative bases for taxable years beginning before January 1, 2015. In 2012, 89 percent of liability was paid under the entire net income base (see graph below). The capital base was the second largest liability base, at 9 percent. For the past several years, both the alternative minimum tax and the fixed dollar minimum tax bases have represented a minimal percentage of total tax liability. A similar pattern is seen for bank taxpayers. Although, the asset base represents a larger share of tax liability for bank taxpayers than it does for C corporations.



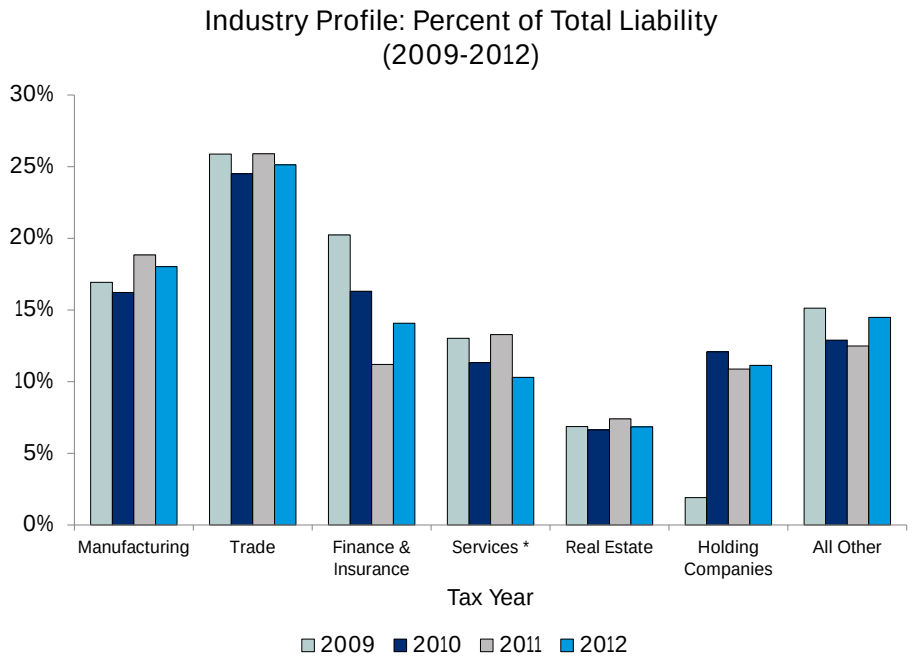


The next chart shows the distribution of tax liability by major industry sector. The 2012 Study File indicates that nearly 25 percent of total C corporation liability was paid by the trade sector and 18 percent by the manufacturing sector. The trade sector has consistently been the largest sector since 2009 while manufacturing has represented an increasingly larger share of total liability over the last several years.



* Construction, agriculture, mining, and utilities. (NAICS Sectors 11, 21, 22, and 23)
** Wholesale trade, retail trade and transportation and warehousing. (NAICS Sectors 42, 44, 45, 48 and 49)
*** Services consist of: professional, scientific, and technical services; administrative and support and waste management and remediation services; art, entertainment, and recreation services; accommodation and food services; and other services. (NAICS Sectors 54, 56, 71, 72, and 81)

The following chart illustrates the percentage of liability paid by the industry groups of the State's tax base between 2009 and 2012. Liability for the finance and insurance, manufacturing and trade sectors represent the largest share of liability paid over this period. Beginning in tax year 2015, it is likely finance and insurance will become a larger percentage of liability due to the addition of former bank taxpayers to the Corporation Franchise Tax.

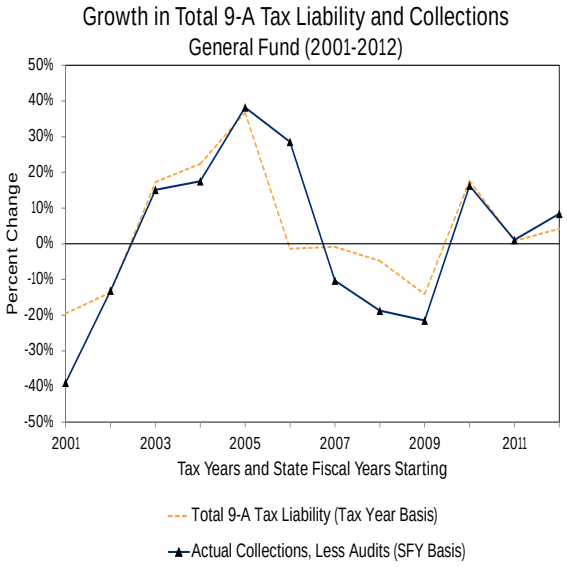


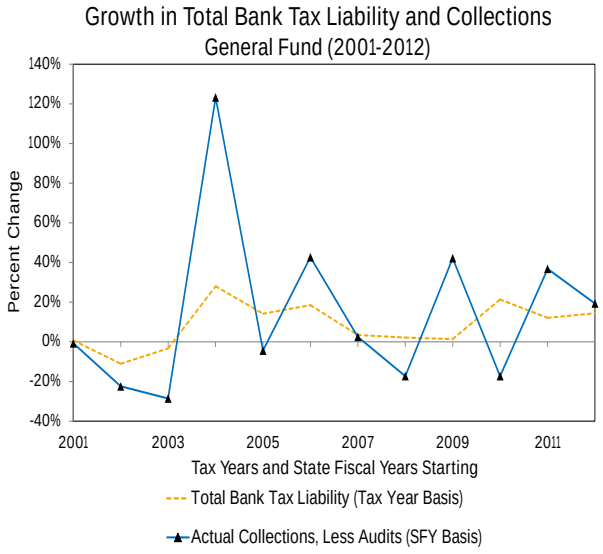
Starting with 2011, the study file contains NAICS codes as reported by the taxpayer.

*Services consist of: professional, scientific, and technical services; administrative and support and waste management and remediation services; art, entertainment, and recreation services; accommodation and food services; and other services. (NAICS Sectors 53, 54, 55, 56, 71, 72, and 81)

The link between underlying corporate tax liability and cash receipts in any given State fiscal year is often obscured by the timing of payments, the carry forward of prior year losses or credits and the reconciliation of prior year liabilities. Tax collections are the net payments and adjustments made by taxpayers on returns and extensions over the course of a State fiscal year. Taxpayers with a fiscal year ending December 31 make up the majority of taxpayers and follow the payment schedule described earlier under "Administration."

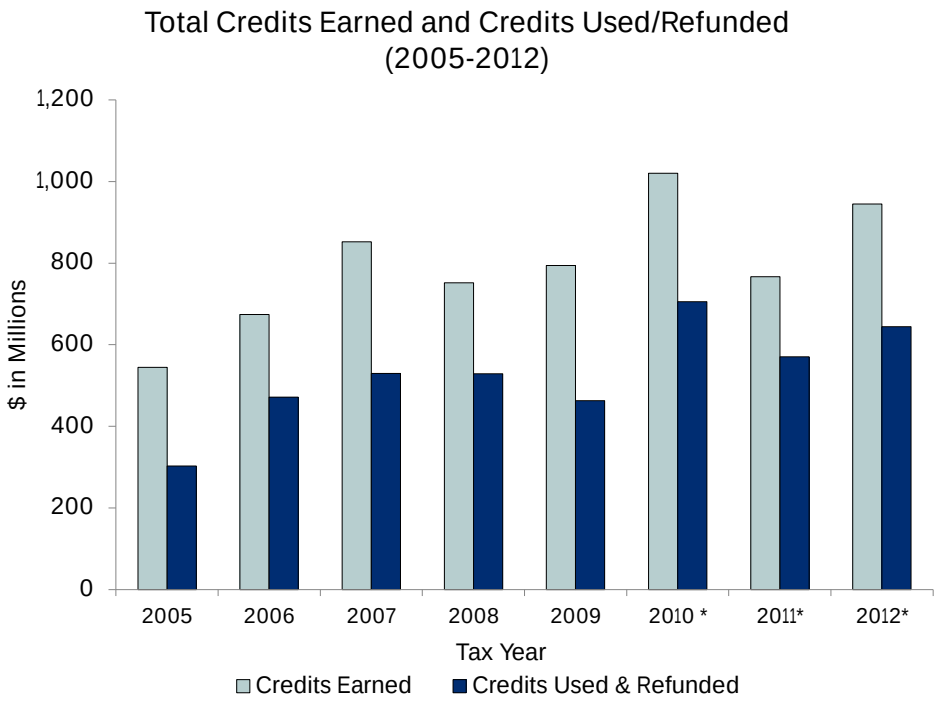
Tax liability in the current year is based on estimated performance for the same year. It is generally calculated by using tax bases, tax rates, special deductions and additions, losses and tax credits. Since taxpayers must pay estimated taxes months in advance of knowing actual liability, it is difficult for taxpayers to determine the proper level of payments needed over the course of a year. This is especially true if business or economic conditions change. The accompanying graphs compare historical corporate tax liability and bank tax liability and fiscal year cash receipts. They illustrate the volatility in the underlying relationship between payments and liability, which, for many taxpayers, is often compounded by the difference between a taxpayer's tax year and the State fiscal year. As seen below, bank tax liability and collections have been more volatile than 9-A liability and collections.





Credits

The following graph shows all available credits earned and used by Article 9-A taxpayers, and illustrates that the amount of credits earned significantly exceeds the amount of credits used. Credit earned is the amount of credit earned by a taxpayer in the current tax year. This is prior to any credit recapture, and does not include credits earned in or carried over from prior years. Generally, Tax Law provisions prevent taxpayers from using tax credits to reduce final liability below the fixed dollar minimum tax. This results in taxpayers carrying forward a significant amount of non-refundable tax credits into subsequent tax years. The majority of recently enacted tax credits are refundable. Refundable credits can be used to more than offset tax liability through requests for cash refunds. For these credits, the credit earned and used and refunded amounts will be equal for a tax year. The four largest tax credit programs in terms of credit earned and used and refunded over the period shown in the following chart are the investment tax credit (including the financial services investment tax credit), Empire Zones, the Film Production Tax Credit and the Brownfield Clean-Up program. These four credits have comprised over 95 percent of credits earned and credits used and refunded in recent years.



*Amounts shown assume credits deferred to tax years 2013-2015 under the tax credit deferral program were used or refunded in the year shown.

As seen above, credits earned and credits used and refunded have generally trended upward. The slight declines in credits earned and credits used and refunded in 2008, 2009 and 2011 reflect activity in the Brownfield Clean-Up Program. Credits claimed in this program reflect the number and size of projects being completed and claims have been volatile since the first year of credit claims in 2006. Both credits earned and credits used and refunded for the investment tax credit and Empire Zones have been relatively stable each year. Credits earned and credits used and refunded for the Film Production tax credit have increased steadily over this period. The current annual allocation for the Film Production Tax credit is $420 million and will remain at that level through tax year 2019. This makes the Film Production Tax credit the largest tax credit program in the State's economic development portfolio. Entry into the Empire Zone program expired June 30, 2010, and the program was replaced by the Excelsior Jobs program. There are no new entrants into the Empire Zone program, but current participants will be claiming credits for the remainder of their benefit period which will result in credits earned and credits used and refunded continuing for several more years. Tax year 2012 is the first year of measurable credit claims for the Excelsior Jobs Program. This program is expected to continue to grow over the next several years.

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

Receipts: Estimates and Projections

CORPORATION FRANCHISE TAX (millions of dollars)	FY 2015 Actual	FY 2016 [1] Estimated	Change	Percent Change	FY 2017 Projected	Change	Percent Change
General Fund							
Non-Audit Receipts	2,470	3,574	1,104	44.7	2,752	(822)	(23.0)
Audit Receipts	520	751	231	44.4	951	200	26.6
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	2,990	4,325	1,335	44.6	3,703	(622)	(14.4)
Other Funds							
Non-Audit Receipts	463	619	156	33.7	629	10	1.6
Audit Receipts	95	125	30	31.6	155	30	24.0
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	558	744	186	33.3	784	40	5.4
All Funds							
Non-Audit Receipts	2,933	4,193	1,260	43.0	3,381	(812)	(19.4)
Audit Receipts	615	876	261	42.4	1,106	230	26.3
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	3,548	5,069	1,521	42.9	4,487	(582)	(11.5)

Note: Totals may differ due to rounding.

[1] Corporate tax reform merged the bank tax into the corporation franchise tax.

All Funds

FY 2016 Estimates

All Funds preliminary receipts through December are $3,243.3 million, an increase of $1,474.1 million (83.4 percent) from the comparable period in the prior fiscal year.

All Funds FY 2016 receipts are estimated to be $5,069 million, an increase of $1,521 million (42.9 percent) from FY 2015. This increase is mainly attributable to the repeal of the bank tax and resultant imposition of the corporate franchise tax on bank taxpayers, effective for Tax Year 2015.

The difference between year-to-date growth and annual estimated growth results from an assumption that taxpayers have overpaid to date for liability year 2015 as a precaution given the new tax code and will partially reconcile with a low March 2016 settlement.

FY 2017 Projections

All Funds FY 2017 receipts are projected to be $4,487 million, a decrease of $582 million (11.5 percent) from FY 2016. This decrease is mainly the result of the decrease in the business income tax rate from 7.1 percent to 6.5 percent and the first year of the asset tax base phase-out. These items were part of corporate tax reform enacted in the FY 2015 Budget. Additionally, taxpayers are expected to generate larger prior period adjustments for tax year 2015 that will be

used towards 2016 liability. Finally, as mentioned above, it is likely taxpayers overpaid estimated tax for liability year 2015 since it was the first year of the new tax code. As taxpayers become more familiar with the new tax code, it is expected that their estimated payments for tax year 2016 and beyond will more closely reflect estimated liability.

General Fund

General Fund FY 2016 receipts are estimated to be $4,325 million, an increase of $1,335 million (44.6 percent) from FY 2015. The increase reflects the same trends impacting FY 2016 All Funds receipts.

General Fund FY 2017 receipts are projected to be $3,703 million, a decrease of $622 million (14.4 percent) from FY 2016. The decrease reflects the same trends impacting All Funds receipts for FY 2017.

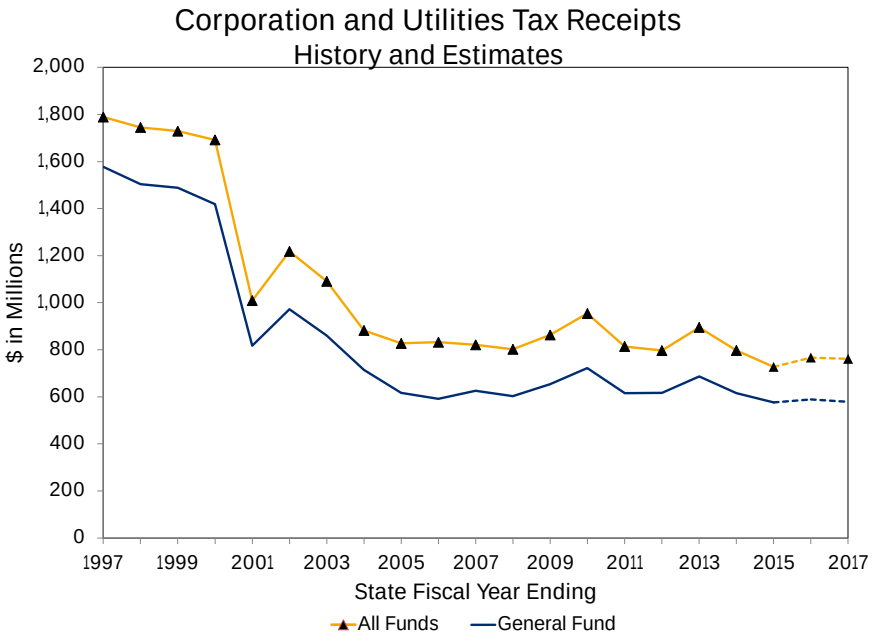
Other Funds

Corporation franchise tax receipts from the business tax surcharge deposited to MTOAF generally reflect the All Funds trends described above. The MCTD business tax surcharge will result in MTOAF deposits of an estimated $744 million in FY 2016 and a projected $784 million in FY 2017.

Corporation and Utilities Tax

CORPORATION AND UTILITIES TAXES (millions of dollars)							
	FY 2015 Actual	FY 2016 Estimated	Change	Percent Change	FY 2017 Projected	Change	Percent Change
General Fund	576.5	589.0	12.5	2.2	579.0	(10.0)	(1.7)
Other Funds	150.8	177.9	27.1	18.0	182.3	4.4	2.5
All Funds	727.3	766.9	39.6	5.4	761.3	(5.6)	(0.7)

Note: Totals may differ due to rounding.



CORPORATION AND UTILITIES TAXES BY FUND (millions of dollars)										
	Gross General Fund	Refunds	General Fund	Gross Special Revenue Funds	Refunds	Special Revenue Funds[1]	Gross Capital Project Funds	Refunds	Capital Projects Funds[2]	All Funds Receipts
FY 2007	639	13	626	182	4	178	18	1	17	821
FY 2008	618	15	603	189	6	183	16	1	15	802
FY 2009	666	12	654	198	7	191	19	2	18	863
FY 2010	741	19	722	225	13	212	21	2	20	954
FY 2011	635	19	616	200	19	181	19	3	16	814
FY 2012	642	25	617	185	18	167	16	3	13	797
FY 2013	691	5	686	201	8	194	16	2	15	895
FY 2014	657	43	615	187	18	169	15	2	14	797
FY 2015	582	6	577	151	10	141	11	2	10	727
Estimated										
FY 2016	609	20	589	176	12	164	15	1	14	767
FY 2017										
Current Law	599	20	579	180	12	168	16	1	15	761
Proposed Law	599	20	579	180	12	168	16	1	15	761

[1] Receipts from the MTA surcharge and a portion of receipts from the taxes imposed by sections 183, 184 and 186-e of the Tax Law deposited in accounts of the Mass Transportation Operating Assistance Fund (MTOAF).
[2] A portion of receipts from taxes imposed by sections 183, 184 and 186-e of the Tax Law deposited to Dedicated Highway and Bridge Trust Fund (DHBTF).

Proposed Legislation

Legislation proposed with this Budget would:

- Extend the Clean Heating Fuel Credit for three years;
- Permanently extend tax shelter reporting requirements; and
- Conform to new federal tax filing dates.

Description

Tax Base and Rate

Article 9 of the Tax Law imposes taxes and fees on a number of specialized industries, including public utilities, transportation and transmission companies, and agricultural cooperatives. The telecommunications industry and regulated utilities are the primary collection sources.

Section 183 provides for a franchise tax on the capital stock of transportation and transmission companies, including telecommunication, trucking, railroad, and other transportation companies. The tax is imposed at the highest of the following three alternatives:

- 1.5 mills per dollar of the net value of capital stock allocated to New York State;
- 0.375 mills per dollar of par value for each one percent of dividends paid on capital stock if dividends amount to 6 percent or more; or
- A minimum tax of $75.

Section 184 levies an additional franchise tax of 0.375 percent on the gross earnings of transportation and transmission companies. Gross earnings from international, interstate, and inter-Local Access Transport Areas (LATAs) services and 30 percent of intra-LATA gross receipts are excluded from the tax.

Railroad and trucking companies that elected to remain subject to Article 9 taxes (rather than to become subject to the corporate franchise tax imposed under Article 9-A) pay the tax at a rate of 0.375 percent of gross earnings, including an allocated portion of receipts from interstate transportation-related transactions.

Section 185 imposes a franchise tax on farmers, fruit-growers and other agricultural cooperatives through taxable years beginning before January 1, 2018. The tax is imposed at the highest of the following three alternatives:

- One mill per dollar of the net value of capital stock allocated to New York State;
- 0.25 mill per dollar of par value for each one percent of dividends paid on capital stock if dividends amount to 6 percent or more; or
- A minimum tax of $10.

Section 186-a imposes a two percent gross receipts tax on charges for the transportation, transmission, distribution, or delivery of electric and gas utility services for residential customers.

Section 186-e imposes a 2.5 percent gross receipts tax on charges for non-mobile telecommunication services. A 2.9 percent gross receipts tax is imposed on mobile telecommunication services.

Article 9 taxpayers that conduct business in the Metropolitan Commuter Transportation District (MCTD) are subject to a 17 percent surcharge on their liability attributable to the MCTD. The collections from the surcharge are deposited into the Mass Transportation Operating Assistance Fund (MTOAF).

Administration

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

Significant Legislation

Significant statutory changes to the corporation and utilities taxes since 2010 are summarized below.

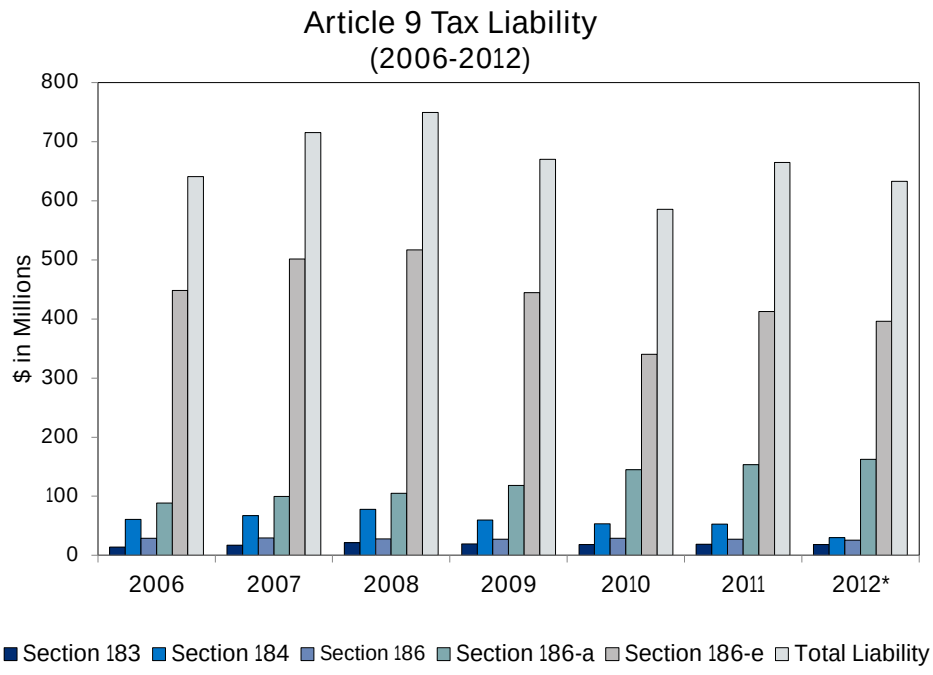
Subject	Description	Effective Date
Legislation Enacted in 2010		
Power for Jobs Program Extension	Extended the Power for Jobs Program through May 15, 2011.	August 4, 2010
Tax Credit Deferral	Capped aggregate business related tax credit claims at $2 million per taxpayer for each of tax years 2010, 2011 and 2012. The total amount of credits deferred can be claimed by affected taxpayers on returns for tax years 2013, 2014 and 2015.	January 1, 2010
Legislation Enacted in 2011		
Power for Jobs Program Extension	Extended the Power for Jobs Program through June 30, 2012. It was replaced with the Recharge New York program effective on the same date.	March 31, 2011

Subject	Description	Effective Date
Legislation Enacted in 2012		
Sections 183 & 184	Lowered the distribution to the Metropolitan Mass Transportation Operating Assistance account to 54 percent from 80 percent. The remaining 26 percent is distributed to the Public Transportation Systems Operating Assistance account. This distribution is in effect for one year, through March 31, 2013.	April 1, 2012
Legislation Enacted in 2013		
Charge NY Electric Vehicle Recharging Equipment Credit	Created a credit equal to 50 percent or $5,000 per station, whichever is less, of the cost of electric vehicle recharging or alternative fuel vehicle refueling equipment. The credit sunsets December 31, 2017.	January 1, 2013
LIPA Restructuring	Eliminated the requirement for LIPA to pay tax under Section 186. LIPA is still liable for the MTA surcharge.	January 1, 2014
Sections 183 & 184	Extended the distribution to the Metropolitan Mass Transportation Operating Assistance account of 54 percent of receipts and the Public Transportation Systems Operating Assistance account's distribution of 26 percent of receipts, through March 30, 2018.	April 1, 2013
START-UP NY	Established tax-free zones on or near qualifying university and college campuses. Qualifying businesses operating within such zones are exempt from taxation under Sections 180 and 181.	January 1, 2014
Minimum Wage Reimbursement Credit	Provided a refundable tax credit for tax years 2014 through 2018 equal to the product of the number of hours worked by qualifying minimum wage-earning employees and 1) $0.75 in tax year 2014; 2) $1.31 in tax year 2015; and 3) $1.35 in tax years 2016 through 2018. Qualifying employees must be students aged 16 to 19, and the credit is reduced if the federal minimum wage is increased to a level in excess of 85 percent of the New York minimum wage.	January 1, 2014
Legislation Enacted in 2014		
Repeal the franchise tax on agricultural cooperatives (Section 185)	Repeals the Article 9, Section 185 tax on agricultural co-operatives effective for tax years beginning on or after January 1, 2018.	January 1, 2018
Corporate Tax Reform	Repealed the organization tax on In-State corporations (Section 180) and the license and maintenance fees on Out-of-State corporations (Section 181).	January 1, 2015
	Made the MTA surcharge permanent.	January 1, 2015
Legislation Enacted in 2015		
Section 186-e on Mobile Telecommunication Services	Imposed a state excise tax rate of 2.9 percent and a 0.721 percent MCTD rate on the sale of mobile communications services and dedicated 7.6 percent of Section 186-e receipts to the MTOAF and the DHBTF. Both of these changes are effective May 1, 2015.	May 1, 2015
Alternative Fuel Vehicle Refueling Property Tax Credit	Allowed the credit for spending not covered by a grant. The amount of the credit is amended to equal the lesser of $5,000 or the product of 50 percent and the cost of any property less any costs paid from the proceeds of a grant.	January 1, 2015

Brownfields Clean-Up Program	Reformed the program and extended the tax credits through March 31, 2026. Reforms included the prioritization of (1) site redevelopment in economically distressed areas, (2) low income housing, or (3) properties that are upside down or underutilized; also provided for the creation of an expedited remediation program (BCP-EZ), a more detailed description of eligible costs for redevelopment tax credits, and allowed the real property tax and environmental remediation insurance credits to sunset.	July 1, 2015
START-UP NY Amendments	Added two airport facilities owned by the State of New York to be included as START-UP NY areas.	April 13, 2015

Tax Liability

The chart below shows Article 9 liability by tax section over the most recent seven available years, from 2006 through 2012. Data for 2012, the most recent data available, is from the Article 9 Tax Study File compiled by the Department of Taxation and Finance's Office of Tax Policy Analysis (OTPA). The tax year 2012 Study File liability includes inflated liability resulting from the 2010 legislation that deferred certain tax credit claims that would have otherwise been included on tax returns for tax years 2010 through 2012.



*Section 184 includes amended returns from taxpayers that provide mobile telecommunication services.

The increase in liability from 2006 through 2008 is primarily attributable to Sections 183, 184, and 186-e as the telecommunications industry experienced significant revenue growth due to a net

increase in new wireless subscribers. The overall decline since tax year 2008 marked the beginning of several significant changes to the telecommunications industry. An increasing share of monthly bills consist of data plans which are non-taxable as the result of legislation signed into law in October 1998 that codified existing State policy with regard to the taxation of internet access. Effective February 1, 1997, internet access service is not subject to the telecommunications excess tax imposed under Section 186-e. Households with both mobile and landline phones increasingly opted to discontinue their use of landlines, customers began moving towards inexpensive prepaid plans instead of postpaid plans, and use of internet-based communication tools such as Twitter, Facebook and other messaging applications (apps) and services became more widespread.

The table below shows significant events in the telecommunications industry that have impacted tax liability as described above. Changes to the telecommunications industry since 2012 could negatively impact the tax liability going forward because they shift revenue from the taxable base to the non-taxable base.

SIGNIFICANT EVENTS IN THE TELECOMMUNICATIONS INDUSTRY	
Year	Event
2006	Blackberry Messenger released
2007	First iPhone sold with AT&T as the sole carrier
2008	Peak household ownership of landline and wireless telephone service in US
2010	First 4G LTE phone sold in US
2011	Verizon starts selling the iPhone, the first time a carrier other than AT&T carries the iPhone
2011	Facebook Messenger introduced
2011	iMessage released
2012	Smartphones account for more than half of active cell phones in the US for the first time
2012	Verizon begins offering new shared data plans
2012	Average text messages per month per person in the US declines for the first time
2013	Major carriers offer unsubsidized phone plans
2013	Data revenue exceeds voice revenue for the first time in the US
2015	Apple offers financing for the iPhone
2016	AT&T is the only major carrier to offer a subsidized phone plan

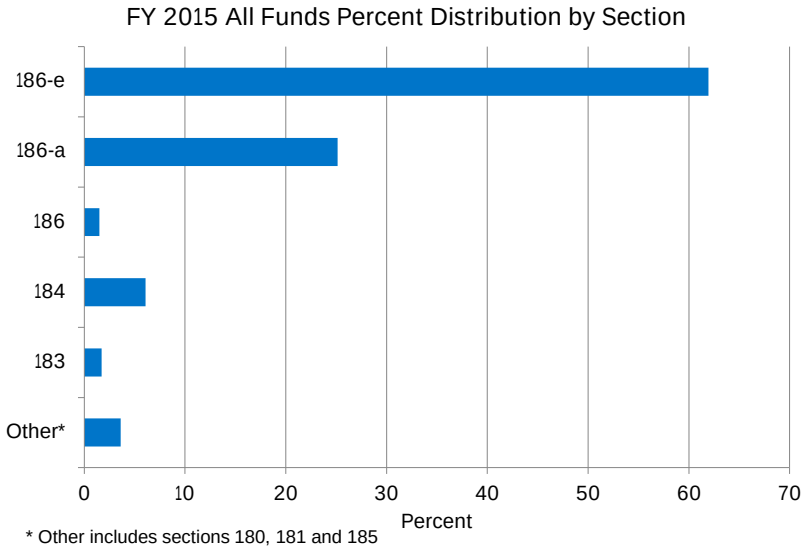
Industry Profile

For tax year 2012, Sections 186-a and 186-e represented the largest share of tax liability under Article 9 representing a combined 88 percent of total liability. Combined, sections 183 and 184 represented just under eight percent of total liability. Although a broad range of industries are represented on the study file for Sections 183 and 184, the overwhelming portion of the tax is paid by the telecommunications industry, which represented approximately 51 percent of total tax paid for Section 183 and approximately 91 percent for Section 184. For Section 183, management of companies and enterprises made up the second largest industry (approximately 27 percent).

In Section 184, truck transportation represented approximately five percent of total liability. The same pattern is exhibited by Section 186-e, the excise tax on telecommunication services. Nearly all of Section 186-e tax liability was paid by the telecommunications industry. Section 186-a is the gross receipts tax paid on the furnishing of utility services and the majority of that tax was paid by the utilities industry.

Receipts: By Section

The bar graph below depicts the share of total FY 2015 Article 9 All Funds attributable to each section of Article 9. Section 186-e, the gross receipts tax on telecommunications services, represents nearly 62 percent of All Funds receipts. The next largest section, 186-a, the gross receipts tax on utility services, represents approximately 25 percent.



The table below reflects the tax collections attributable to each section of Article 9 for FY 2015, FY 2016, and FY 2017. The All Funds total reflects taxes from the various sections prior to the distribution of receipts from sections 183, 184 and 186-e to MTOAF and DHBTF.

CORPORATION AND UTILITIES BY TAX LAW SECTION (millions of dollars)				
Section of Law	Type of Companies	FY 2015 Actual	FY 2016 Estimated	FY 2017 Projected
180 [1]	Organization tax on New York (domestic) corporations	0.3	0.0	0.0
181 [1, 2]	License and maintenance fees on out-of-State (foreign) corporations	26.5	21.0	5.0
183	Franchise tax on transporation and transmission companies	11.0	11.0	11.0
184	Additional franchise tax on transportation and transmission companies	36.5	36.5	36.5
185	Franchise tax on agricultural cooperatives	(0.3)	0.1	0.1
186	Franchise tax on water, steam, gas, electric, light and power companies	6.3	(12.0)	1.0
186a	Gross receipts tax on public utilities	161.9	180.0	185.0
186e	Excise tax on telecommunications	382.0	423.3	412.7
Other	186-a (non-PSC) and 189	(0.2)	0.0	0.0
Various	MTA Surcharge	103.3	107.0	110.0
	All Funds Total	727.3	766.9	761.3
	Less Other Funds			
	MTA Surcharge	103.3	107.0	110.0
	MTOAF [3]	38.0	57.0	57.8
	DHBTF [3]	9.5	13.9	14.5
	General Fund	576.5	589.0	579.0

[1] Repealed for tax years beginning on or after January 1, 2015.
[2] Due to the filing period, payments are expected to continue to be received through FY 2018.
[3] Includes Sections 183, 184, and 186e.

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

Receipts: Estimates and Projections

CORPORATION AND UTILITIES TAX (millions of dollars)							
	FY 2015 Actual	FY 2016 Estimated	Change	Percent Change	FY 2017 Projected	Change	Percent Change
General Fund							
Non-Audit Receipts	567	550	(17)	(3.1)	549	(1)	(0.1)
Audit Receipts	9	39	30	321.5	30	(9)	(23.5)
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	577	589	13	2.2	579	(10)	(1.7)
Other Funds							
Non-Audit Receipts	144	161	17	12.0	168	7	4.5
Audit Receipts	7	17	10	140.0	14	(3)	(16.7)
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	151	178	27	18.0	182	4	2.5
All Funds							
Non-Audit Receipts	711	711	(0)	(0.0)	717	6	0.9
Audit Receipts	16	56	40	243.6	44	(12)	(21.4)
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	727	767	40	5.4	761	(6)	(0.7)

Note: Totals may differ due to rounding.

All Funds

FY 2016 Estimates

All Funds preliminary receipts through December are $487.3 million, an increase of $11.7 million (2.5 percent) from the comparable period in the prior fiscal year. This increase is due to higher audit receipts partially offset by lower gross receipts from telecommunication taxpayers.

All Funds FY 2016 receipts are estimated to be $766.9 million, an increase of $39.6 million (5.4 percent) from FY 2015. This is mainly attributable to a significant increase in audit receipts and gross receipts from regulated public utilities.

FY 2017 Projections

All Funds FY 2017 receipts are projected to be $761.3 million, a decrease of $5.6 million (0.7 percent) from FY 2016. This decrease is mainly attributable to lower projected audit receipts with tax year 2016 liability payments expected to grow modestly from the prior year.

General Fund

General Fund FY 2016 receipts are estimated to be $589 million, an increase of $12.5 million (2.2 percent) from FY 2015. The increase reflects the same trends impacting FY 2016 All Funds receipts.

General Fund FY 2017 receipts are projected to be $579 million, a decrease of $10 million (1.7 percent) from FY 2016. The decrease reflects the same trends impacting FY 2017 All Funds receipts.

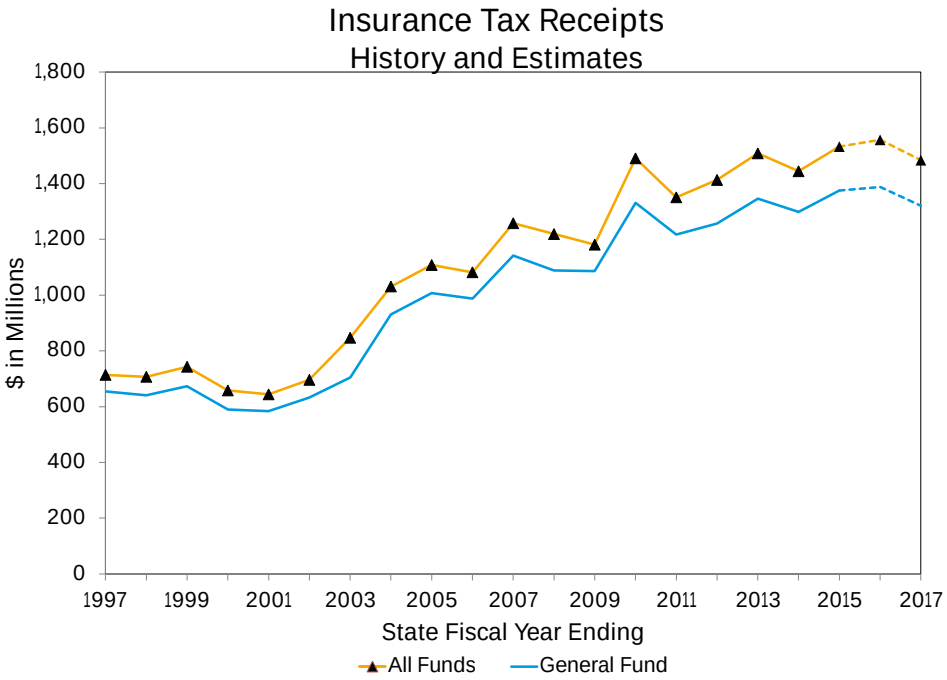
Other Funds

Eighty percent of Section 183 and 184 and 6.08 percent of Section 186-e collections are deposited into the MTOAF and will total an estimated $57 million for FY 2016 and $57.8 million for FY 2017. The remaining twenty percent of Section 183 and 184 and 1.52 percent of Section 186-e are earmarked for the DHBTF. DHBTF receipts are estimated at $13.9 million in FY 2016 and projected at $14.5 million for FY 2017.

Corporation and utilities tax receipts from the business tax surcharge deposited to MTOAF generally reflect the All Funds trends described above. The MCTD 17 percent business tax surcharge will result in MTOAF deposits of an estimated $107 million in FY 2016 and a projected $110 million in FY 2017.

INSURANCE TAXES (millions of dollars)							
	FY 2015 Actual	FY 2016 Estimated	Change	Percent Change	FY 2017 Projected	Change	Percent Change
General Fund	1,375.0	1,388.0	13.1	0.9	1,321.0	(67.0)	(4.8)
Other Funds	157.9	169.0	11.2	7.1	163.0	(6.0)	(3.6)
All Funds	1,532.8	1,557.0	24.2	1.6	1,484.0	(73.0)	(4.7)

Note: Totals may differ due to rounding.



INSURANCE TAXES BY FUND (millions of dollars)							
	Gross General Fund	Refunds	General Fund	Gross Special Revenue Funds	Refunds	Special Revenue Funds[1]	All Funds Receipts
FY 2007	1,176	34	1,142	122	6	116	1,258
FY 2008	1,122	34	1,088	139	8	131	1,219
FY 2009	1,135	49	1,086	106	11	95	1,181
FY 2010	1,360	29	1,331	167	7	160	1,491
FY 2011	1,248	31	1,217	140	6	134	1,351
FY 2012	1,290	33	1,257	163	6	157	1,414
FY 2013	1,397	51	1,346	171	8	163	1,509
FY 2014	1,335	37	1,298	154	8	146	1,444
FY 2015	1,391	16	1,375	167	9	158	1,533
Estimated							
FY 2016	1,418	30	1,388	176	7	169	1,557
FY 2017							
Current Law	1,351	30	1,321	170	7	163	1,484
Proposed Law	1,351	30	1,321	170	7	163	1,484

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

Proposed Legislation

Legislation proposed with this Budget would:

- Extend the Hire-a-Vet Tax Credit for two years;
- Extend the Excelsior Jobs Program for five years;
- Authorize additional credits of $8 million for the Low-Income Housing Credit for each of the next five fiscal years;
- Establish education tax credits;
- Permanently extend tax shelter reporting requirements; and
- Conform to new federal tax filing dates.

Description

Tax Base and Rate

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

Tax Rate on Non-Life Insurers

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

Tax Rate on Life Insurers

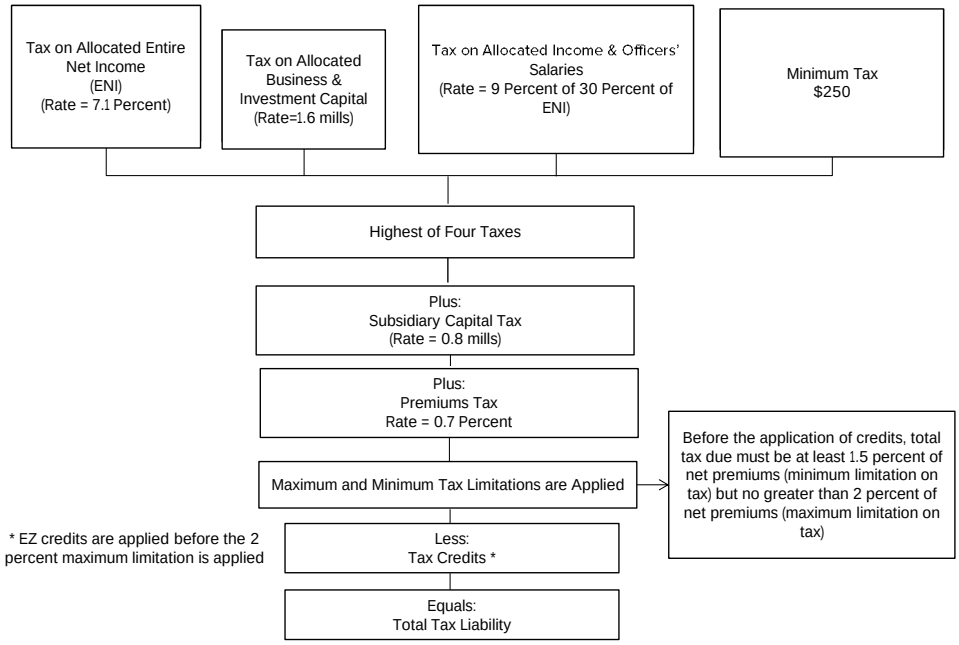
The franchise tax on life insurers has two components. The first component is a franchise tax computed under four alternative bases, with tax due based on the highest tax calculated under the four alternative bases. In addition, a 0.8 of one mill tax rate applies to each dollar of subsidiary capital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

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

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

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

Computation of Article 33 Tax on Life Insurance Companies



Generally, taxpayers with a tax liability that exceeds the floor may not reduce their liability with tax credits to a level below the floor. However, taxpayers may use Empire Zone and Zone Equivalent Area tax credits to do so. Entry into the Empire Zone Program expired on June 30, 2010. There are no new entrants into the program, but current participants will be claiming credits for the remainder of their benefit period.

Article 33 taxpayers conducting business in the Metropolitan Commuter Transportation District (MCTD) are subject to a 17 percent surcharge on the portion of their tax liability which is attributable to the MCTD area. The collections from the surcharge are deposited into the Mass Transportation Operating Assistance Fund (MTOAF).

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

Other Taxes Imposed on Insurers

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

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

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

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

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

Nevertheless, there are a variety of mechanisms for taxing insurance corporations throughout the states, and differences in overall tax rates among the states are inevitable. New York provides an additional measure of protection for its domestic insurance industry by allowing domestic

corporations to claim a credit under Article 33 of the Tax Law for 90 percent of the retaliatory taxes legally required to be paid to other states.

Administration

Insurance companies that reasonably expect their tax liability to exceed $1,000 for the current tax year are required to make a mandatory first installment of estimated tax and three additional estimated payments. The mandatory first installment is due 75 days from the end date of a taxpayer's fiscal year. The remaining three estimated tax payments are due on the 15th day of the third month of the fiscal year quarter. The majority of taxpayers have a fiscal year that ends December 31. The mandatory first installment for these taxpayers is due March 15 with the remaining three estimated payments due on June 15, September 15 and December 15. A final payment is also required of all taxpayers. This payment is due with the mandatory first installment. Taxpayers that expect their tax liability to exceed $100,000 for the current tax year are required to make a mandatory first installment equal to 40 percent of their prior year liability. Taxpayers with expected liability greater than $1,000 and less than $100,000 make a mandatory first installment equal to 25 percent of their prior year liability. Life insurance companies with expected liability less than $1,000 make no mandatory first installment.

Tax Expenditures

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

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

Significant Legislation

Significant statutory changes to insurance taxes since 2010 are summarized below.

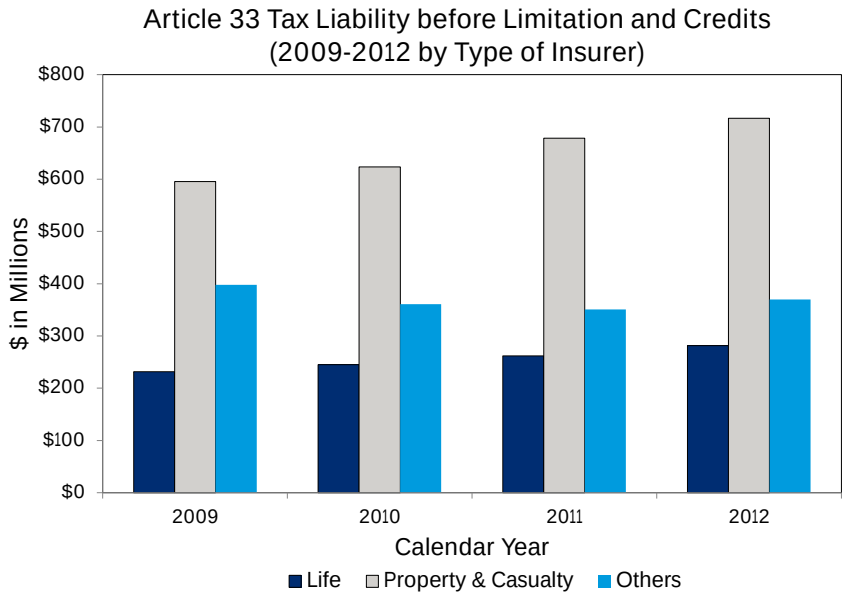
Subject	Description	Effective Date
Legislation Enacted in 2010		
Historic Properties Tax Credits	Allowed insurance companies to claim the nonresidential tax credit for historic property.	January 1, 2010
Tax Credit Deferral	Capped aggregate business related tax credit claims at $2 million per taxpayer for each of tax years 2010, 2011 and 2012. The total amount of credits deferred can be claimed by affected taxpayers on returns for tax years 2013, 2014 and 2015.	January 1, 2010
Technical Changes to Empire Zones Program	Made technical corrections to the 2009-10 Enacted Budget Empire Zones Program changes. Clarified that the Legislature intended to decertify certain businesses retroactively to the 2008 tax year, clarified reporting provisions, and allowed qualified investment projects to claim the investment tax credit and employee incentive tax credit after June 30, 2010.	August 11, 2010
Excelsior Jobs Program	Established a new economic development program to provide incentives based on job creation, investment and research and development expenditures in New York State.	July 1, 2010
Legislation Enacted in 2011		
Conformity with Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010	Conformed New York's taxation of excess lines and independently procured insurance to this Federal change. The Dodd-Frank legislation gave the "home state" of the insured the sole authority to regulate and collect taxes on these transactions.	July 21, 2011
Excelsior Jobs Program Amendments	Modified the credit to make it more widely available and attractive and created a new energy incentive. It also lengthened the benefit period from five to ten years.	March 31, 2011
Economic Transformation and Facility Redevelopment Program	Provided tax incentives to businesses to stimulate redevelopment in targeted communities where certain correctional or juvenile facilities are closed (economic transformation areas). This program will expire on December 31, 2021.	March 31, 2011
Legislation Enacted in 2013		
Royalty Income Loophole	Closed a loophole that allowed New York companies that earn royalty income to avoid paying taxes on that income. New York taxpayers must show on their tax return that the taxpayer's Non-New York parent company included the royalty income in its tax liability. The demonstration absolves taxpayers of the obligation to pay tax on their royalty income.	January 1, 2013
Historic Properties Tax Credit	Extended for five years the maximum Historic Preservation Tax Credit amount of $5 million, which had previously been scheduled to revert to $100,000 following the conclusion of tax year 2014, and permanently made the credit refundable for tax years beginning on or after January 1, 2015.	January 1, 2015
Hire-a-Vet	Provided a refundable tax credit for tax years 2015 and 2016 equaling 10 percent of the wages paid to a qualified veteran (capped at $5,000) and 15 percent of wages paid to a qualified veteran (capped at $15,000).	January 1, 2015

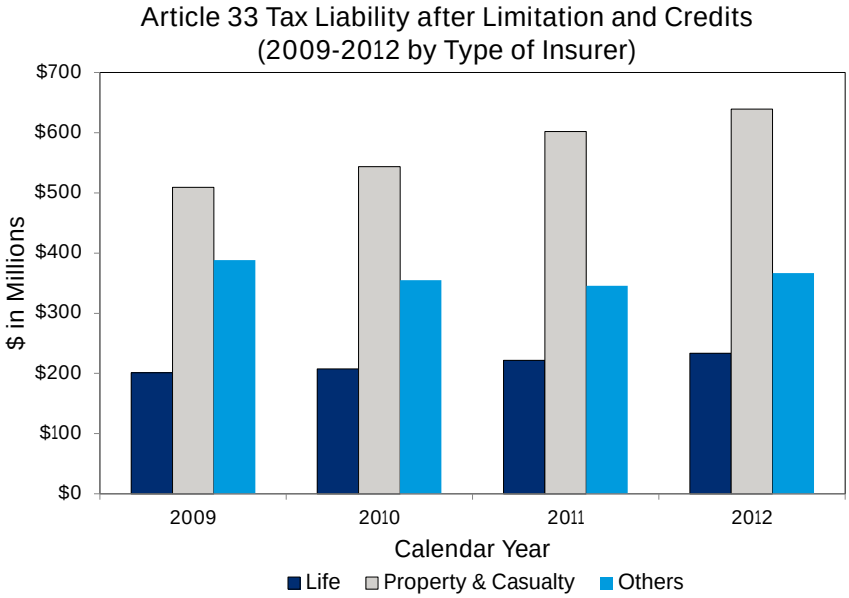
Subject	Description	Effective Date
Minimum Wage Reimbursement Credit	Provided a refundable tax credit for tax years 2014 through 2018 equal to the product of the number of hours worked by qualifying minimum wage-earning employees and 1) $0.75 in tax year 2014; 2) $1.31 in tax year 2015; and 3) $1.35 in tax years 2016 through 2018. Qualifying employees must be students aged 16 to 19, and the credit is reduced if the federal minimum wage is increased to a level in excess of 85 percent of the New York minimum wage.	January 1, 2014
Excelsior Jobs Program	Changed the job requirement parameters for the Excelsior Jobs Program and allowed a portion of the unallocated tax credits from any taxable year to be used to award tax credits in another taxable year.	May 27, 2013
Legislation Enacted in 2014		
Corporate Tax Reform	Made the MTA surcharge permanent.	January 1, 2015
Legislation Enacted in 2015		
Expand the Excelsior Jobs Program	Expanded eligibility for the program to include entertainment companies that meet certain criteria, music production companies and video game software developers.	April 13, 2015
Brownfields Clean-Up Program	Reformed the program and extended the tax credits through March 31, 2026. Reforms included the prioritization of (1) site redevelopment in economically distressed areas, (2) low income housing, or (3) properties that are upside down or underutilized; also provided for the creation of an expedited remediation program (BCP-EZ), a more detailed description of eligible costs for redevelopment tax credits, and allowed the real property tax and environmental remediation insurance credits to sunset.	July 1, 2015

Tax Liability

The Department of Taxation and Finance's Insurance Franchise Tax Study File contains tax liability data for the 2012 tax year, the most recent year for which such data are available. Liability for tax years 2010 through 2012 is artificially inflated as a result of 2010 legislation that deferred certain tax credit claims (to tax years 2013 through 2015) that would have otherwise been included on tax returns for tax years 2010 through 2012. The most recent Study File indicates that the property and casualty sector is the largest sector, accounting for 51 percent of total tax liability. Other insurers, which include accident and health insurers, are the second largest, with 30 percent of total liability. The 19 percent balance is attributable to life insurers. Modest growth in recent years is primarily attributable to the property and casualty sector.

The following graphs show insurance tax liability for life insurers, property and casualty insurers and all other insurers from 2009 through 2012 before and after the application of the limitation of tax due as determined by taxable premiums and credits.





Property and Casualty and Life Companies

The table below reports actual property and casualty premiums and growth from 2008 through 2014 for New York State. The three largest lines of business under the property and casualty sector in 2014 were automobile, general liability and worker's compensation. Total premiums for property and casualty companies grew by 3.4 percent in 2014, a decrease in growth from the prior two years of greater than five percent growth. In 2014, all lines of insurance showed slower

growth than 2013 with the exception of automobile. Growth in general liability and commercial multi-peril was nearly halved while worker's compensation experienced the largest growth rate decline of any line of insurance.

PROPERTY AND CASUALTY INSURANCE PREMIUMS
NEW YORK CALENDAR YEAR
(millions of dollars/percent)

Lines of Insurance	2008	2009	2010	2011	2012	2013	2014
Automobile	11,709.5	11,744.2	11,895.0	12,148.3	12,636.8	13,074.0	13,583.6
percent change	(0.5)	0.3	1.3	2.1	4.0	3.5	3.9
Worker's Compensation	3,501.0	3,423.1	3,623.2	4,157.4	4,754.7	5,191.5	5,261.1
percent change	(17.2)	(2.2)	5.8	14.7	14.4	9.2	1.3
Commercial Multi-Peril	3,058.0	3,025.6	2,986.5	3,056.9	3,249.5	3,487.5	3,613.5
percent change	(0.4)	(1.1)	(1.3)	2.4	6.3	7.3	3.6
General Liability	4,487.9	4,154.6	4,137.6	4,089.0	4,466.1	4,977.7	5,313.7
percent change	4.2	(7.4)	(0.4)	(1.2)	9.2	11.5	6.8
Homeowner's Multi-Peril	4,079.1	4,219.3	4,336.1	4,499.7	4,704.4	4,901.5	5,085.5
percent change	4.4	3.4	2.8	3.8	4.5	4.2	3.8
Other	7,059.0	6,314.0	6,036.0	6,196.3	6,133.0	6,373.1	6,436.3
percent change	0.2	(10.6)	(4.4)	2.7	(1.0)	3.9	1.0
TOTAL P/C PREMIUMS	33,894.5	32,880.8	33,014.4	34,147.6	35,944.4	38,005.2	39,293.8
percent change	(1.3)	(3.0)	0.4	3.4	5.3	5.7	3.4

Source: New York State Department of Financial Services Annual Report to the Governor and the Legislature and the and the NAIC's I-site for 2014.

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

Receipts: Estimates and Projections

INSURANCE TAXES
(millions of dollars)

	FY 2015 Actual	FY 2016 Estimated	Change	Percent Change	FY 2017 Projected	Change	Percent Change
General Fund							
Non-Audit Receipts	1,364	1,367	3	0.2	1,300	(67)	(4.9)
Audit Receipts	11	21	10	92.7	21	0	0.0
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	1,375	1,388	13	0.9	1,321	(67)	(4.8)
Other Funds							
Non-Audit Receipts	147	159	12	7.9	153	(6)	(3.8)
Audit Receipts	11	10	(1)	(5.7)	10	0	0.0
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	158	169	11	7.0	163	(6)	(3.6)
All Funds							
Non-Audit Receipts	1,511	1,526	15	1.0	1,453	(73)	(4.8)
Audit Receipts	22	31	10	44.2	31	0	0.0
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	1,533	1,557	24	1.6	1,484	(73)	(4.7)

Note: Totals may differ due to rounding.

All Funds

FY 2016 Estimates

All Funds preliminary receipts through December are $927.6 million, an increase of $29 million (3.2 percent) from the comparable period in the prior fiscal year. This increase is mainly attributable to an unusual prior period adjustment received in July 2015.

All Funds FY 2016 receipts are estimated to be $1,557 million, an increase of $24.2 million (1.6 percent) from FY 2015. This increase is primarily attributable to a modest increase in tax year 2015 liability payments.

FY 2017 Projections

All Funds FY 2017 receipts are projected to be $1,484 million, a decrease of $73 million (4.7 percent) from FY 2016. This decrease is primarily attributable to the first full year impact of the tax credit for assessments paid to the Life Insurance Guaranty Corporation (LIGC) subsequent to the bankruptcy of the Executive Life Insurance Company. The LIGC exists to ensure policy-holders are held harmless when their insurer becomes insolvent.

General Fund

General Fund FY 2016 receipts are estimated to be $1,388 million, an increase of $13 million (0.9 percent) from FY 2015. The increase reflects the same trends impacting FY 2016 All Fund receipts.

General Fund FY 2017 receipts are projected to be $1,321 million, a decrease of $67 million (4.8 percent) from FY 2016. The decrease reflects the same trends impacting All Funds receipts for FY 2017.

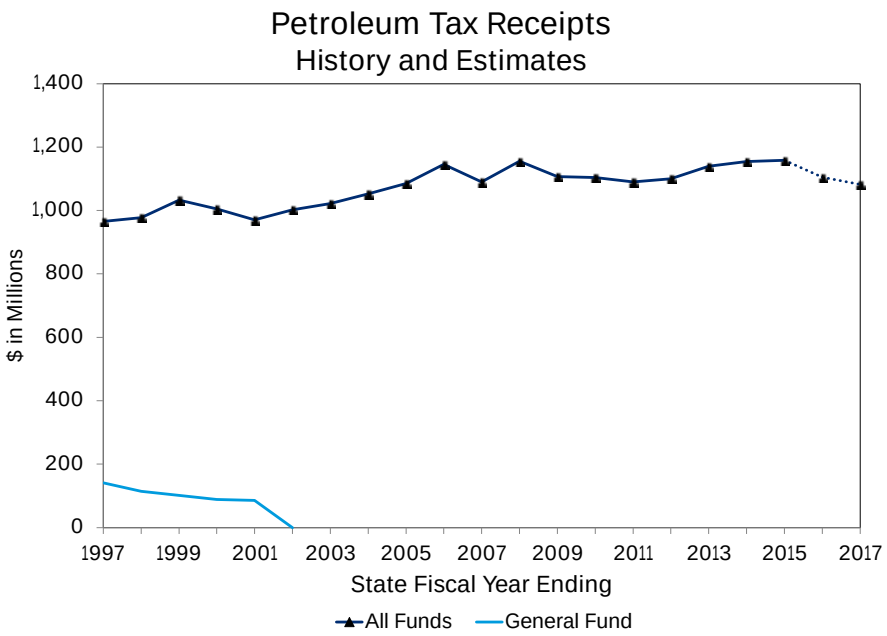
Other Funds

Insurance tax receipts from the business tax surcharge deposited to MTOAF generally reflect the All Funds trends described above. The MCTD 17 percent business tax surcharge will result in MTOAF deposits of an estimated $169 million in FY 2016 and a projected $163 million in FY 2017.

Petroleum Business Taxes

PETROLEUM BUSINESS TAXES (millions of dollars)							
	FY 2015 Actual	FY 2016 Estimate	Change	Percent Change	FY 2017 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	1,158.3	1,105.0	(53.3)	(4.6)	1,082.0	(23.0)	(2.1)
All Funds	1,158.3	1,105.0	(53.3)	(4.6)	1,082.0	(23.0)	(2.1)

Note: Totals may differ due to rounding.



PETROLEUM BUSINESS TAXES BY FUND (millions of dollars)								
	Net General Fund	Gross Special Revenue Funds	Refunds	Net Special Revenue Funds[1]	Gross Capital Projects Funds	Refunds	Net Capital Projects Funds[2]	Net All Funds Receipts
FY 2007	0	493	7	486	613	9	604	1,090
FY 2008	0	525	11	514	659	18	641	1,155
FY 2009	0	508	15	493	639	25	614	1,107
FY 2010	0	502	11	491	631	18	613	1,104
FY 2011	0	497	13	484	626	20	606	1,090
FY 2012	1	505	17	488	638	27	611	1,100
FY 2013	0	521	15	506	658	24	634	1,140
FY 2014	0	531	17	514	668	27	641	1,155
FY 2015	0	537	23	514	681	37	644	1,158
Estimated								
FY 2016	0	508	17	491	641	27	614	1,105
FY 2017								
Current Law	0	498	17	481	629	27	602	1,083
Proposed Law	0	498	17	481	628	27	601	1,082

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

Proposed Legislation

Legislation proposed with this Budget would:

- Extend the alternative fuels tax exemptions for five years; and
- Amend State and local tax law for consistency with Federal tax regulations on aviation fuel.

Description

Tax Base and Rate

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

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

Based on changes in the petroleum PPI, the PBT rate index decreased by 3.2 percent on January 1, 2015, and decreased by 5 percent on January 1, 2016. The petroleum PPI is estimated to decrease by 16.7 percent through August 2016, resulting in a 5 percent decrease in PBT rates on January 1, 2017.

PETROLEUM BUSINESS NET TAX RATES FOR 2015- 2017 (cents per gallon)									
	2015			2016			2017		
Petroleum Product	Base	Supp	Total	Base	Supp	Total	Base	Supp	Total[1]
Automotive fuel									
Gasoline and other non diesel	10.70	7.10	17.80	10.20	6.80	17.00	9.70	6.50	16.20
Highway Use Diesel	10.70	5.35	16.05	10.20	5.05	15.25	9.70	4.80	14.50
Aviation gasoline or Kero-Jet	7.10	0.00	7.10	6.80	0.00	6.80	6.50	0.00	6.50
Non-Highway Use diesel fuels									
Commercial Gallonage	9.70	0.00	9.70	9.30	0.00	9.30	8.80	0.00	8.80
Nonresidential heating	5.20	0.00	5.20	5.00	0.00	5.00	4.80	0.00	4.80
Residual petroleum products									
Commercial gallonage	7.40	0.00	7.40	7.10	0.00	7.10	6.70	0.00	6.70
Nonresidential heating	4.00	0.00	4.00	3.80	0.00	3.80	3.60	0.00	3.60
Railroad diesel fuel	9.40	0.00	9.40	8.90	0.00	8.90	8.50	0.00	8.50

[1] Projected — The projected petroleum producer price index decrease of 16.7 percent through August 2016 will result in a projected decrease of 5 percent in the PBT rate index on January 1, 2017.

PETROLEUM PPI AND PETROLEUM BUSINESS TAX RATE INDEX (percent change)		
Year	Petroleum PPI	PBT Rate Index
2007	35.9	5.0
2008	(1.2)	(1.2)
2009	42.1	5.0
2010	(34.9)	(5.0)
2011	18.6	5.0
2012	29.8	5.0
2013	9.2	5.0
2014	(0.8)	(0.8)
2015	(3.2)	(3.2)
2016	(29.1)	(5.0)
2017*	(16.7)	(5.0)
* Estimated		

The Motor Fuel Tax section contains a table showing New York's combined fuel tax rank among the 50 states and the District of Columbia.

Administration

The tax is collected monthly in conjunction with the State motor fuel tax (Article 12-A). Article 13-A also imposes the petroleum business carrier tax on fuel purchased outside New York and consumed within the State. The carrier tax is collected quarterly along with the fuel use tax portion of the highway use tax (see section titled Highway Use Tax).

Businesses with yearly motor fuel and petroleum business tax liability of more than $5 million are required to remit, using electronic funds transfer, their tax liability for the first 22 days of the month within three business days after that date. Taxpayers can choose to make either a minimum payment of three-fourths of the comparable month's tax liability for the preceding year, or 90 percent of actual liability for the first 22 days. The tax for the balance of the month is paid with the monthly returns filed by the twentieth of the following month.

Tax Expenditures

Specifically exempted from Article 13-A taxes are fuels used for manufacturing, residential or not-for-profit organization heating purposes, fuel sold to governments, sales for export from the State, kerosene other than kero jet fuel, crude oil, liquefied petroleum gas (LPG), certain bunker fuel, and motor fuels sold to volunteer ambulance and volunteer fire departments. For a complete list of tax expenditure items related to the PBT, see the New York State Tax Expenditure Report.

Significant Legislation

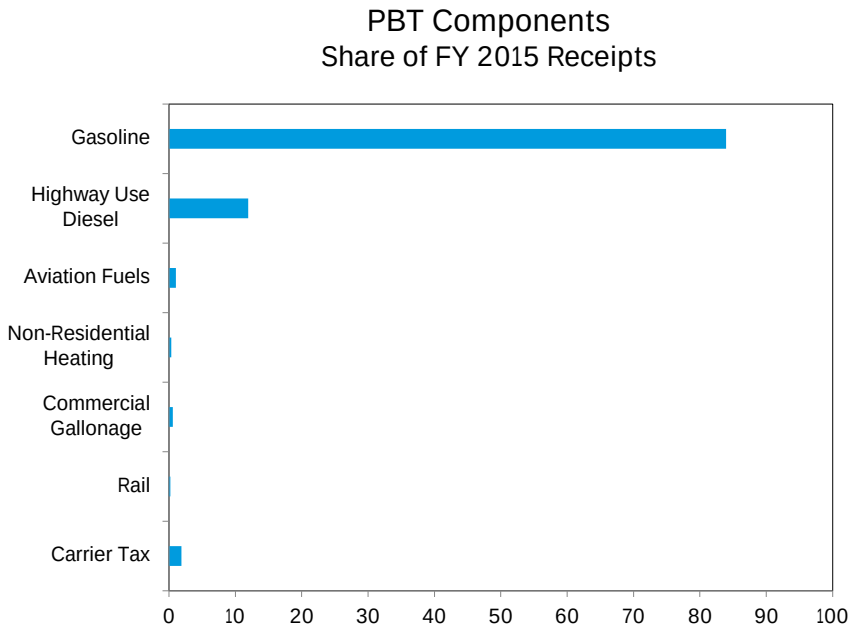
Significant statutory changes to petroleum business taxes since 2010 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 2011		
Alternative Fuels	Extended PBT exemptions on alternative fuels through August 31, 2012.	September 1, 2011
Modernize Fuel Definitions	Modernized fuel definitions to conform to changes in Federal and State Law.	September 1, 2011
Legislation Enacted in 2012		
Alternative Fuels	Extended PBT exemptions on alternative fuels through August 31, 2014.	September 1, 2012
Legislation Enacted in 2013		
Volunteer First Responders	Provides a reimbursement for motor fuel and diesel motor fuel used by volunteer ambulance and fire departments.	June 1, 2013
Interdistributor Sales	Allowed for tax free interdistributor sales of highway diesel motor fuel sold below the rack (i.e., not delivered by truck).	August 1, 2013

Subject	Description	Effective Date
Legislation Enacted in 2014		
Alternative Fuel	Extended the exemption on alternative fuels through August 31, 2016.	September 1, 2014

Tax Liability

Petroleum business tax receipts are primarily a function of the number of gallons of fuel imported into the State by distributors. Taxable gallonage is largely determined by overall fuel prices, the number of gallons held in inventories, the fuel efficiency of motor vehicles and State economic performance. The following chart displays the composition of PBT receipts by fuel type.



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

Receipts: Estimates and Projections

All Funds

FY 2016 Estimates

All Funds preliminary receipts through December are $848.6 million, a decrease of $34.5 million (3.9 percent) from the comparable period in the prior fiscal year.

All Funds FY 2016 receipts are estimated to be $1,105 million, a decrease of $53.3 million (4.6 percent) from FY 2015. The decrease in receipts is primarily due to the 3.2 percent decrease in the PBT index on January 1, 2015, paired with the 5 percent decrease in the PBT index on January 1, 2016.

Petroleum business tax receipts derived from motor fuel and diesel motor fuel are assumed to follow the same consumption trends as fuel subject to the motor fuel excise tax (see section titled Motor Fuel Tax).

FY 2017 Projections

All Funds FY 2017 receipts are projected to be $1,082 million, a decrease of $23 million (2.1 percent) from FY 2016. This is due to a 5 percent decrease in the PBT index, effective January 1, 2016, paired with a projected 5 percent decrease in the PBT index on January 1, 2017. The proposed alternative fuels exemption extender lowers FY 2017 total receipts by $1 million.

General Fund

No PBT receipts are deposited into the General Fund.

Other Funds

The base and supplemental tax are split as follows:

PBT BASE AND SUPPLEMENTAL TAX FUND DISTRIBUTION (percent)

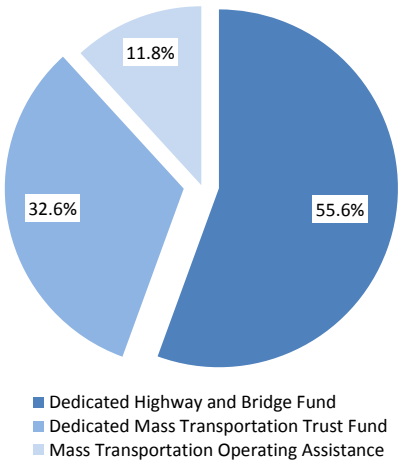
Effective Date	MTOAF[1]	Dedicated Funds Pool[2]
Base Tax	19.7	80.3
Supplemental Tax	0.0	100.0

[1] This fund is split between the Public Transportation System Operating Assistance Account and the Metropolitan Mass Transportation Operating

[2] This pool is split between the Dedicated Mass Transportation Trust Fund (37 percent) and the Dedicated Highway and Bridge Trust Fund (63 percent).

Petroleum business tax receipts in FY 2016 are estimated to be $130.3 million for the Mass Transportation Operating Assistance Fund (MTOA), $614 million for the Dedicated Highway and Bridge Trust Fund (DHBTF), and $360.7 million for the Dedicated Mass Transportation Trust Fund (DMTTF). Petroleum business tax receipts in FY 2017 are projected to be $127.6 million for MTOA, $601.2 million for the DHBTF, and $353.2 million for DMTTF.

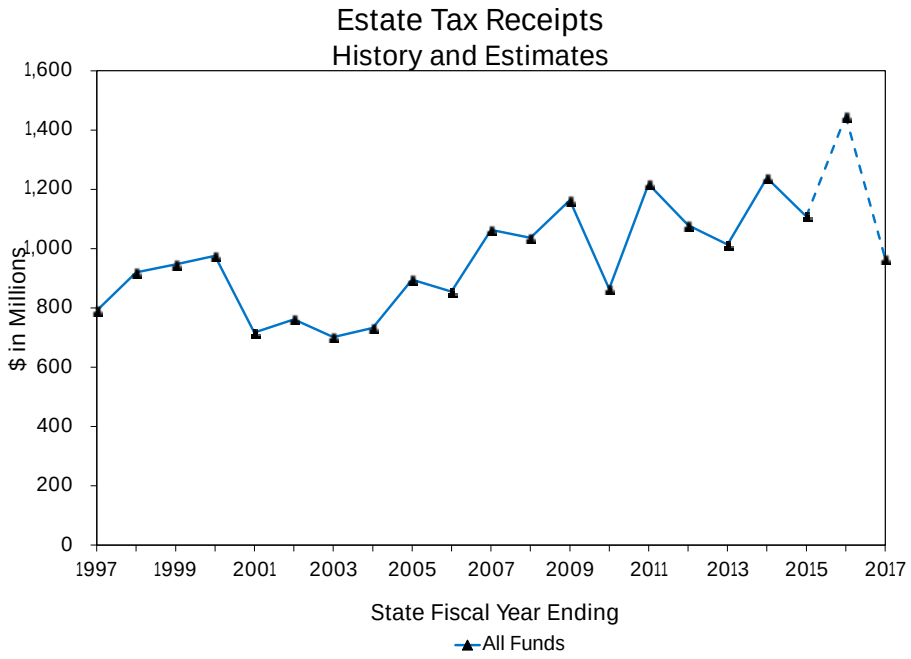
Estimated PBT Receipts FY 2016



Estate Tax

ESTATE TAX (millions of dollars)							
	FY 2015 Actual	FY 2016 Estimated	Change	Percent Change	FY 2017 Projected	Change	Percent Change
General Fund	1,108.5	1,446.0	337.5	30.4	965.0	(481.0)	(33.3)
Other Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All Funds	1,108.5	1,446.0	337.5	30.4	965.0	(481.0)	(33.3)

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



ESTATE TAX BY FUND (millions of dollars)				
	Gross General Fund	Refunds	General Fund	All Funds Receipts
FY 2007	1,122	59	1,053	1,053
FY 2008	1,079	42	1,037	1,037
FY 2009	1,279	114	1,165	1,165
FY 2010	911	45	866	866
FY 2011	1,270	51	1,219	1,219
FY 2012	1,148	69	1,079	1,079
FY 2013	1,070	56	1,014	1,014
FY 2014	1,294	56	1,238	1,238
FY 2015	1,169	60	1,109	1,109
Estimated				
FY 2016	1,506	60	1,446	1,446
FY 2017				
Current Law	1,025	60	965	965
Proposed Law	1,025	60	965	965

Proposed Legislation

Legislation proposed with this Budget would eliminate charitable givings as a factor in determining domicile for the estate tax.

Description

Tax Base and Rate

New York imposes a tax on the estates of deceased State residents and on the part of a nonresident's estate made up of real and tangible personal property located within New York State. The New York estate tax is based on the estate tax provisions of the Federal Internal Revenue Code, with New York modifications.

The tax base is calculated by first determining the value of the gross estate using Federal estate tax provisions. The Federal gross estate comprises the total amount of real estate, stocks and bonds, mortgages, notes, cash, insurance on the decedent's life, jointly owned property, other miscellaneous property, transfers during the decedent's life, powers of appointment, and annuities that the decedent owned.

The Federal gross estate is reduced by the Qualified Conservation Easement Exclusion and the following deductions: funeral expenses and expenses incurred in administering property subject to claims; debts of the decedent; mortgages and liens; net losses during administration, and expenses incurred in administration of the property not subject to claims; bequests to a surviving spouse (marriage deduction); charitable, public, and similar gifts; and a qualified family-owned business interest deduction. This yields the taxable estate for New York and becomes the basis for calculating New York's estate tax.

The total value of all items of real and tangible personal property of the taxpayer located outside of New York State is divided by the taxpayer's Federal gross estate to arrive at the proportion of the estate outside New York State. This proportion is then used to allocate the taxable estate to New York.

The computation of New York State estate taxes is a graduated schedule with rates that range from 3.06 percent on adjusted taxable estates not in excess of $500,000, to 16 percent on adjusted taxable estates for New York State of $10,100,000 or more. Practically however, the tax is not imposed below the threshold as noted in the following paragraph.

The FY 2014 Enacted Budget replaced the unified threshold of $1 million (associated with the State's prior "pick-up tax" methodology) with an applicable credit equal to the tax on a basic threshold amount equal to $2,062,500 for those dying in FY 2015; $3,125,000 in FY 2016; $4,187,500 in FY 2017; and $5,250,000 from April 1, 2017 to December 31, 2018. The basic threshold will equal the Federal basic threshold amount with annual indexing for those dying on

or after January 1, 2019. The credit, similar to the results under the pick-up tax, phases out in the range from the threshold amount to 5 percent above the threshold amount (i.e., taxable estates at more than 105 percent of the threshold pay the full tax calculated on the rate table).

Administration

The Surrogate Court has jurisdiction of the probate of the estate and the authority to finalize the amount of the tax. The tax due is required to be paid on or before the date fixed for filing the return, nine months after the decedent's date of death. A twelve-month extension may be granted by the Commissioner of Taxation and Finance.

If the payment of the tax will cause undue hardship, the Commissioner may authorize a payment extension for up to four years from the decedent's date of death. It may be necessary for the taxpayer to provide a bond in an amount of no more than twice the amount due if an extension is approved for payment of the tax.

If the payment of the tax due is not made within nine months of the decedent's date of death, additional interest is charged to the remaining payments of the tax. The interest for extended payments is computed and compounded daily on the portion remaining from the first day of the tenth month following the decedent's date of death to the date of the payment. There is no discount for early payment of the estate tax.

The executor and the beneficiaries who have received property are personally liable for the payment of the estate tax. If there is no will, the Federal, New York and foreign death taxes paid or payable by the estate's representatives are apportioned among the beneficiaries.

There is reciprocity with other states for the collection of inheritance and estate taxes in nonresident estates. Refund claims of an overpayment of the tax must be filed by the executor within three years from the time the return was filed or two years from the time the tax was paid, whichever is later.

Tax Expenditures

The principal policy tool used to relieve the estate tax burden is the tax threshold, which effectively exempts otherwise taxable estates under such amounts. The increased threshold amounts enacted in 2014 were intended to provide relief to small business and farmers, and the eventual conformity to the Federal exclusion amount (in 2019) should lead to simplified estate planning and compliance.

Significant Legislation

Significant statutory changes to the estate tax since 2010 are summarized below.

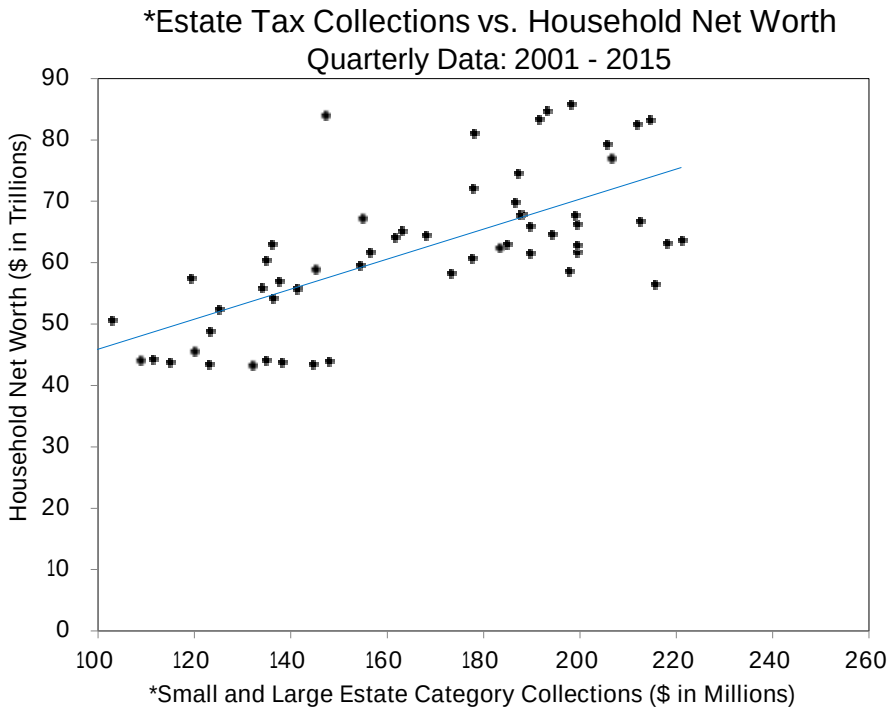
Subject	Description	Effective Date
Legislation Enacted in 2010		
Unified Credit	Set the State's unified credit to provide a $1,000,000 exemption level independent of the Federal Credit.	January 1, 2010
Legislation Enacted in 2014		
Reform Estate Tax	Created a "stand-alone" NYS estate tax with a basic threshold amount that increases over four years and equals the Federal basic exemption starting January 1, 2019.	April 1, 2014

Tax Liability

The recent yield of this tax has been heavily influenced by two factors: 1) annual variations in the relatively small number of large estates, and 2) the value of the equity market, given the large component of corporate stock in large taxable estates. As a result, volatility is expected to remain a characteristic of this revenue source.

In developing projections for estate tax receipts, the value of household net worth is used to forecast receipts from estates that make payments of less than $4 million. In addition to the value of equities, a distributional analysis is utilized to estimate receipts and the number of estates where payments exceed $4 million.

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



Receipts: Estimates and Projections

All Funds

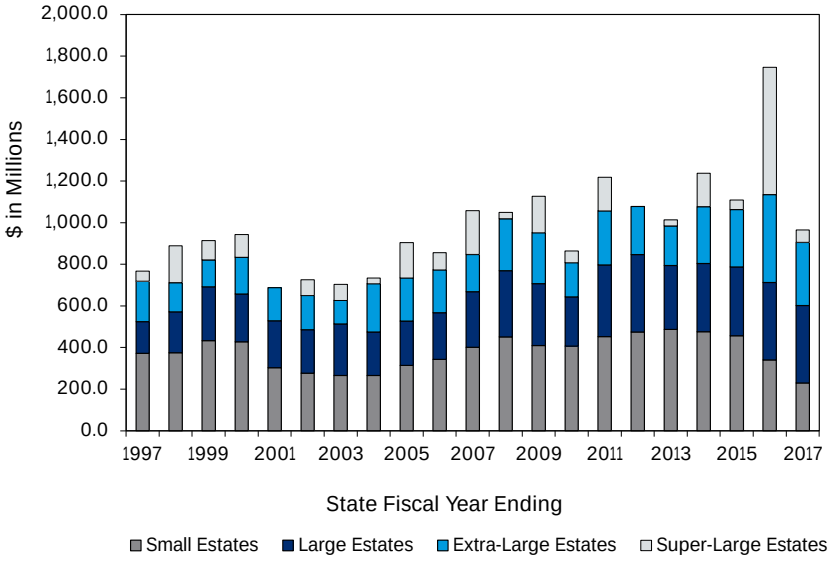
FY 2016 Estimates

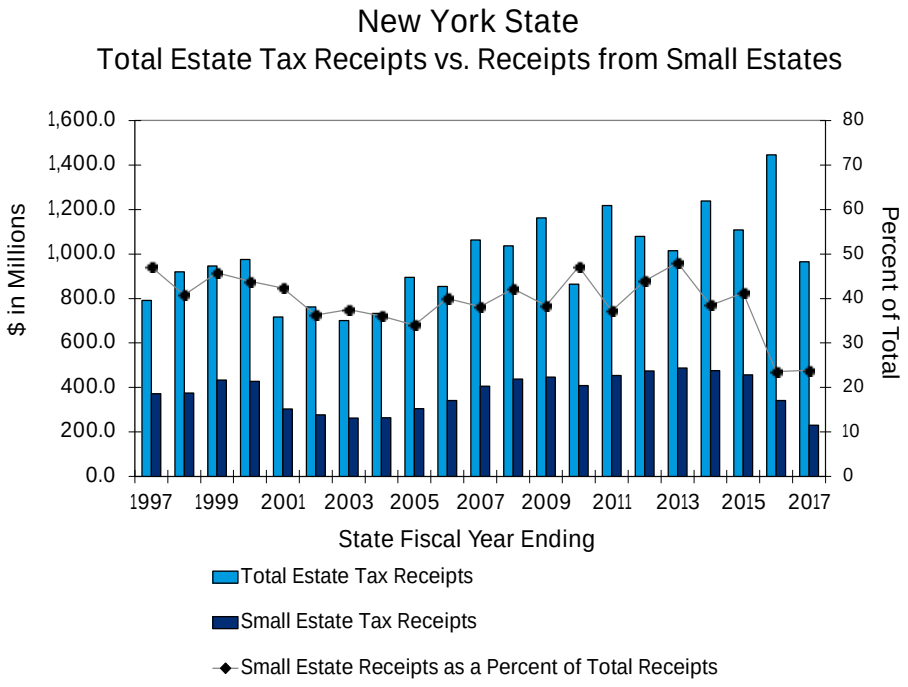
All Funds preliminary receipts through December are $1,246.9 million, an increase of $394.5 million (46.3 percent) from the comparable period in the prior fiscal year.

All Funds FY 2016 receipts are estimated to be $1,446 million, an increase of $337.5 million (30.4 percent) from FY 2015. The increase is mainly the result of a to-date increase in the number of super-large payments (payments greater than $25 million) from one to six, partially offset by 2014 legislation that raised the estate tax threshold.

Small estate FY 2016 receipts are estimated to be $341 million, a decrease of $116 million (25.4 percent) from FY 2015. Large estate FY 2016 receipts are estimated to be $371 million, an increase of $40.3 million (12.2 percent) from FY 2015. Extra-large (payments between $4 million and $25 million) and super-large (payments greater than $25 million) estate FY 2016 payments are estimated to be $734 million, an increase of $413 million (128.7 percent) from FY 2015.

New York State Estate Tax Receipts





FY 2017 Projections

All Funds FY 2017 receipts are projected to be $965 million, a decrease of $481 million (33.3 percent) from FY 2016. This decrease is mainly the result of fewer projected super-large payments and 2014 legislation that raised the estate tax filing threshold to the federal exemption level over five years.

Large estate FY 2017 receipts are projected to be $372 million, an increase of $1 million (0.3 percent), and collections from small estate payments are projected to be $230 million, a decrease of $111 million (32.6 percent) from FY 2016.

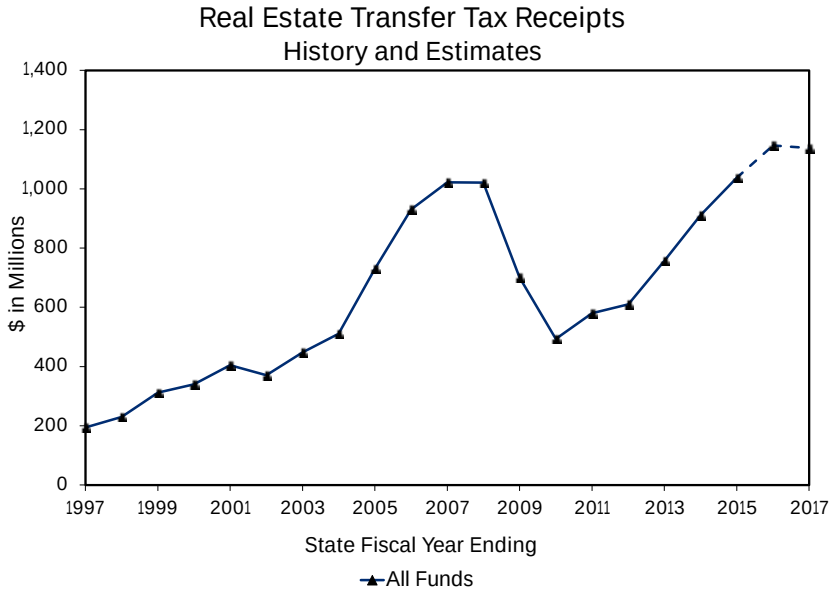
Super-large and extra-large estate FY 2017 receipts are projected to be $363 million, a decrease of $371 million (50.5 percent) from FY 2016.

ESTATE TAX RECEIPTS BY SIZE OF ESTATE (millions of dollars)						
	Super-Large[1] and Extra-Large[2]		Large Estates[3]		Small Estates[4]	Grand Total
	Number	Taxes	Number	Taxes	Taxes	Taxes
FY 2007	28	389.5	217	267.8	406.0	1,063.3
FY 2008	31	280.9	264	318.3	437.5	1,036.7
FY 2009	30	418.9	246	297.4	446.3	1,162.6
FY 2010	23	220.2	197	236.4	408.0	864.6
FY 2011	34	420.8	279	344.1	453.2	1,218.1
FY 2012	30	232.1	306	371.9	474.4	1,078.4
FY 2013	25	219.8	273	306.9	487.3	1,014.0
FY 2014	36	434.8	285	327.1	476.4	1,238.3
FY 2015	38	320.9	285	330.7	456.9	1,108.5
Estimated						
FY 2016	52	734.0	320	371.0	341.0	1,446.0
FY 2017	34	363.0	321	372.0	230.0	965.0

[1] Payment of at least $25 million.
[2] Payment of at least $4 million, but less than $25 million.
[3] Payment of at least $0.5 million, but less than $4 million.
[4] Payment less than $0.5 million. (Small estates include all CARTS less all refunds.)

REAL ESTATE TRANSFER TAX (millions of dollars)							
	FY 2015 Actual	FY 2016 Estimated	Change	Percent Change	FY 2017 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	1,037.9	1,147.0	109.1	10.5	1,138.0	(9.0)	(0.8)
All Funds	1,037.9	1,147.0	109.1	10.5	1,138.0	(9.0)	(0.8)

Note: Totals may differ due to rounding.



REAL ESTATE TRANSFER TAX BY FUND (millions of dollars)					
	Capital Projects Funds[1]	Gross Debt Service Funds[2]	Refunds	Net Debt Service Funds[2]	All Funds Receipts
FY2007	147	876	1	875	1,022
FY2008	212	810	1	809	1,021
FY2009	237	465	1	464	701
FY2010	199	295	1	294	493
FY2011	119	461	0	461	580
FY2012	119	492	1	491	610
FY2013	119	637	0	637	756
FY2014	119	793	1	792	911
FY2015	119	919	0	919	1,038
Estimated					
FY2016	119	1,029	1	1,028	1,147
FY2017					
Current Law	119	1,020	1	1,019	1,138
Proposed Law	119	1,020	1	1,019	1,138

[1] Enviornmental Protection Fund.
[2] Clean Water/Clean Air Bond Debt Sevice Fund.

Proposed Legislation

No new legislation is proposed with this Budget.

Description

Tax Base and Rate

The New York State real estate transfer tax (RETT) is imposed by Article 31 of the Tax Law on each conveyance of real property or interest therein, when the consideration exceeds $500, at a rate of $4 per $1,000 of consideration (price). The tax became effective August 1, 1968. Prior to May 1983, the rate was $1.10 per $1,000 of consideration. Effective July 1, 1989, an additional 1 percent tax was imposed on residential conveyances for which the consideration is $1 million or more.

Administration

Typically, the party conveying the property (grantor) is responsible for payment of the tax, either through the purchase of adhesive documentary stamps, by the use of a metering machine, or through other approaches provided by the Commissioner of Taxation and Finance.

For deeded transfers, the tax is paid to a recording agent (generally the county clerk). For non-deeded transactions, payments are made directly to the Commissioner of Taxation and Finance ("central office" collections). All payments are due to the recording agent within 15 days of the transfer. For counties with more than $1.2 million in liability during the previous calendar year, payments received between the first and fifteenth day of the month are due to the Commissioner by the twenty-fifth day of the same month. Payments received in such counties between the sixteenth and the final day of the month are due to the Commissioner by the tenth day of the following month. Payments from all other counties are due to the Commissioner by the tenth day of the month following their receipt. Although the county payment schedule is statutory, it is not useful for predicting monthly cash flows, due to the unpredictable payment behavior of some large counties.

Tax Expenditures

The tax rate imposed on conveyances into new or existing real estate investment trusts (REITs) is $2 per $1,000 of consideration. New York State (including agencies, instrumentalities, subdivisions, and public corporations), the United States (including agencies and instrumentalities), and the United Nations are exempt. If an exempt entity is the grantor in a transfer, the tax burden falls upon the grantee. Other significant exemptions from the tax are: conveyances pursuant to the Federal bankruptcy act and mere change of identity conveyances. A deduction from taxable consideration is allowed for any lien or encumbrance remaining at the time of sale involving a one, two, or three-family house or individual residential condominium unit.

Significant Legislation

Significant statutory changes to the real estate transfer tax since 2010 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 2013		
START-UP NY	Established tax-free zones on or near qualifying university and college campuses. Qualifying businesses operating within such zones are exempt from taxation under the real estate transfer tax.	January 1, 2014

Tax Liability

Real estate transfer tax receipts are a function of the number and type of conveyances and the consideration per conveyance. Conveyances and prices are largely determined by mortgage rates, vacancy rates and inflation. The Manhattan commercial real estate market, which has historically been subject to large swings in demand and capacity, can have a significant impact on receipts.

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

Receipts: Estimates and Projections

All Funds

FY 2016 Estimates

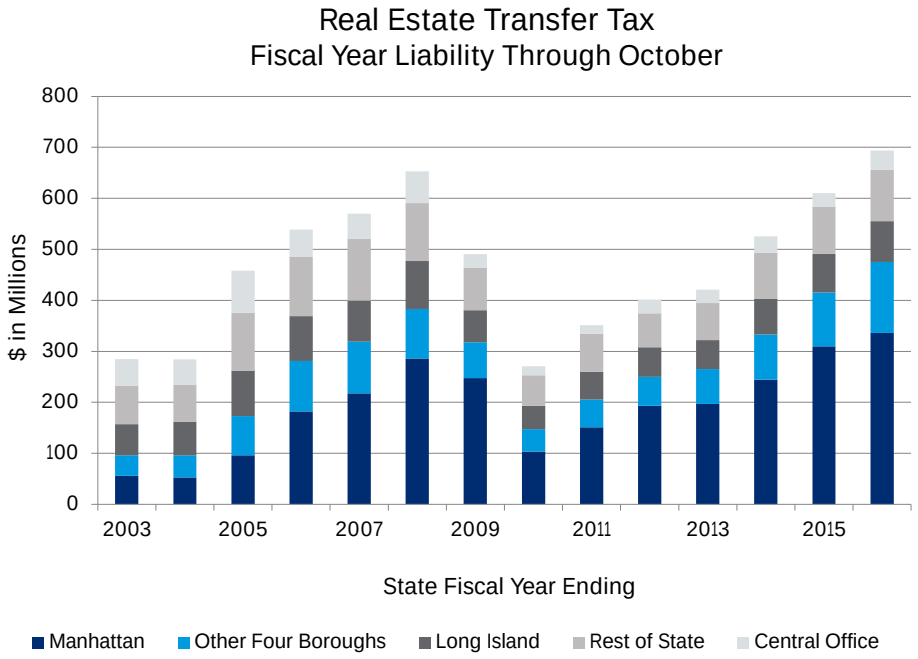
All Funds preliminary receipts through December are $866.3 million, an increase of $90.4 million (11.7 percent) from the comparable period in the prior fiscal year.

All Funds FY 2016 receipts are estimated to be $1,147 million, an increase of $109.1 million (10.5 percent) from FY 2015.

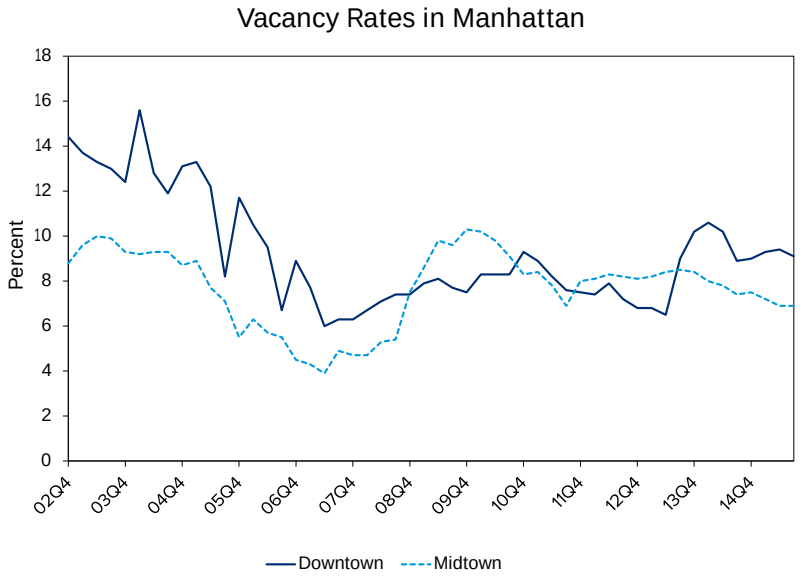
New York's recent residential real estate experience has largely followed nationwide trends, though at a more accelerated pace, driven by the New York City market. The potential expiration of New York's 421-a program (property tax abatement for affordable housing) spurred a surge in building permits and housing starts in the second quarter of 2015. Through November 2015, both pending and closed sales have exhibited continuous growth compared to the same period in the prior year. New York City in particular has seen strong growth in housing prices. The combination of lower mortgage rates and low inventory levels has caused transaction volumes and prices to increase in New York City, and in some cases reach or exceed pre-recession levels. Statewide, the expectation for the remainder of the fiscal year is that market growth will moderate somewhat when compared to the same period in FY 2015.

The mansion tax has played an important role in the receipts growth that has characterized recent fiscal years. In FY 2008, mansion tax receipts were $316 million (31 percent of total receipts). In FY 2015, the mansion tax share of total receipts was 35 percent ($363 million) and above the 2008 pre-recession peak. Mansion tax receipts are expected to total $389 million (32.6 percent share of receipts) in FY 2016.

The following chart compares tax liability by location through October since FY 2003.



In New York City, commercial RETT collections and transactions have increased year-over-year. A strong local economy helped bolster demand for Manhattan's commercial real estate market in 2015. Overall, the Manhattan commercial market has slightly lower vacancies when compared to the prior year. Downtown's vacancy rates were 9.4 and 9.1 percent during the second and third quarter of 2015 compared to 10.2 and 8.9 percent during the same period in 2014. Midtown rates decreased from 7.8 and 7.4 percent to 6.9 and 6.9 percent during the same period. Midtown and Downtown Manhattan currently have two of the five lowest Downtown office vacancy rates in the nation.



Source: C.B. Richard Ellis

FY 2017 Projections

All Funds FY 2017 receipts are projected to be $1,138 million, a decrease of $9 million (0.8 percent) from FY 2016.

A major contributor to the year-over-year decline is the shift of closings from FY 2017 into FY 2016 caused by the 421-a legislation noted earlier.

The short term outlook for the housing market is based upon a number of factors, including mortgage rates continuing to slowly rise, a re-examination of credit standards in the face of expected Federal Reserve "tapering," and continued slow and steady recovery of the overall economy. Average existing home prices are expected to grow compared to FY 2016.

In FY 2017 there should be a leveling off of REIT and other commercial activity following substantial price increases and record sales volumes. The continuing diversification of the NYC economy is likely to positively impact the commercial market and demand for office space in the coming years.

General Fund

The General Fund will receive no direct deposit of real estate transfer tax receipts in FY 2016 or FY 2017. However, the balance of the Clean Water/Clean Air Fund, not needed for debt service, is transferred into the General Fund.

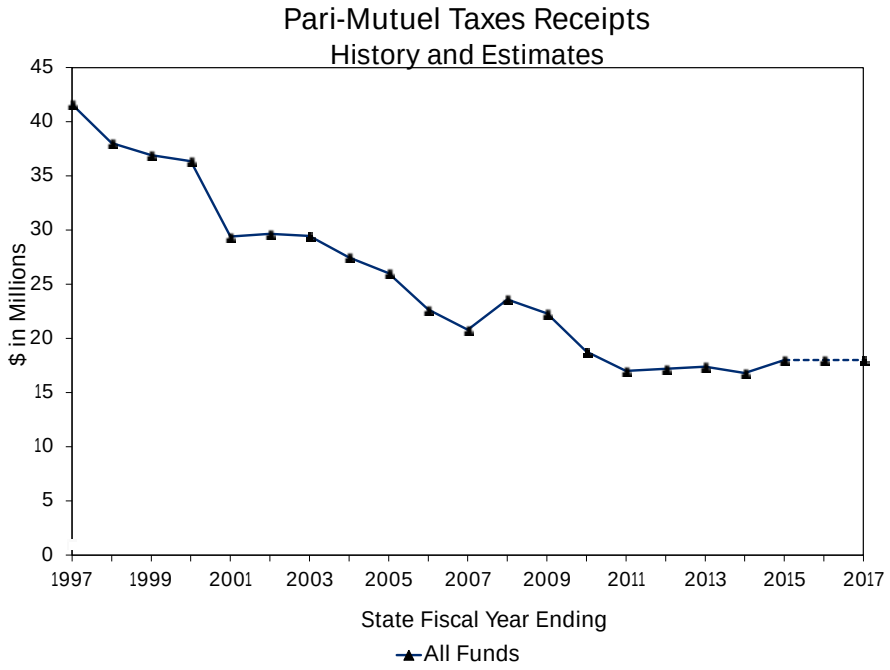
Other Funds

The statutory annual amount of real estate transfer tax receipts deposited into the Environmental Protection Fund is $119.1 million.

Pari-Mutuel Taxes

PARI-MUTUEL TAXES (millions of dollars)							
	FY 2015 Actual	FY 2016 Estimated	Change	Percent Change	FY 2017 Projected	Change	Percent Change
General Fund	18.0	18.0	0.0	0.0	18.0	0.0	0.0
Other Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All Funds	18.0	18.0	0.0	0.0	18.0	0.0	0.0

Note: Totals may differ due to rounding.



PARI-MUTUEL TAXES BY FUND (thousands of dollars)				
	General Fund			All Funds
	Flat	Harness	OTB	Receipts
FY 2007	7,152	450	13,208	20,810
FY 2008	8,287	672	14,621	23,580
FY 2009	7,602	589	14,110	22,301
FY 2010	6,710	669	11,439	18,818
FY 2011	7,355	661	9,024	17,040
FY 2012	10,903	589	5,706	17,198
FY 2013	11,407	593	5,416	17,416
FY 2014	11,039	538	5,244	16,821
FY 2015	12,428	482	5,128	18,038
Estimated				
FY 2016	12,200	500	5,300	18,000
FY 2017				
Current Law	12,200	500	5,300	18,000
Proposed Law	12,200	500	5,300	18,000

Proposed Legislation

Legislation proposed with this Budget would extend certain tax rates and certain simulcasting provisions for one year.

Description

Tax Base and Rate

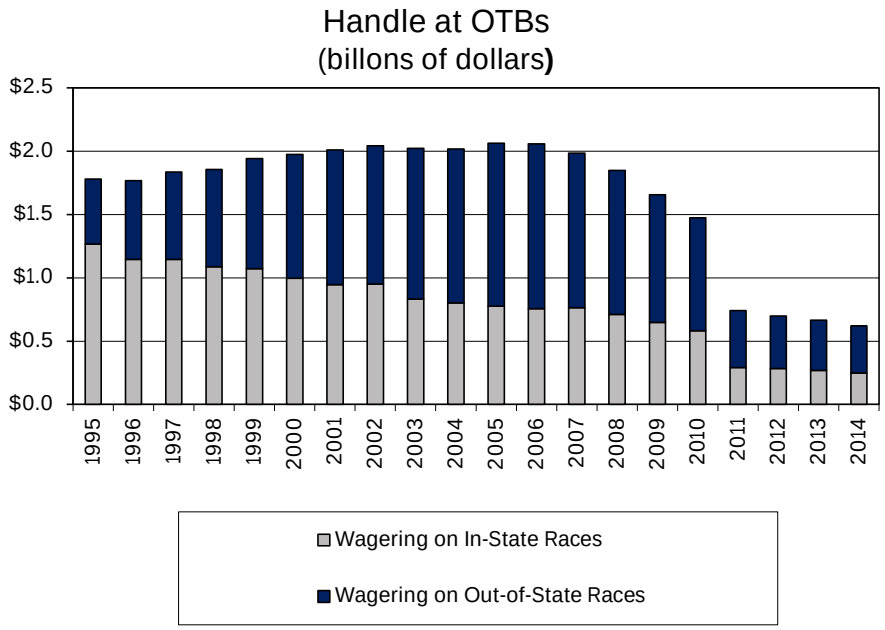
The State has levied taxes on pari-mutuel wagering activity conducted at horse racetracks since 1940. Off-track betting (OTB) parlors were first authorized in 1970 and simulcasting was first authorized in 1984. Each racing association or corporation and Off-track Betting Corporation pays the State a portion of the commission (the "takeout") withheld from wagering pools (the "handle") as a tax for the privilege of conducting pari-mutuel wagering on horse races. There are numerous tax rates imposed on wagering on horse races. The rates vary depending upon the type of racing (thoroughbred or harness), the type of wager (regular, multiple, or exotic) and location at which it is placed (at the track, or off-track through simulcasting or at an Off-track Betting Corporation). Pari-mutuel All Funds receipts were 1.1 percent of the handle in 2014.

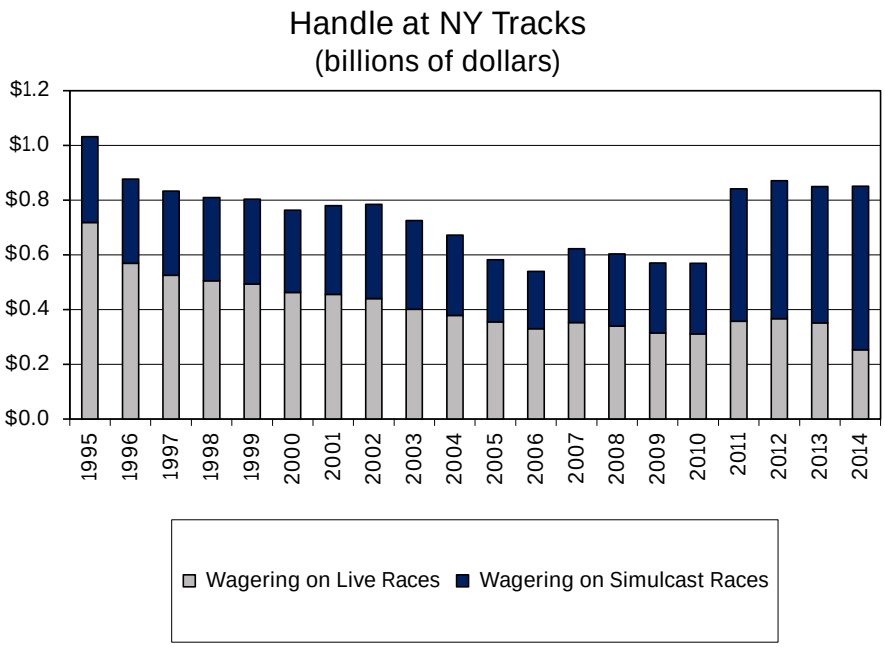
In an effort to support the New York agricultural and breeding industries, a portion of the takeout is allocated to the State's thoroughbred and standard bred (harness) horse breeding and development funds.

The expansion of OTBs has contributed, in part, to the corresponding decline in handle and attendance at racetracks. At its peak, off-track bets had grown to account for over 76 percent of the statewide handle. However, the statewide handle from OTBs has declined to 39 percent of total handle following the closure of New York City OTB.

To promote industry growth, the State has authorized higher take-outs to support capital improvements at non-New York Racing Association (NYRA) tracks and, more importantly, reduced its on-track tax rates by as much as 90 percent at thoroughbred and harness tracks, authorized the expansion of simulcasting at racetracks and OTB facilities, allowed in-home simulcasting experiments and telephone betting, lowered the tax rates on simulcast wagering, reduced tax rates on NYRA bets, and directed a portion of video lottery gaming receipts to be used for purse enhancements and for the breeder's funds.

In 2008, the State awarded a 25-year license to operate the Aqueduct, Belmont, and Saratoga Racetracks to the New York Racing Association. In December 2010, the New York City Off-track Betting Corporation ceased pari-mutuel wagering operations after failure to reach an agreement on a restructuring plan to bring the corporation out of bankruptcy.


Handle at OTBs
(billons of dollars)
$2.5
$2.0
$1.5
$1.0
$0.5
$0.0
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
Wagering on In-State Races
Wagering on Out-of-State Races


Handle at NY Tracks
(billions of dollars)
$1.2
$1.0
$0.8
$0.6
$0.4
$0.2
$0.0
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
Wagering on Live Races
Wagering on Simulcast Races

Administration

The New York State Gaming Commission has general jurisdiction over all horse racing activities and all pari-mutuel betting activities, both on-track and off-track, in the State and over the corporations, associations, and persons engaged in gaming activities. Racetracks and OTBs calculate the pari-mutuel tax owed to the State based upon the handle, then remit the taxes to the Department of Taxation and Finance as prescribed by law.

Significant Legislation

Significant statutory changes to pari-mutuel taxes since 2010 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 2013		
Market Origin Fee	Provided for the regulation of out-of-state advanced deposit wagering (ADW) and imposed a Market Origin Fee equal to five percent of wagers taken by out-of-state ADWs from New York residents. Five percent of the Market Origin Fee is transferred to the Department of Taxation and Finance to be treated as pari-mutuel taxes.	January 1, 2014

Tax Liability

The primary factors that affect pari-mutuel tax liability are: the handle and attendance at racetracks and OTB parlors, the number of simulcasts, and competition from other forms of gambling.

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

Receipts: Estimates and Projections

All Funds

FY 2016 Estimates

All Fund preliminary receipts through December are estimated to be $14 million, a decrease of $1 million (6.7 percent) from the comparable period in the prior fiscal year.

All Funds FY 2016 receipts are estimated to be $18 million, no change from FY 2015. Receipts from OTBs are estimated to be $5.3 million, slightly higher than receipts during the prior fiscal year. The slight increase reflects the market origin fee paid for by out-of-State ADWs increasing to $0.6 million. Thoroughbred on-track handle receipts are estimated to be $12.2 million while on-track wagering receipts are estimated to be $0.5 million.

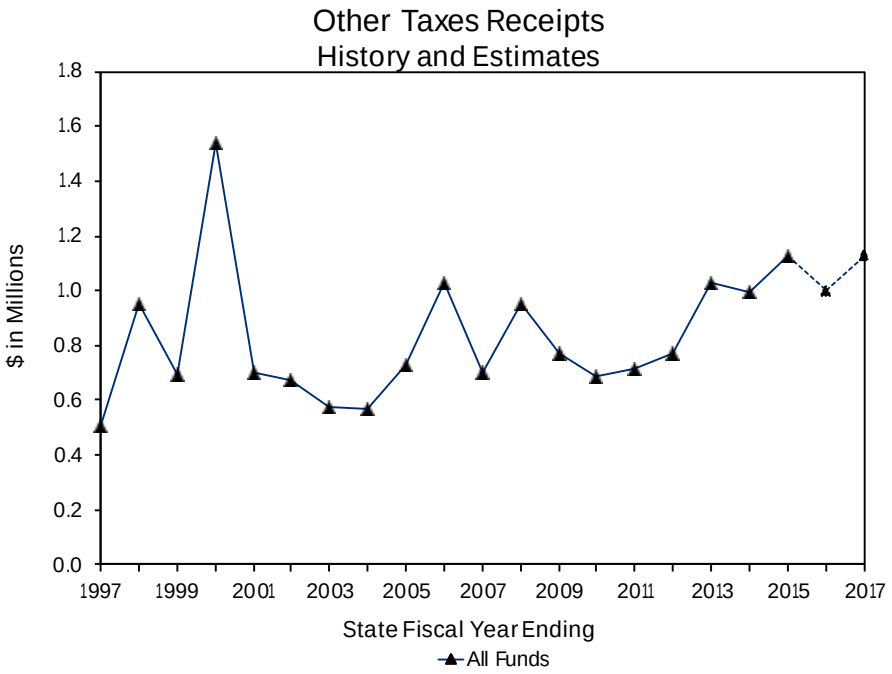
Pari-Mutuel Taxes

FY 2017 Projections

All Funds FY 2017 receipts are projected to be $18 million, no change from FY 2016.

OTHER TAXES (millions of dollars)							
	FY 2015 Actual	FY 2016 Estimated	Change	Percent Change	FY 2017 Projected	Change	Percent Change
General Fund	1.1	1.5	0.4	36.4	2.5	1.0	66.7
Other Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All Funds	1.1	1.5	0.4	36.4	2.5	1.0	66.7

Note: Totals may differ due to rounding.



OTHER TAXES BY FUND (thousands of dollars)			
	General Fund		All Funds
	Admissions	Exhibitions	Receipts
FY 2007	364	307	671
FY 2008	370	581	951
FY 2009	369	404	773
FY 2010	340	350	690
FY 2011	352	361	713
FY 2012	355	413	768
FY 2013	371	658	1,029
FY 2014	350	645	995
FY 2015	501	627	1,128
Estimated			
FY 2016	700	800	1,500
FY 2017			
Current Law	700	800	1,500
Proposed Law	700	1,800	2,500

Proposed Legislation

Legislation proposed with this Budget would authorize combative sports.

Description

Tax Base and Rate

Racing Admissions Tax – A tax is levied on the charge for admissions to racetracks and simulcast theaters throughout the State. The racing admissions tax rate is 4 percent of the admissions charge.

Authorized Combative Sports Tax – A tax is currently levied on gross receipts from boxing and wrestling exhibitions, including receipts from broadcast and motion picture rights. A pay-per-view event with high spectator interest can impact the yield of the tax substantially, causing receipts to vary considerably from year to year. This tax would be expanded to pick-up newly authorized combative sports.

The boxing and wrestling exhibitions tax rate is currently 3 percent, and would remain at this rate. The Executive Budget proposal to authorize combative sports would impose a tax of 8.5 percent of the admissions charge and 3 percent on broadcasting rights from such newly authorized events, with the broadcasting portion limited to $50,000 annually.

Administration

The Department of Taxation and Finance is responsible for collecting the receipts of the racing admissions tax and the boxing and wrestling exhibitions tax.

Tax Liability

The major factors that affect racing admissions tax liability are the number of customers who attend on-track races and the price of admission. Customer volume is dependent on factors such as the weather and competition from other types of entertainment.

The wrestling and boxing exhibitions tax can be affected by the importance of the events staged in a given fiscal year and by the degree of competition from other types of entertainment venues.

Receipts: Estimates and Projections

All Funds

FY 2016 Estimates

All Funds preliminary receipts through December are $1.1 million, an increase of $0.4 million (57.1 percent) from the comparable period in the prior fiscal year. All Funds FY 2016 receipts are estimated to be $1.5 million, an increase of $0.4 million (36.4 percent) from FY 2015.

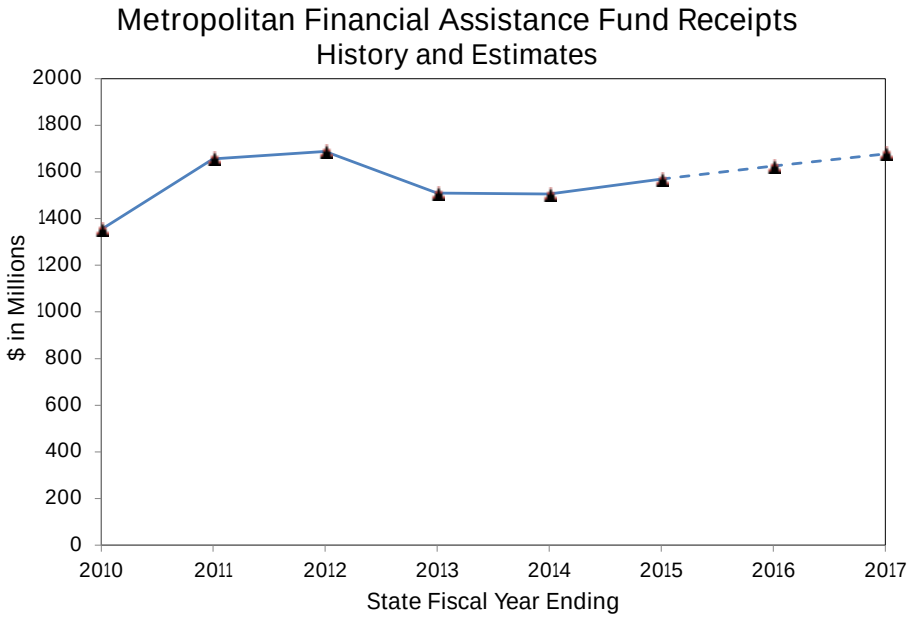
FY 2017 Projections

All Funds FY 2017 receipts are projected to be $2.5 million, an increase of $1 million (66.7 percent) from FY 2016. This increase reflects the Executive Budget proposal to authorize combative sports.

Metropolitan Transportation Authority Financial Assistance Fund Receipts

METROPOLITAN FINANCIAL ASSISTANCE FUND RECEIPTS (millions of dollars)							
	FY 2015 Actual	FY 2016 Estimated	Change	Percent Change	FY 2017 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	1,569.9	1,626.0	56.1	3.6	1,677.0	51.0	3.1
All Funds	1,569.9	1,626.0	56.1	3.6	1,677.0	51.0	3.1

Note: Totals may differ due to rounding.



METROPOLITAN FINANCIAL FUND (millions of dollars)					
	Mobility Tax	MVF	ART (MCTD)	Taxicab	All Funds Receipts
FY 2009	0	0	0	0	0
FY 2010	1,228	88	24	13	1,353
FY 2011	1,360	180	35	81	1,656
FY 2012	1,376	186	39	87	1,688
FY 2013	1,205	180	41	83	1,509
FY 2014	1,204	174	43	85	1,506
FY 2015	1,271	171	45	82	1,570
Estimated					
FY 2016	1,331	176	47	72	1,626
FY 2017					
Current Law	1,388	171	48	70	1,677
Proposed Law	1,388	171	48	70	1,677

Proposed Legislation

No new legislation is proposed with this Budget.

Description

The Metropolitan Transportation Authority Financial Assistance Fund (MTAFAF) is under the joint custody of the Commissioner of Taxation and Finance and the State Comptroller. Monies in this special fund are to be kept separately from and not be commingled with any other monies in the joint or sole custody of the State Comptroller or the Commissioner of Taxation and Finance. The fund contains all monies collected, credited or transferred to it from any other fund, account or source, including the revenues derived from the following sources:

- The metropolitan commuter transportation mobility tax;
- The supplemental tax on passenger car rentals in the Metropolitan Commuter Transportation District (MCTD);
- The tax on New York City taxicab and hail vehicle trips; and
- Supplemental motor vehicle fees: a supplemental learner permit/license fee and registration fee in the MCTD.

Revenues generated from the mobility tax are directed to the Mobility Tax Trust Account of the MTA Financial Assistance Fund. Revenues generated from supplemental motor vehicle fees, the supplemental tax on car rentals, and the tax on taxicab rides are directed to the MTA Aid Trust Account of the MTA Financial Assistance Fund.

Metropolitan Commuter Transportation Mobility Tax

Tax Base and Rate

Article 23 of the Tax Law imposes the metropolitan commuter transportation mobility tax on certain employers and self-employed individuals engaging in business within the Metropolitan Commuter Transportation District. The MCTD consists of New York City (NYC) and the counties of Dutchess, Nassau, Orange, Putnam, Rockland, Suffolk, and Westchester. Article 23 applies to:

- Employers (other than exemptions noted below); and
- Self-employed individuals (other than exemptions noted below).

The mobility tax is imposed at a rate of 0.34 percent of an employer's payroll expense for all covered employees for each calendar quarter. For individuals with net earnings from self-

employment, the tax is 0.34 percent of the net earnings from self-employment allocated to the MCTD for the tax year.

Entities exempt from the mobility tax are as follows:

1) An employer that is an agency or instrumentality of the United States, the United Nations, or an interstate agency or public corporation created under an agreement or compact with another state or Canada (for example, the Port Authority of New York and New Jersey);

2) All elementary and secondary schools; and

3) All public libraries, free association libraries, and public library systems (effective January 1, 2016).

Credits: no tax credit may be used to reduce the amount of mobility tax due.

No mobility tax is due from employers with a quarterly payroll of $312,500 or less; individuals with net earnings from self-employment allocated to the MCTD of $50,000 or less; and the non-wage portion of S corporation member income. Employers with quarterly payroll greater than $312,500, but no greater than $375,000 are taxed at a reduced rate of 0.11 percent and employers with a quarterly payroll greater than $375,000 but no greater than $437,500 are taxed at a reduced rate of 0.23 percent.

Administration

Taxpayers who make electronic withholding tax payments must make their mobility tax payments at the same time. These payments are due within three days of the respective payroll date. Taxpayers who make quarterly withholding payments and those with self-employment income must make quarterly payments. For employers, these payments are due on the last business day of the month following the end of the calendar quarter in which the taxpayer made the payroll (e.g., January 31 for the calendar quarter ending December 31). Taxpayers with self-employment income must make quarterly estimated MCTMT payments in conjunction with personal income tax quarterly estimated payments.

Significant Legislation

Significant statutory changes to the mobility tax since 2010 are summarized below:

Subject	Description	Effective Date
Legislation Enacted in 2011		
Tax Rate and Exemption Changes	Expanded the annual tax exemption threshold for self-employment from $10,000 to $50,000 annually.	January 1, 2012
	Exempted all elementary and secondary schools from the tax; exempted employers with quarterly payroll not greater than $312,500; lowered the rate on employers with quarterly payroll greater than $312,500 but no greater than $375,000 to 0.11 percent; and lowered the rate on employers with quarterly payroll greater than $375,000 but no greater than $437,500 to 0.23 percent.	April 1, 2012
Legislation Enacted in 2014		
Filing Due Date Alignment with PIT for Self Employed	Changed the due dates for filing returns and making estimated tax payments for self-employed individuals subject to the MCTMT to the same due dates as PIT estimated payments and final returns.	January 1, 2015
Legislation Enacted in 2015		
Exemption Changes	Exempted all public libraries, free association libraries, and public library systems from the mobility tax.	January 1, 2016

FY 2016 Estimates and FY 2017 Projections

Preliminary mobility tax receipts through December are $891.7 million, an increase of $24 million (2.8 percent) from the comparable period in the prior fiscal year. Mobility tax FY 2016 receipts are estimated to be $1,331 million, an increase of $59.7 million (4.7 percent) from FY 2015, reflecting moderate wage and self-employment income growth. Mobility tax FY 2017 receipts are projected to be $1,388 million, an increase of $57 million (4.3 percent) from FY 2016.

Supplemental Tax on Passenger Car Rentals

A supplemental tax of 5 percent is imposed on the rental of a passenger vehicle in the MCTD. The tax base and administration of this tax are the same as the State auto rental tax.

FY 2016 Estimates and FY 2017 Projections

Auto rental tax FY 2016 receipts are estimated to be $47 million, an increase of $2 million (4.4 percent) from FY 2015. Auto rental tax FY 2017 receipts are projected to be $48 million, an increase of $1 million (2.1 percent) from FY 2016.

Tax on New York City Taxicab and Hail Vehicle Trips

Significant Legislation

Significant statutory changes to the tax on NYC taxicabs and hail vehicle trips since 2010 are summarized below:

Subject	Description	Effective Date
Legislation Enacted in 2010		
Tax Incidence	The tax incidence was statutorily shifted to medallion owners from taxicab vehicle owners.	July 1, 2010
HAIL Act	Authorized the sale of 2,000 wheelchair-accessible taxicab licenses and 18,000 Street Hail Livery licenses. The 50 cent tax was expanded to include hail vehicle trips. The NYS Court of Appeals upheld the constitutionality of this Act on June 6, 2013.	June 1, 2012

Tax Base and Rate

A tax of 50 cents is imposed on all NYC taxicab and hail vehicle trips that originate in NYC and end in the MCTD. The quarterly period and filing due dates are:

Quarterly period	Due date for filing return
January through March	April 20
April through June	July 20
July through September	October 20
October through December	January 20

FY 2016 Estimates and FY 2017 Projections

Preliminary taxicab/hail tax receipts through December are $55.4 million, a decrease of $7.2 million (11.5 percent) from the comparable period in the prior fiscal year.

Taxicab/hail tax FY 2016 receipts are estimated to be $72 million, a decrease of $10.3 million (12.5 percent) from FY 2015. The decrease reflects an increase in the use of alternative transportation options not subject to the tax in New York City.

Taxicab/hail tax FY 2017 receipts are projected to be $70 million, a decrease of $2 million (2.8 percent) from FY 2016.

Supplemental Motor Vehicle Fees

There is a supplemental motor vehicle license fee of one dollar per six month interval and a supplemental registration fee of $25 in the MCTD. The timing and administration of these fees are the same as the State fee.

FY 2016 Estimates and FY 2017 Projections

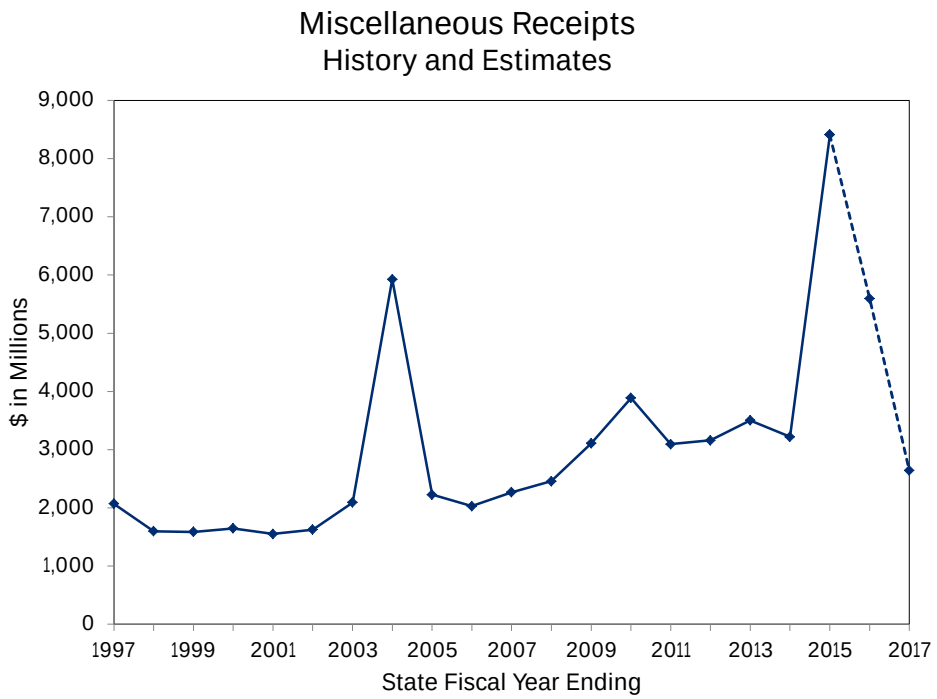
Preliminary motor vehicle fee receipts through December are $137.5 million, an increase of $5.2 million (3.9 percent) from the comparable period in the prior fiscal year. Motor vehicle fee FY 2016 receipts are estimated to be $176 million, an increase of $4.7 million (2.7 percent) from

FY 2015. Motor vehicle fee FY 2017 receipts are projected to be $171 million, a decrease of $5 million (2.8 percent) from FY 2016.

Miscellaneous Receipts General Fund

MISCELLANEOUS RECEIPTS - GENERAL FUND (millions of dollars)							
	FY 2015 Actual	FY 2016 Estimated	Change	Percent Change	FY 2017 Projected	Change	Percent Change
General Fund	8,409.7	5,597.0	(2,812.7)	(33.4)	2,642.0	(2,955.0)	(52.8)

Note: Totals may differ due to rounding.



MISCELLANEOUS RECEIPTS - GENERAL FUND (millions of dollars)					
	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Estimated	FY 2017 Projected
Licenses, Fees, Etc.	583.6	622.3	588.5	623.0	595.0
Abandoned Property	714.0	532.8	651.9	525.0	525.0
Reimbursements	231.2	281.0	265.6	239.0	293.0
Investment Income	1.7	0.7	3.6	7.0	7.0
ABC License Fees	61.2	64.6	61.2	66.0	63.0
Motor Vehicle Fees	129.3	1.7	191.1	170.0	161.0
Other Transactions	1,783.1	1,716.3	6,647.9	3,967.0	998.0
Total	3,504.1	3,219.4	8,409.7	5,597.0	2,642.0

Note: Totals may differ due to rounding.

Proposed Legislation

There is no new legislation proposed with this Budget.

Description

Miscellaneous receipts cover a broad range of unrelated revenue sources with significant recurring income derived from abandoned property, investment earnings, fees, licenses, fines, and various reimbursements to the State's General Fund. Each year, reported receipts may be significantly impacted by various nonrecurring transactions.

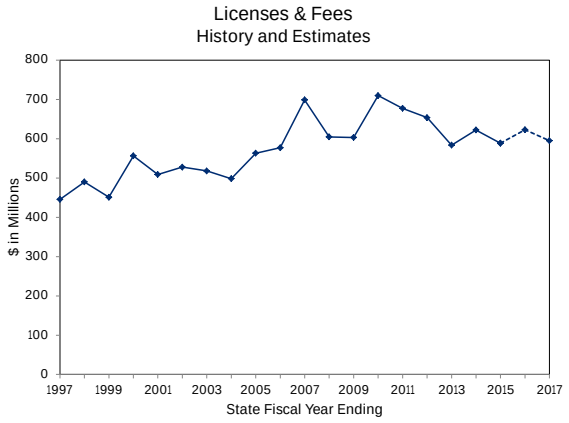
Significant Legislation

Significant statutory changes to General Fund Miscellaneous Receipts since 2010 are summarized below.

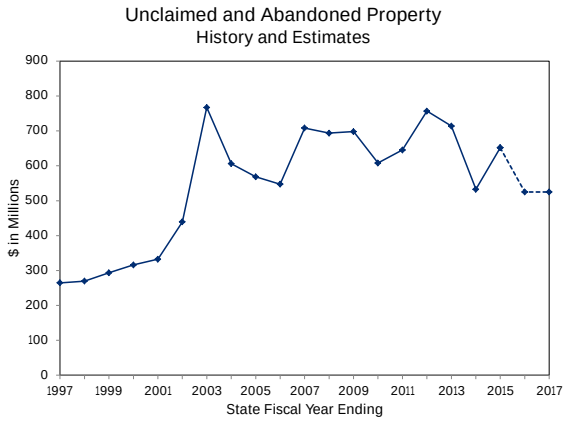
Subject	Description	Effective Date
Legislation Enacted in 2010		
Abandoned Property	Reduced dormancy periods on undelivered goods from five to three years, and on money orders from seven to five years.	August 3, 2010
Judiciary	Increased various civil court filing fees.	July 1, 2010
Legislation Enacted in 2011		
Abandoned Property	Reduced dormancy periods on various abandoned property items from five or six years to three years.	March 31, 2011
Legislation Enacted in 2012		
18-a Utility Assessment	Lowered and phased out the temporary PSL Article 18-a utility assessment.	March 29, 2012
Traffic Ticket Plea Bargaining	Established $25 State surcharge to a series of lesser violations that speeding tickets are frequently pled down to, and increased the State surcharge on most other vehicle and traffic violations by $8.	March 29, 2012
Legislation Enacted in 2013		
18-a Utility Assessment	Extended the temporary PSL Article 18-a utility assessment.	April 1, 2013
Legislation Enacted in 2014		
Motor Vehicle Fees	Simplified the fund distribution of Motor Vehicle Fee Receipts.	March 31, 2014
Legislation Enacted in 2015		
Fee Repeal	Repealed 16 nuisance fees charged by various State agencies.	April 1, 2015

Components of Miscellaneous Receipts

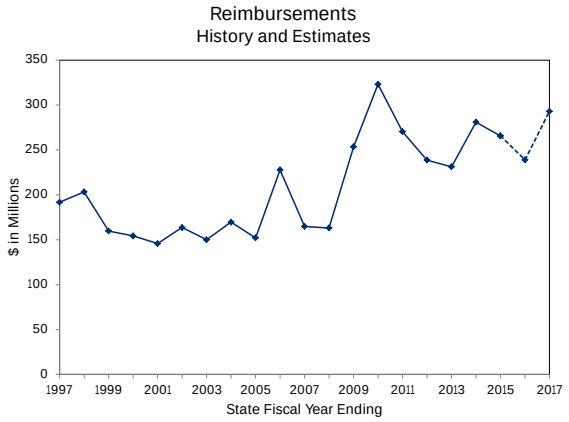
Historically, General Fund license and fee revenues have grown modestly and fairly consistently, aside from minimal peaks and troughs associated with law changes. In FY 2016 and FY 2017, revenues are expected to remain relatively constant.



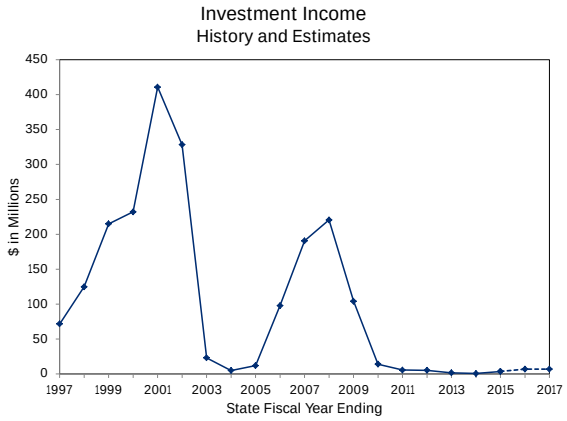
Historically, unclaimed and abandoned property revenue has remained relatively stable with minimal growth, aside from spikes in FY 2003 and FY 2004 resulting from a large amount of abandoned property released to the State of New York by the Office of the State Comptroller. This property was associated with the sale of stocks as well as a reduction in the dormancy period of uncashed checks. Unclaimed and abandoned property revenue increased significantly in FY 2012 due to 2011 legislation that reduced dormancy periods on several items, then decreased in FY 2013 and FY 2014 as more claims were paid. It is expected to decrease moderately in FY 2016 and remain flat in FY 2017.



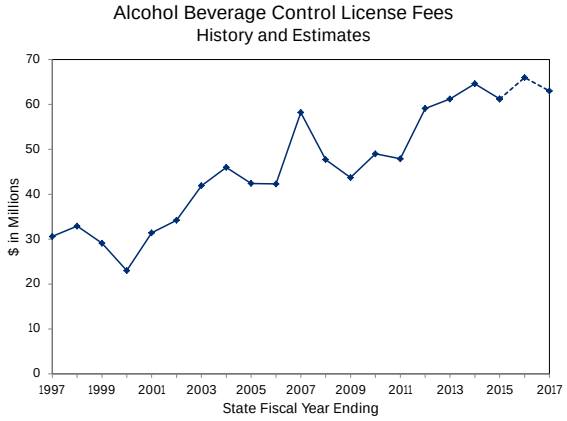
Historically, reimbursements of General Fund expenses and revenue advances have remained on a relatively constant three year cycle with occasional exceptions. Receipts in FY 2016 and FY 2017 are expected to maintain historical trends. In FY 2006, a portion of General Fund Federal Grants was reclassified to this category.



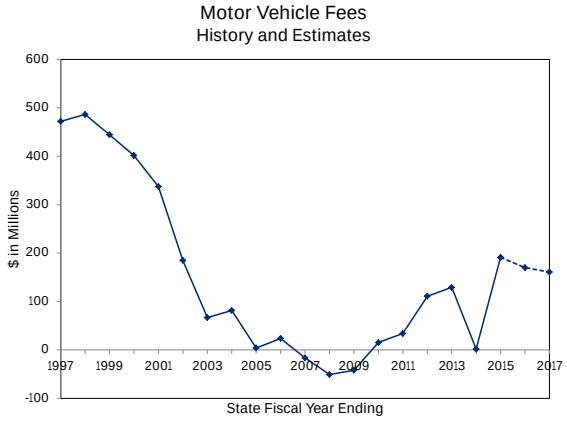
Trends in investment income are directly related to General Fund Account balances and interest rates. For example, the large increases in FY 2001 and FY 2007 followed by the severe drops in FY 2003 and FY 2010 were the result of the impact of economic growth and subsequent recession on State finances; balances declined and interest rates declined sharply. The forecast for investment income is expected to remain relatively low and constant in FY 2016 and FY 2017 as both balances and interest rates slowly rise.



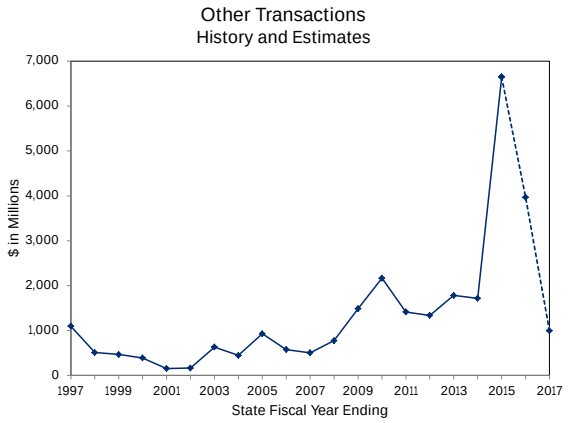
Historically, the number of alcoholic beverage control licenses has remained relatively constant. However, changes in license fees and length of licenses have caused variation in receipts. An accounting error uncovered in FY 2007 revealed that internet renewals hadn't been deposited properly, causing a one-time payment of $13 million in FY 2007. Overall this revenue is cyclical and based on license renewal patterns. In FY 2016 revenue is expected to increase slightly then decrease in FY 2017.



From FY 2006 to FY 2014, $169.4 million of General Fund receipts were swept into the Dedicated Transportation Funds. Effective FY 2015, this fund sweep was replaced with generic transfers to these Dedicated Funds. In addition, all revenue from the Driver Responsibility Assessment is now directed to the Dedicated Highway and Bridge Trust Fund. This law change had no net impact on the Financial Plan. For a further discussion of motor vehicle fees, please see the Motor Vehicle Fees section of this document.



Other transactions are an unrelated grouping of transactions and payments, which do not fall under the other miscellaneous receipts categories. Differences in collections year-to-year are the result of large, unusual payments to the State, including: bond issuance charges; a supplemental wireless surcharge; SONYMA, timing-of-payments pursuant to Section 18a of Public Service Law, and atypical fines. In FY 2015, other transactions received $4.9 billion in one-time monetary settlements reached by the Department of Financial Services (DFS), Department of Law, and Manhattan District Attorney's Office. For more information on settlements, please see the Monetary Settlements section in the 5 Year Financial Plan volume of this publication.



FY 2016 Estimates

General Fund FY 2016 receipts are estimated to be $5.597 billion, a decrease of $2.8 billion (33.4 percent) from FY 2015 collections. The FY 2016 estimate includes: $3,115 million in atypical fines and civil recoveries; $623 million in fees, licenses, fines, royalties, and rents; $525 million in unclaimed and abandoned property; $250 million in released State Insurance Fund reserves; $239 million in reimbursements; $192 million in receipts from the temporary utility assessment; $170 million in receipts from motor vehicle fees; $96 million in additional bond issuance charges and cost recovery assessments; $81 million in medical provider assessments; $80 million in Bottle Bill proceeds; $78 million from the supplemental wireless surcharge; $66 million in receipts from alcohol beverage control license fees; $41 million in resources transferred from the New York State Energy Research and Development Authority (NYSERDA) to the General Fund from proceeds collected from the auction or sale of carbon dioxide emissions under the Regional Greenhouse Gas Initiative (RGGI); $26 million in payments from the New York Power Authority; $7 million for certain health care revenues, pursuant to the proposed consolidation of operations from the DOH offset accounts to the General Fund as part of an ongoing effort to simplify the State accounting structure; $7 million in interest earnings on short-term investments and bank accounts (this amount is net of certain expenses incurred in providing banking services to various State agencies); and $1 million from NYSERDA for services and expenses of the Department of Environmental Conservation (DEC).

FY 2017 Projections

Miscellaneous receipts are projected to be $2.642 billion in fiscal year FY 2017, a decrease of nearly $3 billion (52.8 percent) from FY 2016 estimates. The FY 2017 projection includes: $595 million in fees, licenses, fines, royalties, and rents; $525 million in unclaimed and abandoned property; $293 million in reimbursements; $250 million in released State Insurance Fund reserves; $200 million in realized refunding savings from the city of New York associated with Sales Tax Asset Receivable Corporation (STARC) bonding accruals; $161 million in receipts from motor vehicle fees; $139 million in receipts from the temporary utility assessment; $96 million in additional bond issuance charges and cost recovery assessments; $81 million in medical provider assessments; $80 million in Bottle Bill proceeds; $79 million from the supplemental wireless surcharge; $63 million in receipts from alcohol beverage control license fees; $23 million in resources transferred from the New York State Energy Research and Development Authority (NYSERDA) to the General Fund from proceeds collected from the auction or sale of carbon dioxide emissions under the Regional Greenhouse Gas Initiative (RGGI); $23 million in atypical fines and civil recoveries; $20 million in payments from the New York Power Authority; $7 million for certain health care revenues, pursuant to the proposed consolidation of operations from the DOH offset accounts to the General Fund as part of an ongoing effort to simplify the State accounting structure; and $7 million in interest earnings on short-term investments and bank accounts (this amount is net of certain expenses incurred in providing banking services to various State agencies).

Miscellaneous Receipts - Special Revenue Funds

MISCELLANEOUS RECEIPTS - SPECIAL REVENUE FUNDS (millions of dollars)							
	FY 2015 Results	FY 2016 Estimated	Change	Percent Change	FY 2017 Projected	FY 2017 Change	Percent Change
State Fund	16,381	15,164	(1,217)	-7.4%	15,464	300	2.0%
Federal Funds	176	201	25	14.2%	216	15	7.5%
All Funds	16,557	15,365	(1,192)	-7.2%	15,680	315	2.1%

Miscellaneous receipts deposited to special revenue funds represent 21 percent of total special revenue receipts, excluding transfers from other funds. These receipts include: SUNY tuition, fees, and patient income; revenues from lottery ticket sales and Video Lottery Terminals (VLTs) for supplemental education aid; health care surcharges, assessments, and conversion proceeds used to finance Health Care Reform Act (HCRA) programs; assessments on regulated industries, and a variety of fees and licenses. All of which are dedicated to support specific programs. The following table summarizes miscellaneous receipts for FY 2015 results through projected FY 2017.

MISCELLANEOUS RECEIPTS - SPECIAL REVENUE FUNDS (millions of dollars)			
		Estimated	
	FY 2015	FY 2016	FY 2017
HCRA	4,499	4,652	4,701
State University Income	4,403	4,180	4,298
Lottery and VLTs	3,215	3,390	3,353
Industry Assessments	689	807	824
Medicaid (non-HCRA)	792	812	812
Motor Vehicle Fees	401	415	380
All Other	2,558	1,109	1,312
Total	16,557	15,365	15,680

HCRA Financing

HCRA receipts include recurring surcharges and assessments on hospital revenues, physician procedures, a "covered lives" assessment paid by insurance carriers, a portion of cigarette tax revenues, and other revenues dedicated by statute, as well as proceeds from insurance company conversions. These resources help finance the State's Medicaid program, workforce recruitment and retention, the Elderly Pharmaceutical Insurance Coverage (EPIC) program, Child Health Plus (CHP), Graduate Medical Education, AIDS programs, disproportionate share payments to hospitals and other various public health initiatives and the NYSOH Exchange.

State University Income

The majority of special revenue receipts that support SUNY's operations are provided by tuition, patient revenue, and user fees. SUNY's three teaching hospitals at Brooklyn, Stony Brook and Syracuse, as well as the Long Island Veterans' Home, receive patient revenue from third-party payers including Medicare, Medicaid, insurance companies, and individuals. User fees, which include fees for food, parking, career placement and recreation, are generated from service users; including students, faculty, staff, and the public. Other receipts primarily include interest earnings and fringe benefit recoveries from SUNY's other special revenue accounts.

Lottery

Receipts from the sale of lottery tickets and proceeds from VLTs at racetracks are used to support public education, as well as administrative costs associated with Lottery operations. The State Lottery is discussed in detail in a separate section.

Industry Assessments

State agencies funded entirely from assessments include the Department of Financial Services, the Public Service Commission, and the Workers' Compensation Board.

Medicaid

In addition to the General Fund, State Medicaid costs are financed by various Special Revenue Funds which include the HCRA Resources Fund (described above) and the Provider Assessments Fund, which is currently supported by a partially-reimbursable assessment of 6.8 percent on nursing home revenues and a 0.35 percent assessment on hospital and home care revenues.

Motor Vehicle Fees

Motor vehicle fees are imposed by the Vehicle and Traffic Law. In general, motor vehicles, motorcycles, trailers, semi-trailers, buses, and other types of vehicles operating in New York are required to be registered with the Department of Motor Vehicles. Numerous other fees, related to the processes of registration or licensing, are also components of motor vehicle fees. Examples are: fees for inspection and emission stickers; repair shop certificates; and insurance civil penalties. Motor Vehicle Fees are discussed in more detail in a separate section.

All Other

All Other Components of Miscellaneous Receipts (millions of dollars)		
	Estimated	
	FY 2016	FY 2017
Other Public Health	190	295
Environmental Conservation	198	198
Tribal State Compact	196	196
Labor	138	139
Other Education	119	120
Housing	106	116
Homeland Security	115	115
State Police	113	113
Monetary Settlement Funds	293	0
OPWDD Settlement	(850)	0
All Other	491	20
Total Miscellaneous Receipts	1,109	1,312

The remaining revenues in this category include fees, licenses, and other assessments collected by State agencies, primarily to support all or specific components of their operations. The major sources of all other miscellaneous receipts are detailed below.

Other public health receipts include reimbursement for patient care provided at the Department's health care facilities, regulatory fees, audit recoveries, and registration, testing and certification fees for various public health services.

Environmental Conservation fees include vehicle emission inspection fees and fees on regulated pollutants, sporting license fees, revenues from the sale of forest products, and recreational user fees.

Tribal State Compact receipts consist of all revenues resulting from tribal state compacts executed pursuant to Executive Law.

Labor receipts reflect fees received by the Department of Labor associated with the implementation of labor laws and regulations.

Other education miscellaneous revenue sources include professional licensing fees and disciplinary fines, teacher certification fees and filing fees on certain documents filed in county clerks' offices.

Housing receipts include income received from New York City and other cities associated with enforcement of housing laws and regulations.

Homeland Security and Emergency Services miscellaneous receipts consist of wireless telephone surcharge revenues collected by telephone companies pursuant to Tax Law.

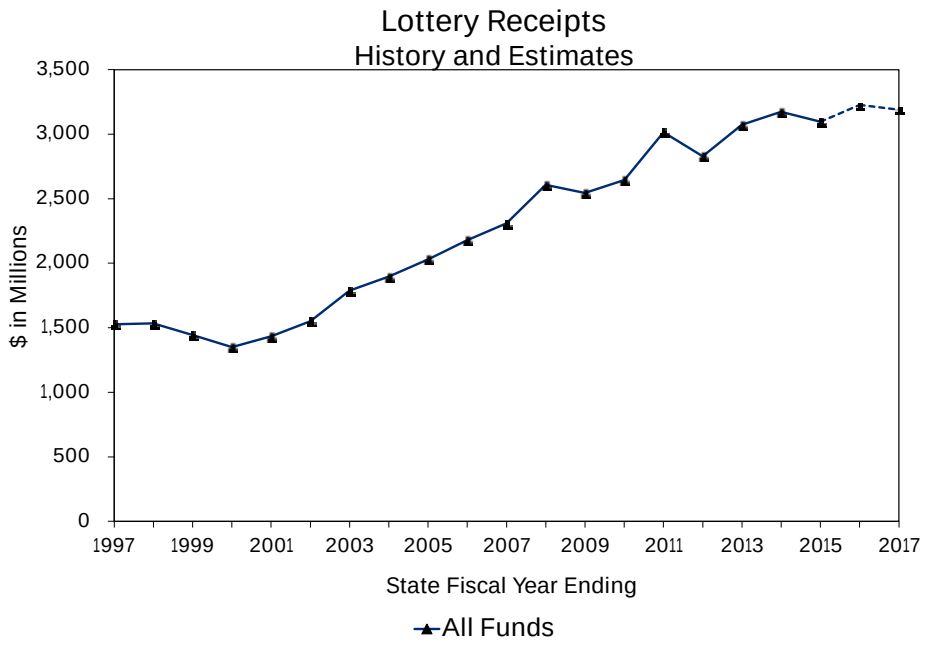
State Police miscellaneous revenue sources include seized assets, fees for accident reports and an annual fee on insurance policies of all registered motor vehicles.

One-time monetary settlement funds initially recorded as State special revenue receipts in FY 2016 have directed to the General Fund.

OPWDD settlement to resolve Federal OPWDD disallowance included an initial payment of $850 million from monetary settlement funds which was reflected as a downward adjustment to special revenue receipts.

MISCELLANEOUS RECEIPTS - LOTTERY (millions of dollars)							
	FY 2015 Actual	FY 2016 Estimated	Change	Percent Change	FY 2017 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	3,097.4	3,226.0	128.6	4.2	3,189.0	(37.0)	(1.1)
All Funds	3,097.4	3,226.0	128.6	4.2	3,189.0	(37.0)	(1.1)

Note: Totals may differ due to rounding.



LOTTERY RECEIPTS BY COMPONENT (millions of dollars)														
	Instant Games	Numbers	Win 4	Lotto	Pick 10	Take 5	Quick Draw	Mega Millions	Power Ball	Cash4Life	Other*	VLTs	Admin. Surplus**	Total Receipts
FY 2007	664.2	298.8	245.6	95.9	11.1	114.1	110.8	160.6			11.9	269.7	326.5	2,309.2
FY 2008	665.4	298.7	250.6	94.6	11.2	111.5	110.7	167.3			8.0	490.8	398.9	2,607.7
FY 2009	690.8	296.8	257.7	79.5	11.2	114.7	105.7	164.4			3.8	434.9	384.5	2,544.0
FY 2010	665.9	300.8	272.7	81.0	11.5	109.4	105.2	198.1	12.1		15.9	492.5	379.6	2,644.7
FY 2011	636.6	297.8	270.8	59.5	10.6	98.8	105.3	162.3	70.4		20.1	906.6	376.0	3,014.8
FY 2012	625.2	306.5	283.2	54.1	10.7	98.7	124.5	129.8	103.5		17.8	681.7	393.4	2,829.1
FY 2013	637.3	295.8	277.0	49.4	10.5	93.2	143.9	121.2	164.0		15.8	857.0	408.9	3,074.0
FY 2014	626.8	305.1	289.9	42.7	10.3	89.5	163.3	140.1	162.2		15.1	925.7	402.0	3,172.7
FY 2015	619.1	303.4	296.9	37.7	9.8	83.5	172.6	100.3	106.7	35.3	4.6	906.8	420.7	3,097.4
Estimated														
FY 2016	648.4	321.7	323.4	45.1	10.4	85.2	195.7	86.6	92.1	34.1	0.0	961.0	422.3	3,226.0
FY 2017														
Current Law	648.4	318.3	323.8	41.9	10.2	75.3	191.5	83.6	75.8	31.9	0.0	978.0	413.3	3,192.0
Proposed	648.4	318.3	323.8	41.9	10.2	75.3	191.5	83.6	75.8	31.9	0.0	975.0	413.3	3,189.0

Note: Totals may differ due to rounding.
* Other includes: King Kong (FY 2006), Raffle games (FY 2007, FY 2008, FY 2009 , FY 2010, FY 2014), Sweet Millions (FY 2010 through FY 2015) and Monopoly Millionaire Club
** Any unused portion of Lottery's administrative allowance and other miscellaneous income used for aid to education.

Proposed Legislation

Legislation proposed with this Budget would:

- Extend the Video Lottery Gaming (VLG) vendor's capital awards program for one year;
- Extend Monticello Video Lottery Terminal (VLT) rates for one year;
- Provide for an additional commission for certain VLT facilities; and
- Amend the Upstate New York Gaming and Economic Development Act for technical changes.

Description

The Gaming Commission, as an independent agency within the Executive Department, manages the operation and sales of the State's Lottery games (the Lottery). There are five types of games authorized:

- Instant games, sold as scratch-off tickets in which most prizes are won immediately (approximately 45 games are currently being offered for sale with prices ranging from $1 to $30);
- Lotto games, which are games offering large pari-mutuel top prizes, with drawings conducted 15 times weekly: seven 5-of-39 draws (Take-5), two 6-of-59 draws (Lotto), two 5-of-40 and 1-of-4 draws (Cash4Life), and four multi-jurisdictional drawings (Mega Millions and Powerball). For the Lotto, Mega Millions and Powerball games, the value of any top prize not won is added to the top prize in the subsequent drawing;
- Daily numbers games, which are fixed payout games with twice daily drawings where players select either a three-digit number (Numbers), or a four-digit number (Win 4). Instant Win and Lucky Sum are offered as add-on games to Numbers and Win 4;
- Keno-like games, which offer prizes that are of a fixed amount with drawings conducted either daily (Pick 10) or every few minutes (Quick Draw). The Gaming Commission currently pays base top prizes of $500,000 in Pick 10 and $100,000 in Quick Draw; and
- VLT games are authorized at certain thoroughbred and harness tracks; and at Nassau and Suffolk OTB (each authorized to have one site with up to 1,000 terminals).

There have also been short-run promotional lottery games, including the Raffle to Riches game in both 2006-07 and 2007-08, the Turkey Raffle held in November 2008, and the Halloween Millions Raffle in October 2013.

The table below shows the statutory distribution of lottery sales among prizes, revenue for education and the allowance for expenses related to administration of the games. Any unused administration revenue is earmarked for education.

DISTRIBUTION OF LOTTERY SALES (Percent)

	Prizes	Education	Admin. Allowance
Lotto	40	45	15
Mega Millions*	55	30	15
Power Ball*	55	30	15
Cash 4 Life	55	30	15
Numbers	50	35	15
Win 4	50	35	15
Take 5	50	35	15
Pick 10	50	35	15
Quick Draw	60	25	15
Instant	65	20	15
Five Instant Games at 75%	75	10	15

* Mega Millions and Power Ball currently offer a 50% prize payout.

FREQUENCY OF LOTTERY DRAWINGS

Game	Date of Inception	Frequency of Drawings
Lotto	1976	Wednesday and Saturday at 11:21 PM
Numbers	1980	Twice Daily
Win 4	1981	Twice Daily
Pick 10	1988	Once Daily
Take 5	1992	Once Daily
Quick Draw	1995	Every four minutes
Mega Millions	2002	Tuesday and Friday at 11:00 PM
Power Ball	2010	Wednesday and Saturday at 10:59 PM
Cash4Life	2014	Monday and Thursday at 9:30 PM

The following table shows the current distribution of VLT receipts (after prizes) among revenue for education, administration, operator commission, and funds available for promotions and capital. Distributions to purses and breeders funds are made from the operator's commissions, and are not separately shown.

CURRENT DISTRIBUTION OF VLT RECEIPTS AFTER PRIZES*
(Percent)

Tracks with 1,100 or more machines (Saratoga)

Net Machine Income	Education	Lottery Administration	Commission	Marketing	Capital
Up to $62.5 million	45	10	31	10	4
More than $62.5 million up to $100 Million	49	10	31	10	0
Over $100 million	51	10	31	8	0

Tracks with 1,100 or more machines west of State Route 14 (Finger Lakes)

Net Machine Income	Education	Lottery Administration	Commission	Marketing	Capital
Up to $62.5 million	45	10	31	10	4
Over $62.5 million	49	10	31	10	0

Tracks with less than 1,100 machines west of State Route 14 (Batavia)

Net Machine Income	Education	Lottery Administration	Commission	Marketing	Capital
Up to $50 million	41	10	35	10	4
More than $50 million to $62.5 million	48	10	28	10	4
More than $62.5 million up to $100 Million	52	10	28	10	0
More than $100 million up to $150 Million	54	10	28	8	0
Over $150 million	57	10	25	8	0

Tracks with a population less than 1 million within 40 mile radius (Tioga)

Net Machine Income	Education	Lottery Administration	Commission	Marketing	Capital
Up to $50 million	37	10	39	10	4
More than $50 million to $62.5 million	48	10	28	10	4
More than $62.5 million up to $100 Million	52	10	28	10	0
More than $100 million up to $150 Million	54	10	28	8	0
Over $150 million	57	10	25	8	0

Tracks within 15 miles of a Class III Native American Casino (Vernon)

Net Machine Income	Education	Lottery Administration	Commission	Marketing	Capital
Up to $62.5 million	35	10	41	10	4
More than $62.5 million to $100 million	39	10	41	10	0
Over $100 million	41	10	41	8	0

Tracks within 15 miles of a Class III Native American Casino west of State Route 14 (Buffalo Fairgrounds)

Net Machine Income	Education	Lottery Administration	Commission	Marketing	Capital
Up to $62.5 million	35	10	41	10	4
Over $62.5 million	39	10	41	10	0

Tracks Located in Sullivan County within 60 miles of Gaming Facility in a Contiguous State (Monticello)

Net Machine Income	Education	Lottery Administration	Commission	Marketing	Capital
Up to $100 million	39	10	41	10	0
Over $100 million	41	10	41	8	0

Facilities located in Nassau or Suffolk County operated by an Off-Track Betting Corporation

Net Machine Income	Education	Lottery Administration	Commission	Marketing	Capital
Up to $100 million	45	10	35	10	0
Over $100 million	47	10	35	8	0

Tracks with 1,100 or more machines located in Westchester County (Yonkers)

Net Machine Income	Education	Lottery Administration	Commission	Marketing	Capital
Up to $62.5 million	47	10	31	8	4
Over $62.5 million	51	10	31	8	0

Aqueduct Racetrack

Net Machine Income	Education	Lottery Administration	Commission	Marketing	Racing Support
All Net Machine Income	44	10	31	8	7

*Not less than 90 percent of sales must be used for prizes.
Net Machine Income is gross receipts minus prize payments. Free-play, up to 15 percent of the facilities' NMI, is excluded from the calculation of NMI.

Administration

The Gaming Commission develops new lottery games, markets and advertises, distributes games, provides terminals and computer programming, regulatory oversight and otherwise performs all functions necessary to operate an effective State lottery. The Comptroller, pursuant to an appropriation, distributes all net receipts from the Lottery directly to school districts. This aid includes special allowances for textbooks for all school children and additional amounts for pupils in approved State-supported schools for the deaf and the blind.

The Lottery game vendor notifies sales agents of the State's share of sales proceeds by the Monday following the liability week. The agent has until Tuesday to deposit sufficient funds into a specified bank account, at which time the operations vendor sweeps the funds and transfers them to the Gaming Commission by Wednesday morning. For VLTs, the Commission sweeps the accounts daily. All gaming funds are transferred to the State on Wednesday.

History

In 1966, New York State voters approved a referendum authorizing a State Lottery, and ticket sales commenced under the auspices of the Lottery Commission. Under the original lottery legislation, a passive draw game was offered with 12 drawings a year, 30 percent of gross receipts earmarked to prizes, 55 percent to education, and the remaining 15 percent representing an upper limit on administrative expenses. Since its inception, numerous games have been introduced with varying prize payout schedules to make them attractive to the consumer. In 1973, the New York State Racing and Wagering Board took over operation of the Lottery from the Lottery Commission, but Lottery operations were subsequently shut down in 1975. The New York State Division of the Lottery was established in 1976, and assumed the operation of the State's Lottery. In 2013, the Division of the Lottery was merged with the Racing and Wagering Board to create the New York State Gaming Commission.

Significant Legislation

Significant lottery legislation enacted since 2010 is summarized below.

Subject	Description	Effective Date
Legislation Enacted in 2010		
Quick Draw	Made the Lottery's authorization to operate the Quick Draw lottery game permanent and removed the restrictions on the number of hours Quick Draw can be operated.	July 1, 2010
Video Lottery Gaming	Removed the sunset on the Video Lottery Gaming Program.	August 11, 2010
	Increased the hours that VLTs may be operated to 20 hours from 16 hours per day, but no later than 4 am.	
	Reduced the vendor commission by one percent of net machine income.	

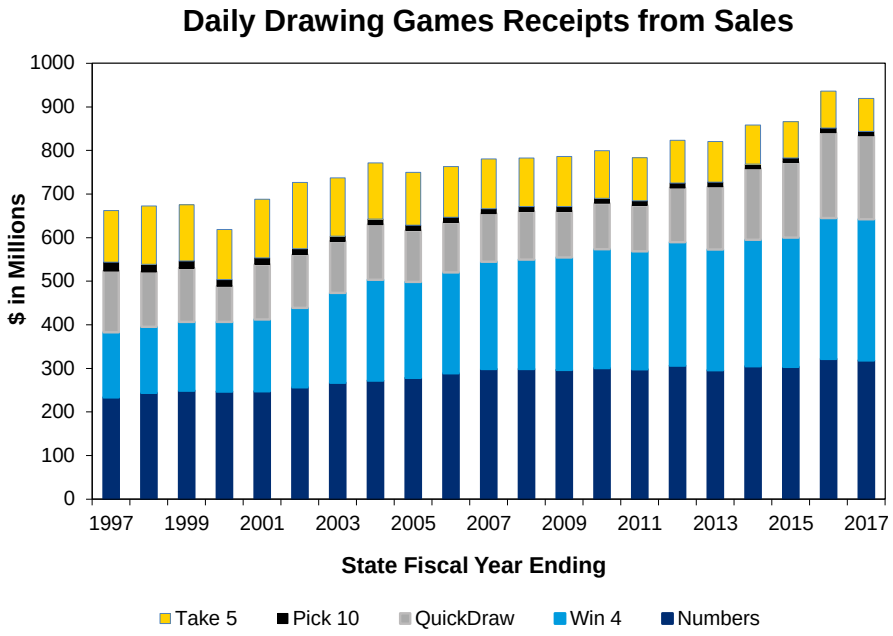
Subject	Description	Effective Date
Legislation Enacted in 2011		
Multi-jurisdictional	Increased the maximum prize payout from 50 to 55 percent of sales of multi-jurisdictional lottery games.	March 31, 2011
Instant Games	Increased the number of 75 percent prize payout Instant ticket games to be offered during the fiscal year from three to five.	March 31, 2011
Video Lottery Gaming	Authorized the Lottery to participate in Multi-Jurisdictional progressive video lottery games.	March 31, 2011
	Provided a free-play allowance that excluded free-play credits up to 10 percent of net machine income at each track from the calculation of NMI.	
Legislation Enacted in 2012		
Gaming Commission	Established the Gaming Commission by merging the Division of the Lottery and the Racing and Wagering Board.	February 1, 2013
Quick Draw	Eliminated the restriction requiring minimum food sales at locations that have a license for on-premises liquor consumption.	March 30, 2012
Legislation Enacted in 2013		
Video Lottery Gaming	Authorized two video lottery facilities with up to 1,000 terminals each in Nassau and Suffolk Counties operated by Off-Track Betting Corporations.	January 1, 2014
Commercial Gaming	Authorized up to four resort destination gaming facilities.	January 1, 2014
Legislation Enacted in 2014		
Video Lottery Gaming	Increased the free-play allowance from 10 to 15 percent	March 31, 2014
Legislation Enacted in 2015		
Electronic Games	Provided that electronic table games that include an element of skill can be offered at certain racetracks.	May 1, 2015

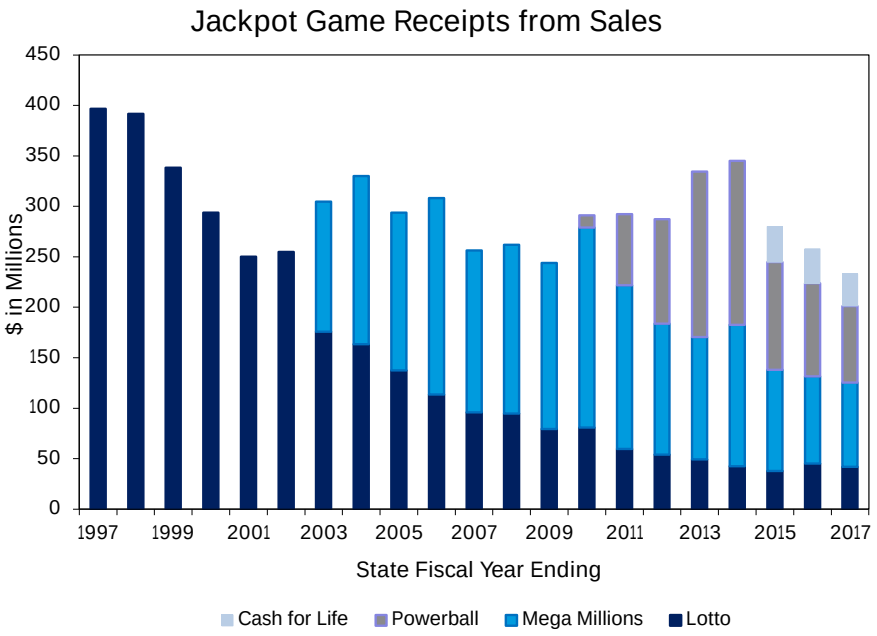
Lottery Demand

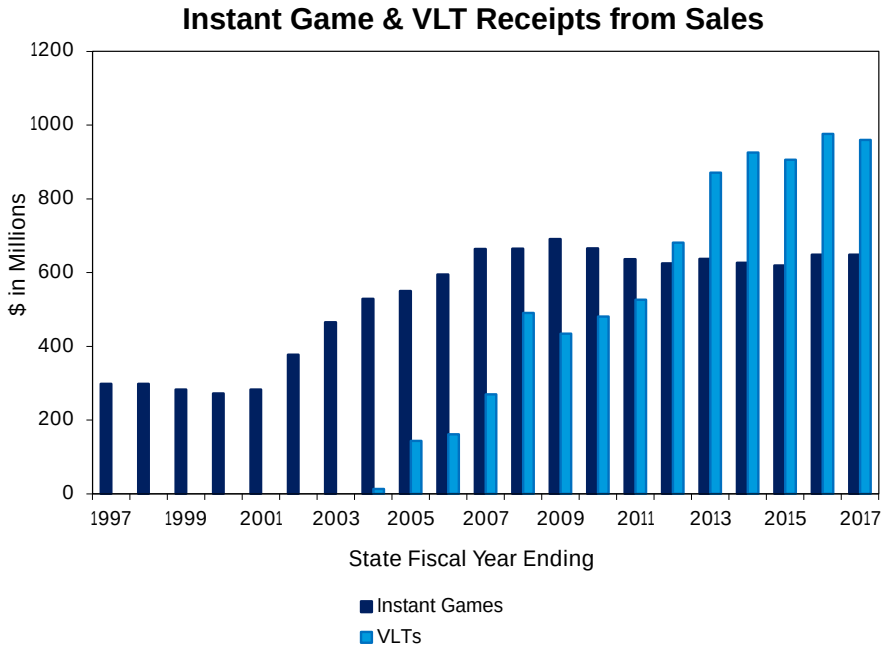
Factors that affect the demand for Lottery games include: the size of jackpots; the price of lottery tickets; the amount spent on advertising and marketing; the prize payout percentage; the development of new games that generate increased sales; potential customers' attitudes towards Lottery games; and competition from other gambling venues. Governor Cuomo announced administrative changes in his January 2016 State of the State speech that will serve to increase the Lottery's long-term appeal to the younger demographic of gaming consumers.

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

The following graphs show the receipts history and projections for various games since 1997.


Daily Drawing Games Receipts from Sales
$ in Millions
1000
900
800
700
600
500
400
300
200
100
0
1997
1999
2001
2003
2005
2007
2009
2011
2013
2015
2017
State Fiscal Year Ending
Take 5
Pick 10
QuickDraw
Win 4
Numbers


Jackpot Game Receipts from Sales
$ in Millions
450
400
350
300
250
200
150
100
50
0
1997
1999
2001
2003
2005
2007
2009
2011
2013
2015
2017
State Fiscal Year Ending
Cash for Life
Powerball
Mega Millions
Lotto



Receipts: Estimates and Projections

All Funds

FY 2016 Estimates

All Funds preliminary receipts through December are $2,070.9 million, an increase of $62.6 million (3.1 percent) from the comparable period in the prior fiscal year.

All Funds FY 2016 receipts are estimated to be $3,226 million, an increase of $128.6 million (4.2 percent) from FY 2015. Unspent administrative allowances and miscellaneous income account for $422.3 million of receipts. All games will benefit from an extra week of sales deposits in FY 2016. A game-by-game profile follows.

Instant Games and Video Lottery Gaming

Year-to-date, sales of 65 percent prize-payout instant games and 75 percent prize-payout instant games have both increased. Revenue to support education from the sale of instant games is estimated to be $648.4 million, an increase of $29.3 million (4.7 percent) from FY 2015.

VLT machines are currently in operation at Aqueduct, Saratoga, Finger Lakes, Monticello, Buffalo, Batavia, Tioga, Vernon, and Yonkers racetracks. Receipts from gaming operations at VLT facilities are estimated at $961 million for FY 2016, an increase of $54.2 million (6 percent) from

the prior year. This increase partly reflects recent legislation that expanded the offering of electronic table games to allow for an element of skill, and the increase in the free play allowance to 15 percent.

Jackpot Games

Mega Millions receipts from sales in FY 2016 are estimated to be $86.6 million, a decrease of $13.7 million (13.7 percent) from FY 2015. Through December, the Mega Millions jackpot roll-ups have underperformed compared to the roll-ups that occurred in FY 2015, when the jackpot rolled to over $300 million in November.

Powerball receipts from sales are estimated to decrease by $14.6 million (13.7 percent) to $92.1 million. Through December, the Powerball jackpot roll-ups have underperformed compared to the roll-ups that occurred in FY 2015. The January 2016 Powerball jackpot, although record-setting, was still insufficient at the time of publication to push the annual growth rate for Powerball receipts into positive territory.

Lotto receipts from sales are estimated to increase by $7.4 million (19.6 percent) to $45.1 million following increased advertising. The Sweet Millions game was discontinued in June 2014 and replaced with Cash4Life. After the strong increase in receipts from the initial product launch of Cash4Life, receipts are now estimated to taper off to $34.1 million.

Daily Drawing Games

Quick Draw is estimated to generate $195.7 million in receipts from sales, an increase of $23.1 million (13.4 percent) as the impact of additional retail locations is fully phased in.

Receipts from sales of Numbers are estimated to increase by $18.3 million (6 percent) to $321.7 million and receipts from sales of Win 4 are estimated to increase by $26.5 million (8.9 percent) to $323.4 million in FY 2016. The sales of these games have continued to increase even with the launch of Cash4Life.

FY 2017 Projections

All Funds FY 2017 receipts are projected to be $3,189 million, a decrease of $37 million (1.1 percent) from FY 2016. Unspent administrative allowances and miscellaneous income account for $413.3 million of receipts.

Instant Games and Video Lottery Gaming

Receipts from Instant Games sales are projected to remain the same amount with roughly $5.5 million shifting from 65% instant game sales to 75% instant game sales.

Receipts from the State's VLT operations are projected to total $975 million, an increase of $14 million (1.5 percent). The estimate reflects the continued offering of electronic gaming offset by having one less week of sales in FY 2017 and proposed tax law changes.

Jackpot Games

Receipts from Mega Millions are projected to decline by $3 million (3.5 percent) reflecting the loss of the extra remittance week in FY 2016. Receipts from Powerball are projected to decline, reflecting the loss of the extra remittance week and an assumption that the historic Powerball roll-up in January 2016 is non-recurring. Receipts from sales of Cash4Life are projected at $31.9 million, a decrease of $2.2 million (6.5 percent).

Daily Drawing Games

Receipts from Numbers are estimated to decrease by $3.4 million (1.1 percent) and Win 4 receipts are estimated to increase by $0.4 million (0.1 percent) in FY 2017. Excluding the extra week in FY 2016, both game sales are projected to increase. Quick Draw is expected to decline by $4.2 million (2.1 percent) to reflect the extra week in FY 2016. Take 5 receipts are estimated to decline by $9.9 million (11.6 percent), reflecting trend declines in the game.

MISCELLANEOUS RECEIPTS - COMMERCIAL GAMING (millions of dollars)							
	FY 2015 Actual	FY 2016 Estimated	Change	Percent Change	FY 2017 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	0.0	151.0	151.0	N/A	20.0	(131.0)	(86.8)
All Funds	0.0	151.0	151.0	N/A	20.0	(131.0)	(86.8)

Note: Totals may differ due to rounding.

Commercial Gaming Tax By Fund (millions of dollars)		
	Special Revenue Funds	All Fund Receipts
FY 2011	N/A	N/A
FY 2012	N/A	N/A
FY 2013	N/A	N/A
FY 2014	N/A	N/A
FY 2015	0.0	0.0
Estimated		
FY 2016	151.0	151.0
FY 2017		
Current Law	20.0	20.0
Proposed Law	20.0	20.0

Proposed Legislation

Legislation proposed with this Budget would amend the Upstate New York Gaming and Economic Development Act for technical changes.

Description

Commercial Gaming is authorized in three development regions of New York State. Those regions are:

- Region One comprised of the Counties of Columbia, Delaware, Dutchess, Greene, Orange, Sullivan and Ulster;
- Region Two comprised of the Counties of Albany, Fulton, Montgomery, Rensselaer, Saratoga, Schenectady, Schoharie and Washington; and
- Region Five comprised of the Counties of Broome, Chemung (east of State Route 14), Schuyler (east of State Route 14), Seneca, Tioga, Tompkins and Wayne (east of State Route 14).

In 2013, New York State voters approved a referendum allowing no more than seven commercial gaming facilities as authorized and prescribed by the Legislature. The "Upstate New York Gaming Economic Development Act of 2013" authorized up to four commercial gaming facilities within three development zones.

On December 17, 2014, the New York Gaming Facility Location Board recommended the following applicants to be considered for a commercial gaming license from the New York State Gaming Commission: Montreign Resort Casino (Region One, Zone Two); Rivers Casino & Resort at Mohawk Harbor (Region Two, Zone Two) and Lago Resort and Casino (Region Five, Zone Two). On December 21, 2015, the New York State Gaming Commission unanimously approved licenses to these three destination resorts.

On October 14, 2015, the New York Gaming Facility Location Board recommended to the New York State Gaming Commission that Tioga Downs, an existing Video Lottery Terminal Facility in Region Five of Zone Two, be considered for a commercial gaming facility license.

Administration

The Gaming Commission regulates commercial gaming facilities and administers the tax on gaming revenues. The Commission also collects license fees as established by the New York State Resort Gaming Facility Location Board.

All commercial gaming tax (see below) and license revenue collected by the Gaming Commission is deposited into the Commercial Gaming Revenue Fund. From that Fund, tax and license revenue is distributed as follows: 80 percent of all commercial gaming revenue (less an amount transferred to the Video Lottery Education account required to maintain base year revenue in that account) for elementary and secondary education or property tax relief; 10 percent of the revenue generated by any commercial gaming facility in a gaming region is provided equally to the host county and municipality in that region and 10 percent of the revenue generated by any commercial gaming facility in a gaming region is provided on a per capita basis to non-host counties within such region.

Significant Legislation

Significant legislation enacted since 2013 is summarized below.

Subject	Description	Effective Date
Legislation Enacted in 2013		
Commercial Gaming	Authorized up to four resort destination gaming facilities.	January 1, 2014

Tax Liability

Commercial gaming taxes are paid as a percent of gaming revenue generated at each licensed facility. Factors that affect commercial gaming revenue include proximity to population centers, regional income variations, proximity to and competition from existing facilities, and the applicable tax rates in the gaming regions. Those rates are: 10 percent on table game receipts in all regions; 39 percent on slot machine receipts in Region One; 45 percent on slots in Region Two; and 37 percent on slots in Region Five.

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

Receipts: Estimates and Projections

All Funds

FY 2016 Estimates

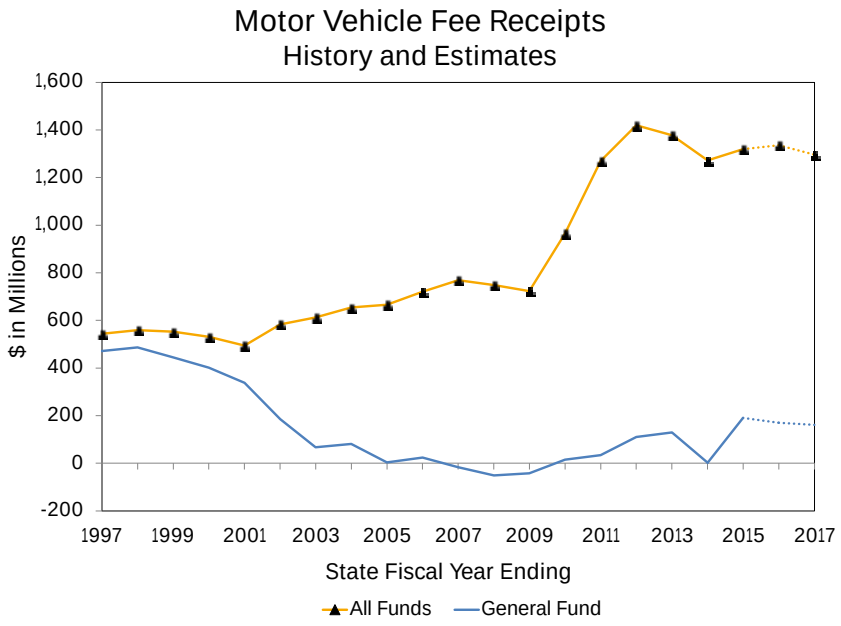
FY 2016 receipts are estimated to be $151 million, reflecting the expected receipt of license fee revenue from the three recently issued commercial gaming licenses.

FY 2017 Projections

FY 2017 receipts are projected to be $20 million, reflecting the receipt of license fee revenue following the award of a commercial gaming license to Tioga Downs.

MOTOR VEHICLE FEES (millions of dollars)							
	2015 Actual	FY 2016 Estimated	Change	Percent Change	FY 2017 Projected	Change	Percent Change
General Fund	191.1	170.4	(20.7)	(10.8)	161.0	(9.4)	(5.5)
Capital Funds	726.7	750.0	23.3	3.2	755.1	5.1	0.7
SR Funds	400.8	415.0	14.2	3.5	380.4	(34.6)	(8.3)
All Funds	1,318.6	1,335.4	16.8	1.3	1,296.4	(39.0)	(2.9)

Note: Totals may differ due to rounding.



MOTOR VEHICLE FEES BY FUND (millions of dollars)								
	Gross General Fund	Refunds	General Fund	Special Revenue Funds[1]	Gross Capital Projects Funds	Refunds	Capital Projects Funds[2]	All Fund Receipts
FY 2007	-12	5	-17	229	573	16	557	769
FY 2008	-46	5	-51	230	585	16	569	748
FY 2009	-37	5	-42	218	562	16	546	722
FY 2010	20	5	15	322	643	15	628	965
FY 2011	39	5	34	422	830	17	813	1,269
FY 2012	116	5	111	496	837	25	812	1,419
FY 2013	134	5	129	453	821	25	796	1,378
FY 2014	7	5	2	485	810	25	785	1,272
FY 2015	196	5	191	401	752	25	727	1,319
Estimated								
FY 2016	175	5	170	415	775	25	750	1,335
FY 2017								
Current Law	166	5	161	410	750	25	725	1,296
Proposed Law	166	5	161	380	780	25	755	1,296

[1] Dedicated Mass Transportation Trust Fund (DMTTF), the MTA Aid Trust Account and other SR Accounts.

[2] Dedicated Highway and Bridge Trust Fund (DHBTF).

Proposed Legislation

Legislation proposed with this Budget would redirect motor vehicle fees currently deposited in the Special Revenue Other funds to the Dedicated Highway and Bridge Trust Fund.

Description

Fee Base

Motor vehicle fees are imposed by the Vehicle and Traffic Law. In general, motor vehicles, motorcycles, trailers, semi-trailers, buses, and other types of vehicles operating in New York are required to be registered with the Department of Motor Vehicles. In 2014, 11 million vehicles were registered in New York State, including 9.3 million standard series vehicles and 781,104 commercial vehicles. The Vehicle and Traffic Law also requires drivers to be licensed by the Department of Motor Vehicles. The current license renewal period is eight years. In 2014, New York State had 11.6 million licensed drivers. Numerous other fees, related to the processes of registration or licensing, are also components of motor vehicle fees. Examples are: fees for inspection and emission stickers; repair shop certificates; and insurance civil penalties.

Fee Schedules

Most vehicle registration fees in New York are based on weight. Two important exceptions are buses, which are charged according to seating capacity, and semi-trailers, which are charged a flat fee. Registration fees for vehicles weighing less than 18,000 pounds are imposed biennially. The main registration fees are as follows:

Main Registration Fees

Type of Vehicle	Weight of Vehicle	Annual Fee* (dollars)
Passenger vehicle	Each 100 lbs. or major fraction thereof up to 3,500 lbs.	0.81
	Plus: for each 100 lbs. or major fraction thereof above 3,500 lbs.	1.21
Passenger vehicle - minimum fee		12.94
Passenger vehicle - maximum fee		70.08
Passenger vehicle propelled by electricity		16.18
Auto truck and light delivery vehicle	Each 500 lbs. maximum gross weight or fraction thereof	3.60

Tractors (registered separately from semi-trailers	Each 100 lbs. maximum gross weight or fraction thereof	1.51
Trailers	Each 500 lbs. maximum gross weight or fraction thereof	5.39
Semi-trailers - pre-1989 model year		28.75 per year
Semi-trailers - model year 1989 or later		28.75 per year or 86.25 for a period of 5.5 to 6.5 years
Bus - seating capacity 15 to 20 passengers		74.75

*This does not include the $25 supplemental fee imposed on registrations in the Metropolitan Commuter Transportation District (MCTD).

The main licensing fees are listed below:

Main Driver Licensing Fees	
Type of License	Fee* (dollars)
Photo Fee	12.50
Original/Renewal	
• A, B, CDL, or C (Commercial)	9.50 - for each six months
• Non CDL/C or E	6.25 - for each six months
• D (Passenger)	3.25 - for each six months
• M (Motorcycle)	3.75 - for each six months

*This does not include the $1 supplemental fee per six months imposed on licenses in the MCTD.

Administration

Registration and licensing occur in person or by mail at the central and district offices of the Department of Motor Vehicles, and county clerks' offices in most counties. Many transactions can also be completed via the Internet. County clerks receive 12.7 percent of gross receipts as compensation. This totaled $42.1 million in FY 2015.

Fee Exemptions

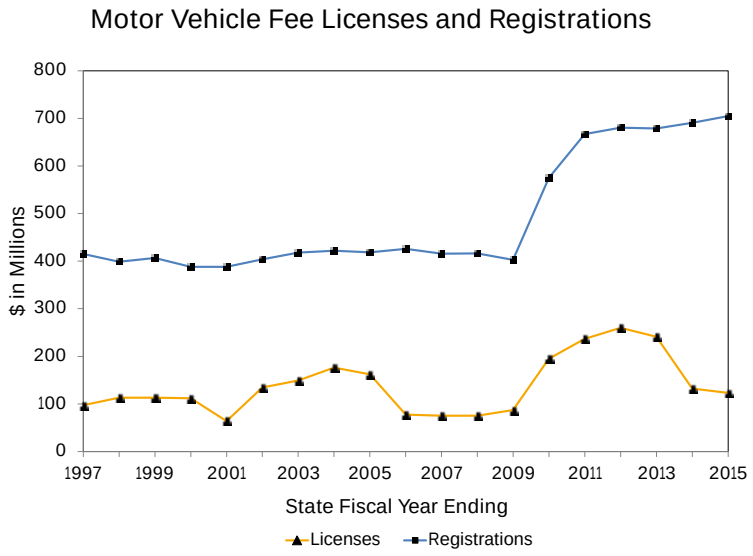
Certain vehicles registered in New York are exempt from registration fees. The exemptions include: vehicles owned by the State or municipalities; passenger vehicles owned by consular offices; and vehicles owned and used for the transportation of animals by societies for the prevention of cruelty to animals. Vehicles owned by nonresidents and registered with a political jurisdiction outside the State are not usually required to be registered in New York. The revenue loss from these exemptions is minimal.

Significant Legislation

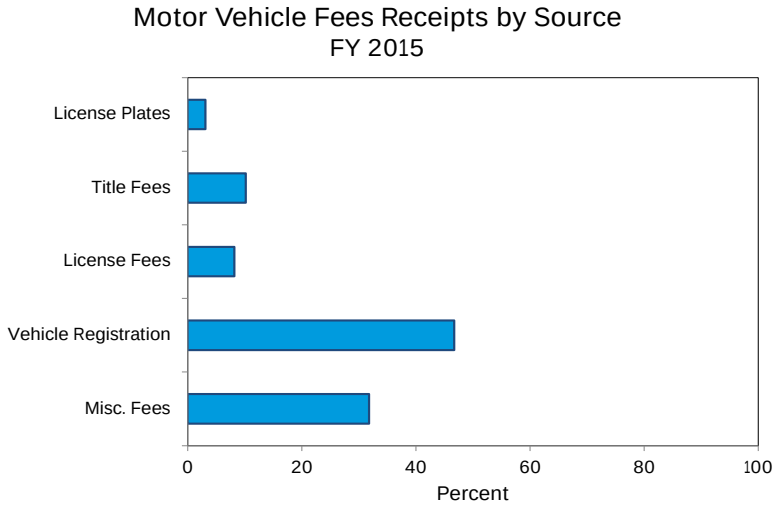
Significant statutory changes to motor vehicle fees since 2011 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 2011		
General Fund	Included fines and assessments in the definition of General Fund receipts.	April 1, 2011
Legislation Enacted in 2014		
GF MVF Transfer	General Fund transfers to the DMTTF and DHBTF that are specifically sourced from General Fund motor vehicle fee receipts were replaced with generic General Fund transfers to these two funds.	April 1, 2014
DRA Receipts	The first $40.7 million in Driver Responsibility Assessment (DRA) receipts that remained in the General Fund were instead directed to the DHBTF thereby accomplishing direction of all revenue from this Assessment to the DHBTF.	April 1, 2014

Fee Liability



Vehicle registration and driver licensing fee totals are a function of fee schedules, the number of licensed drivers and registered vehicles, and the number of years between license and vehicle registration renewals. These motor vehicle fees have fluctuated little as a result of economic conditions, but law changes in 2000 and in 2009 altered revenue collections. In 2000, the license renewal period was extended to eight years. In 2009, most registration and license fees were increased by 25 percent.



Receipts: Estimates and Projections

All Funds

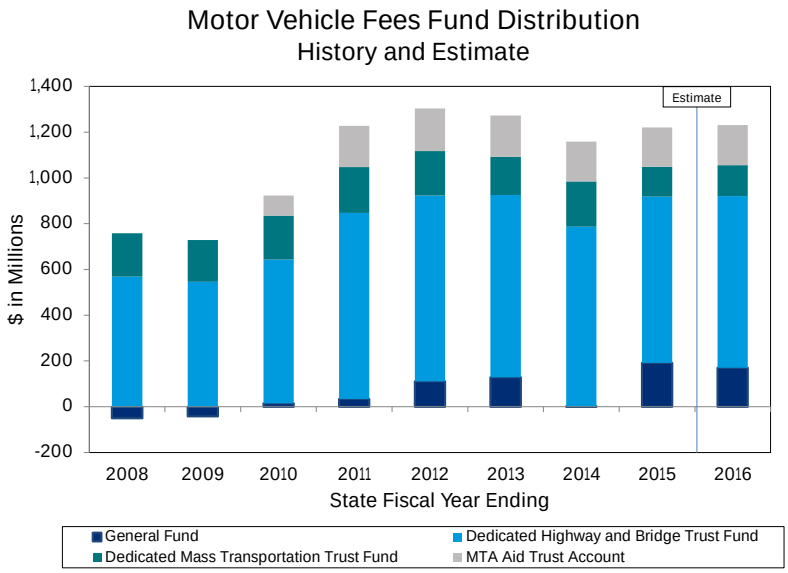
FY 2016 Estimates

All Funds preliminary receipts through December are $1,057.4 million, an increase of $45.7 million (4.5 percent) from the comparable period in the prior fiscal year.

All Funds FY 2016 receipts are estimated to be $1,335.4 million, an increase of $16.8 million (1.3 percent) from FY 2015. This increase reflects anticipated increases in annual collections across several categories. Transportation Fund deposits are estimated to increase by $37.5 million, mainly due to higher registration fees and tax clearance amounts paid during the highway use tax triennial renewal process. This will be offset by a General Fund decline of $20.7 million, which reflects a down year during the eight-year driver's license renewal cycle.

FY 2017 Projections

All Funds FY 2017 receipts are projected to be $1,296.4 million, a decrease of $39 million (2.9 percent) from FY 2016.



General Fund

General Fund motor vehicle fees are estimated to be $170.4 million in FY 2016 and $161 million in FY 2017.

Other Funds

Since April 1, 1993, a percentage of registration fees has been deposited in the Dedicated Highway and Bridge Trust Fund (DHBTF). The percentage dedicated to the fund has been adjusted several times.

Revenues from the 25 percent registration and license fee increase, effective September 1, 2009, are directed solely to the DHBTF. The balance of registration and license fees is dedicated as follows: 80 percent to the DHBTF and 20 percent to the Dedicated Mass Transportation Trust Fund (DMTTF).

Since 2009, all receipts from the supplemental fee on registrations and licenses are dedicated to the MTA Aid Trust Account of the MTA Special Assistance Fund.

In FY 2016, the DHBTF will receive an estimated $750 million and the DMTTF will receive an estimated $135 million. The MTA Aid Trust Account is estimated to receive $176 million. Various other dedicated funds (Special Revenue Other) will receive a portion of the remaining $104 million. In FY 2017, the DHBTF is projected to receive $755.1 million and the DMTTF is projected to receive $133 million. The MTA Aid Trust Account is projected to receive $171 million. Various other dedicated funds (Special Revenue Other) will receive a portion of the remaining $76.4 million. The FY 2017 estimates reflect a consolidation of DMV Seized Assets, Compulsory Insurance, Internet Point Insurance Reduction Program and the Motorcycle Safety Funds into the DHBTF.

Miscellaneous Receipts Capital Projects Funds

MISCELLANEOUS RECEIPTS - CAPITAL PROJECTS FUNDS (millions of dollars)							
	FY 2015 Actual	FY 2016 Estimated	Change	Percent Change	FY 2017 Projected	Change	Percent Change
State Funds	3,960	4,585	625	0.2	5,382	797	0.2
Federal Funds	2,025	2,471	445	0.2	1,968	(503)	(0.2)
All Funds	5,985	7,056	1,070	0.2	7,350	295	0.0

Note: Totals may differ due to rounding.

MISCELLANEOUS RECEIPTS - CAPITAL PROJECTS FUNDS (millions of dollars)			
	FY 2015	FY 2016	FY 2017
Authority Bond Proceeds			
Transportation	879	1,543	1,706
Public Protection	275	330	299
Health and Social Welfare	242	155	309
Education	1,475	1,257	1,352
Mental Hygiene	288	359	390
Economic Development/	341	685	855
General Government	55	101	233
Other	212	394	505
State Park Fees	27	26	26
Environmental Revenues	48	54	54
All Other	860	440	506
Total	4,700	5,344	6,235
Accounting Adjustment	(740)	(759)	(853)
Financial Plan Total	3,960	4,585	5,382

Miscellaneous receipts in the Capital Projects Fund type include reimbursements from the proceeds of bonds sold by public authorities, fees, and other sources of revenue dedicated to specific capital projects funds, primarily for environmental or transportation capital purposes. The Miscellaneous Receipts table reflects an accounting adjustment for spending made directly from bonds sold by public authorities for State projects. This capital activity, commonly referred to as "Off-Budget Spending," is not reflected in the Comptroller's accounting system, but is included in the Five-Year Capital Program and Financial Plan estimates and projections. Although Federal Funds are included in the first table, in order to provide a more complete picture of non-tax receipts, a fuller discussion of Federal Funds is included in a separate section.

State Funds receipts finance two types of capital spending. Authority bond proceeds are used for spending financed with Authority Bonds, while Other Miscellaneous Receipts (Parks, Environmental, and Other receipts) finance State Pay-As-You-Go spending. Federal Funds receipts (Federal Grants) finance Federal Pay-As-You-Go spending.

Reimbursement from Authority Bond Proceeds

Pursuant to statutory authorizations, State agencies enter into contractual arrangements with public authorities to provide for the financing of State capital projects. Such contractual arrangements for financing capital project spending exist with the Empire State Development Corporation, the Dormitory Authority of the State of New York, the Environmental Facilities Corporation, the New York State Housing Finance Authority, and the New York State Thruway Authority. Currently, the primary functional areas for which authority bond proceeds finance capital projects spending are transportation, higher education, and economic development. After the State makes payments directly from appropriations for project costs, it is reimbursed by the public authority from the proceeds of bonds sold previously, except for the" Off-Budget Spending" mentioned previously. The amount of reimbursements received annually reflects the level of bondable capital spending in that year and may fluctuate depending upon when the spending occurs and the timing of related bond sales. As bondable spending fluctuates to reflect the progress of capital programs across all areas, so do the bond receipts received as reimbursements.

State Parks, Environmental, and Other Revenues

The following miscellaneous receipts do not include reimbursements from authority bond proceeds.

State Parks user fees and related revenues are deposited into the State Parks Infrastructure Fund and the Miscellaneous Capital Projects Fund. These revenues, which are projected at $26 million in FY 2016 and $26 million in FY 2017, will be used to finance improvements at various facilities across the State's park system.

Other miscellaneous environmental revenues include receipts primarily from the sale of surplus State lands, the leases of coastal State property, and the sale of environmental license plates. These are deposited into the Environmental Protection Fund. Other environmental revenues from settlements with individuals and other parties who are liable for damage caused to State environmental properties are deposited in the Natural Resource Damages Fund.

Other moneys and fees are received in the various Capital Projects Funds to support capital programs. Finally, certain receipts reimburse the State for capital spending on behalf of municipalities, public authorities, and private corporations, primarily for transportation and environmental projects. A major portion of these receipts reflect repayments pursuant to previously negotiated agreements.

Miscellaneous Receipts - Debt Service Funds

MISCELLANEOUS RECEIPTS - DEBT SERVICE FUNDS (millions of dollars)							
	FY 2015 Actual	FY 2016 Estimated	Chang	Percent Change	FY 2017 Projected	Change	Percent Change
General Fund	0	0	0	0.0	0	0	0.0
Other Funds	510	488	(22)	(4.3)	455	(32)	(6.6)
All Funds	510	488	(22)	(4.3)	455	(32)	(6.6)

Note: Totals may differ due to rounding.

MISCELLANEOUS RECEIPTS - DEBT SERVICE FUNDS (millions of dollars)			
	FY 2015	FY 2016	FY 2017
Mental Hygiene Patient Receipts	364	338	303
Health Patient Receipts	137	142	146
All Other	9	8	7
	510	488	455

Miscellaneous receipts in the Debt Service fund type include patient revenues, rental fees, medical insurance payments, interest income on investments, and other revenues. These revenues are typically first dedicated for the payment of lease-purchase agreements, contractual obligations, and debt service. These revenues support about 8 percent of the State's debt service payments and have been pledged as security for bonds issued for Mental Hygiene facilities and Department of Health facilities. The revenues are also used by the State to pay debt service on general obligation housing bonds. After such requirements are satisfied, the balance of most miscellaneous receipts, together with other receipts and transfers, flow back to the General Fund or to Special Revenue funds to offset the cost of State operations.

Mental Hygiene Patient Receipts

Payments from patients and various third-party payers, including Medicare and insurance companies, for services provided by the mental hygiene agencies are deposited in the Mental Health Services Fund as miscellaneous receipts. The revenues received are used to make lease-purchase payments to the Dormitory Authority of the State of New York (DASNY) for debt service on mental health services bonds. Additionally, portions of State and local assistance and Federal Medicaid payments to not-for-profit community facilities are earmarked to pay their share of debt service. These are also deposited as miscellaneous receipts in the Mental Health Services Fund. DASNY makes loans to eligible not-for-profit agencies providing mental health services and, in return, the voluntary agencies make rental payments equal to the amount of debt service on bonds issued to finance their projects.

Health Patient Receipts

Patient care reimbursements from the Department of Health's hospitals and the veterans' homes (Oxford, New York City and Western New York) are deposited into the Health Income Fund to make lease-purchase rental payments to DASNY. Similar to the Mental Hygiene Services Fund, the receipts are pledged for debt service of bonds issued by DASNY to finance the construction and rehabilitation of State hospitals and veteran's homes. These receipts are composed of payments from Medicaid, Medicare, insurance, and individuals.

All Other

The all other miscellaneous receipts category primarily includes investment income receipts from the Local Government Assistance Corporation, and payments from local housing agencies to finance the debt service costs on general obligation bonds.

Federal Grants

To qualify to receive Federal grants, the State must comply with guidelines established by the Federal government. Each Federal grant must be used pursuant to Federal laws and regulations. Additionally, the State is required to follow specific cash management practices regarding the timing of cash draws from the Federal government pursuant to regulations for each grant award. In most cases, the State finances spending in the first instance, then receives reimbursement from the Federal government.

Total receipts from the Federal government are projected at $52.3 billion in FY 2016 and $51.1 billion in FY 2017. These revenues represent approximately one-third of total receipts in governmental funds, excluding general obligation bond proceeds, and are deposited into the General Fund, Special Revenue, Capital Projects and the Debt Service fund types.

FEDERAL GRANTS BY FUND
(millions of dollars)

	General Fund	Special Revenue Funds				Capital Projects Funds	Debt Service Funds	Total All Funds
		Medicaid	Welfare	All Other	Total			
FY 2003	6	17,297	2,542	11,847	31,686	1,567	0	33,259
FY 2004	654	21,435	2,018	11,668	35,121	1,548	0	37,323
FY 2005	9	22,666	1,998	9,828	34,492	1,721	0	36,222
FY 2006	0	21,524	2,097	9,741	33,362	1,767	0	35,129
FY 2007	151	22,906	2,243	8,540	33,689	1,738	0	35,578
FY 2008	69	22,417	2,184	8,494	33,095	1,745	0	34,909
FY 2009	45	24,844	2,597	9,466	36,907	1,882	0	38,834
FY 2010	71	30,054	2,721	10,605	43,380	2,061	13	45,525
FY 2011	55	31,423	2,674	12,596	46,693	2,499	57	49,304
FY 2012	60	28,195	2,520	11,640	42,355	2,115	80	44,610
FY 2013	62	27,043	2,583	10,950	40,576	2,126	79	42,843
FY 2014	0	26,538	3,168	11,699	41,405	2,313	71	43,789
FY 2015	2	31,852	2,633	12,046	46,531	2,030	73	48,636
Estimated								
FY 2016	0	35,355	2,627	11,797	49,779	2,476	73	52,328
FY 2017	0	35,558	2,627	10,902	49,087	1,973	73	51,133

General Fund

Federal grants are deposited into the General Fund only in limited instances. The Federal subsidiary payment related to Medicare Part D was the main Federal grant in the General Fund in prior years, however, starting in FY 2014, the State has received this payment through a different reimbursement mechanism.

Federal Grants

Special Revenue Funds

Federal grants account for nearly two-thirds of all special revenue receipts and are used to support a wide range of programs at the State and local government level. Medicaid is the single largest program supported by Federal funds, and helps finance health care, medical supplies, and professional services for eligible persons. The State receives funds from the Federal government to make payments to providers for both State-operated and non-State-operated facilities. The State-operated category includes facilities of the Offices of Mental Health and Mental Retardation and Developmental Disabilities. These facilities receive Medicaid funds for the delivery of eligible services to patients.

Other Federal grants in the Special Revenue Funds support programs administered primarily by the departments of Education, Family Assistance, Health, and Labor. These programs include Public Assistance, Foster Care, Food and Nutrition Services, and Supplementary Educational Services. The State also receives Federal grants to support extraordinary costs associated with disaster assistance.

Capital Projects Funds

Federal grants in Capital Projects Funds finance transportation planning, engineering, and construction projects. Federal grants also support local wastewater treatment projects financed through the State's Revolving Loan Fund. Other Federal grants are for the rehabilitation of State armories, eligible housing programs, and other environmental purposes.

Debt Service Funds

Federal grants in the Debt Service fund type reflect interest subsidies received on Build America Bonds (BABs), pursuant to a financing option provided to the State through the American Recovery and Reinvestment Act (ARRA).

All or portions of several tax sources, including the personal income tax, transportation-related taxes and fees, cigarette taxes, sales and use taxes, and corporate taxes are statutorily dedicated to various Special Revenue, Debt Service and Capital Projects Funds. The following discussion identifies the statutory provisions which establish the dedicated funds, the source of dedicated tax receipts and the formula used to allocate tax receipts to the funds, and the purposes for which those deposits may be used.

Special Revenue Funds

School Tax Relief Fund ("STAR" Fund-053)

The School Tax Relief Fund was established by Section 97 of the State Finance Law. The Fund consists of all moneys credited or transferred thereto from the General Fund or from any other fund or sources. The moneys of the Fund are appropriated for school property tax exemptions granted pursuant to the Real Property Tax Law and for payments to the city of New York pursuant to State Finance Law and Tax Law.

SCHOOL TAX RELIEF FUND (STAR)
(millions of dollars)

	FY 2015 Actual	FY 2016 Estimated	FY 2017 Recommended	FY 2018 Recommended	FY 2019 Recommended	FY 2020 Recommended
Personal Income Tax	3,297	3,337	3,228	2,916	2,804	2,696
Total STAR	3,297	3,337	3,228	2,916	2,804	2,696

Dedicated Mass Transportation Trust Fund ("DMTTF" Fund-073)

The Dedicated Mass Transportation Trust Fund was established by Section 89-c of the State Finance Law. State tax receipts of the DMTTF are derived from the State's motor fuel tax, motor vehicle fees, and a portion of the petroleum business tax. The moneys of the DMTTF, pursuant to an appropriation, are used for the reconstruction, replacement, purchase, modernization, improvement, reconditioning, preservation and maintenance of mass transit facilities, vehicles, and rolling stock, or the payment of debt service or operating expenses incurred by mass transit operating agencies, and for rail projects. Revenue shown below does not include an annual General Fund transfer of $66 million into the DMTTF, effective FY 2015.

DEDICATED MASS TRANSPORTATION TRUST FUND (DMTTF)
(millions of dollars)

	FY 2015 Actual	FY 2016 Estimated	FY 2017 Recommended	FY 2018 Recommended	FY 2019 Recommended	FY 2020 Recommended
Petroleum Business Tax	378	361	353	334	331	329
Motor Fuel Tax	101	103	103	101	100	100
Motor Vehicle Fees	131	135	133	133	133	133
Total DMTTF	610	599	589	568	564	562

Metropolitan Transportation Authority Financial Assistance Fund (**"MTAFAF" Fund**-225)

The Metropolitan Transportation Authority Financial Assistance Fund was established by Section 92-ff of the State Finance Law under the joint custody of the Commissioner of Taxation and Finance and the State Comptroller. Moneys in this Fund are to be kept separately from and not be commingled with any other moneys in the joint or sole custody of the State Comptroller or the Commissioner of Taxation and Finance. The fund contains all moneys collected, credited or transferred to it from any other fund, account or source, including the revenues derived from the following sources:

- The metropolitan commuter transportation mobility tax;
- Supplemental motor vehicle fees: a supplemental learner permit/license fee and registration fee in the Metropolitan Commuter Transportation District (MCTD);
- The supplemental tax on passenger car rentals in the MCTD; and
- The tax on New York City taxicab and hail vehicle trips.

Revenues generated from the mobility tax are directed to the Mobility Tax Trust Account of the MTA Financial Assistance Fund. Revenues generated from the supplemental motor vehicle fees, supplemental tax on car rentals, and the tax on taxicab rides are directed to the MTA Aid Trust Account of the MTA Financial Assistance Fund.

METROPOLITAN TRANSPORTATION AUTHORITY FINANCIAL ASSISTANCE FUND (MTAFAF)
(millions of dollars)

	FY 2015 Actual	FY 2016 Estimated	FY 2017 Recommended	FY 2018 Recommended	FY 2019 Recommended	FY 2020 Recommended
Payroll Tax	1,271	1,331	1,388	1,455	1,528	1,609
Motor Vehicle Fees	171	176	171	182	182	182
Auto Rental Tax	45	47	48	51	54	56
Taxicab Surcharge	82	72	70	70	70	70
Total MTAFAF	1,569	1,626	1,677	1,758	1,834	1,917

Mass Transportation Operating Assistance Fund ("MTOA" Fund-313)

The Mass Transportation Operating Assistance Fund was established by Section 88-a of the State Finance Law. Tax receipts dedicated to the fund are comprised of a business tax surcharge levied on the portion of the State general business corporation tax, corporations and utilities tax, and the insurance tax allocated to the Metropolitan Commuter Transportation District (MCTD), a 0.375 percent sales tax levied in the MCTD, a portion of the petroleum business tax, and a portion of the taxes on transportation and transmission companies and telecommunication services. The moneys of the MTOAF are subject to appropriation and are allocated among two

accounts within the Fund. The moneys in each account must be used for the transportation assistance purposes for which each account was established. The accounts of MTOAF include:

- Public Transportation Systems Operating Assistance Account (PTOA - Fund 313-01); and
- Metropolitan Mass Transportation Operating Assistance Account (MMTOA - Fund 313-02).

The PTOA receives:

- 45 percent of the 19.7 percent of the basic petroleum business tax that is dedicated to the MTOAF;
- 26 percent of the receipts collected from the tax imposed on transportation and transmission companies by Sections 183 and 184 of Article 9 of the Tax Law for FY 2013 through FY 2018; and
- 1.976 percent of the receipts collected from the tax on charges for telecommunication services by section 186-e of Article 9 of the Tax Law for FY 2016 through FY 2018.

The MMTOA receives:

- 54 percent of the receipts collected from the taxes imposed on transportation and transmission companies by Sections 183 and 184 of Article 9 of the Tax Law for FY 2013 through FY 2018;
- 4.104 percent of the receipts collected from the tax on charges for telecommunication services by section 186-e of Article 9 of the Tax Law for FY 2016 through FY 2018;
- All tax receipts from the business tax surcharge imposed on taxpayers that are subject to the corporation franchise tax, corporations and utilities tax, and the insurance tax and that conduct business in the MCTD.
- Tax receipts from the 0.375 percent sales and use tax imposed in the MCTD; and
- 55 percent of the 19.7 percent of the basic petroleum business tax that is dedicated to the MTOAF.

MASS TRANSPORTATION OPERATING ASSISTANCE FUND (MTOA) (millions of dollars)	FY 2015 Actual	FY 2016 Estimated	FY 2017 Recommended	FY 2018 Recommended	FY 2019 Recommended	FY 2020 Recommended
Corporate Surcharges						
Corporate Franchise Tax [1]	558	744	784	819	862	899
Corporation and Utilities Tax	103	107	110	113	121	125
Insurance Tax	158	169	163	172	187	194
Bank Tax [1]	213	8	30	28	21	11
Other						
Sales and Use Tax	854	878	911	946	981	1,018
Petroleum Business Tax	137	130	128	120	118	118
Transmission Tax [2]	38	57	58	58	57	57
Total MTOA	2,061	2,093	2,184	2,256	2,347	2,422

[1] The FY 2015 Enacted Budget merged the bank tax into the corporation franchise tax effective with tax year 2015. This accounts for the reduction in bank tax and the subsequent increase in the corporation franchise tax beginning in FY 2016.

[2] Includes sections 183, 184, and 186-e.

Health Care Reform Act Resources Fund ("HCRA" Fund-061)

The Health Care Reform Act (HCRA) Resources Fund was established by Section 92-dd of the State Finance Law and receives 76 percent of total State cigarette tax revenues. Other revenues dedicated to this Fund include hospital surcharges and assessments, a Covered Lives Assessment on commercial insurers and a portion of cigarette revenue from New York City's locally imposed cigarette tax. These resources support numerous public health, Medicaid and insurance programs for the uninsured/underinsured; including Family Health Plus, Healthy NY, Child Health Plus, anti-tobacco initiatives, graduate medical education, working disabled, and indigent care.

HEALTH CARE REFORM ACT RESOURCE FUND (HCRA) (millions of dollars)	FY 2015 Actual	FY 2016 Estimated	FY 2017 Recommended	FY 2018 Recommended	FY 2019 Recommended	FY 2020 Recommended
Cigarette Tax	958	917	878	847	816	781
Total HCRA	958	917	878	847	816	781

State Lottery Fund ("SLF" Fund-160)

The State Lottery Fund was established by Section 92-c of the State Finance Law. Fund receipts are derived from the sale of lottery tickets and from video gaming machines. The moneys of the Fund are used to pay the expenses incurred in the operation of the State Lottery and for the purchase of machinery or other capital equipment by the Gaming Commission, and to provide aid to all school children, including pupils with special educational needs and handicapping conditions. The table below summarizes the receipts for education generated from lottery and video lottery terminals (VLTs). Lottery receipts are classified as Special Revenue miscellaneous receipts.

STATE LOTTERY FUND (SLF) (millions of dollars)						
	FY 2015 Actual	FY 2016 Estimated	FY 2017 Recommended	FY 2018 Recommended	FY 2019 Recommended	FY 2020 Recommended
Lottery	2,191	2,265	2,214	2,207	2,202	2,199
VLTs	907	961	975	963	963	963
Total SLF	3,098	3,226	3,189	3,170	3,165	3,162

Commercial Gaming Revenue Fund ("CGRF")

The Commercial Gaming Revenue Fund was established by Section 97-nnn of the State Finance Law. Fund receipts are derived from the taxes and fees imposed on commercial gaming facilities. The moneys of the Fund are used to pay the expenses incurred in the regulation of commercial gaming by the Gaming Commission, problem gambling education and treatment, support for elementary and secondary education or real property relief, host municipality and host county aid, and aid to non-host counties within host gaming regions. The table below summarizes the receipts for education or property tax relief and local assistance generated from the commercial gaming tax. Commercial gaming receipts are classified as Special Revenue miscellaneous receipts.

COMMERCIAL GAMING REVENUE FUND (CGRF) (millions of dollars)						
	FY 2015 Actual	FY 2016 Estimated	FY 2017 Recommended	FY 2018 Recommended	FY 2019 Recommended	FY 2020 Recommended
Casino	0	151	20	170	291	291
Total CGRF	0	151	20	170	291	291

Special Revenue Funds - All Other ("SRFO")

Since 2006, certain motor vehicle fees have been reclassified from special revenue miscellaneous receipts to special revenue motor vehicle fees. Though these receipts have moved from one category to another, they still remain dedicated to the same funds.

SPECIAL REVENUE FUNDS - OTHER (SRFO) (millions of dollars)						
	FY 2015 Actual	FY 2016 Estimated	FY 2017 Recommended	FY 2018 Recommended	FY 2019 Recommended	FY 2020 Recommended
Motor Vehicle Fees	99	104	76	76	76	76
Total SRFO	99	104	76	76	76	76

Medical Marihuana Trust Fund ("MMTF")

The Medical Marihuana Trust Fund was established by Section 89-h of the State Finance Law. The Fund consists of all moneys from a seven percent excise tax imposed when a New York dispensary sells medical marihuana to a patient or designated caregiver, which is remitted by the dispensary. The moneys of the Fund will be split in the following order: 22.5 percent transferred to the counties in which the medical marihuana was manufactured and allocated in proportion to the gross sales originating from medical marihuana manufactured in each such county; 22.5 percent transferred to the counties in which the medical marihuana was dispensed and allocated in proportion to the gross sales occurring in each such county; 5 percent transferred to the Office of Alcoholism and Substance Abuse Services for additional drug abuse prevention, counseling and treatment services; and 5 percent transferred to the Division of Criminal Justice Services for discretionary grants to state and local law enforcement agencies for personnel costs of state and local law enforcement agencies. The remaining 45 percent is appropriated by discretion annually.

MEDICAL MARIHUANA TRUST FUND (MMTF)
(millions of dollars)

	FY 2015 Actual	FY 2016 Estimated	FY 2017 Recommended	FY 2018 Recommended	FY 2019 Recommended	FY 2020 Recommended
Medical Marihuana Tax	0	1	4	4	4	4
Total MMTF	0	1	4	4	4	4

Debt Service Funds

Revenue **Bond Tax Fund ("RBTF" Fund 311**-02)

The Revenue Bond Tax Fund was established by Section 92-z of the State Finance Law. The Fund receives 25 percent of the receipts from the State personal income tax imposed by Article 22 of the Tax Law. Payments from the Fund are pledged to pay the debt service on State-supported Personal Income Tax Revenue Bonds, which support a variety of capital projects. No later than the fifteenth day of each month, the Comptroller is required to pay over to the General Fund all money in the RBTF in excess of the aggregate amount required to be set aside for debt service.

REVENUE BOND TAX FUND (RBTF)
(millions of dollars)

	FY 2015 Actual	FY 2016 Estimated	FY 2017 Recommended	FY 2018 Recommended	FY 2019 Recommended	FY 2020 Recommended
Personal Income Tax	10,928	11,774	12,490	12,939	13,108	13,718
Total RBTF	10,928	11,774	12,490	12,939	13,108	13,718

Clean Water/Clean Air Fund ("CWCAF" Fund-361)

The Clean Water Clean Air Fund was established by Section 97-bbb of the State Finance Law. The Fund receives all real estate transfer taxes in excess of the deposit to the Environmental Protection Fund. The moneys in the Fund are used to reimburse the General Fund for transfers made to the General Debt Service Fund to pay the debt service on 1996 Clean Water/Clean Air general obligation bonds. At the end of each month, the Comptroller is required to pay over to the General Fund all moneys in the CWCAF in excess of the aggregate amount required for such reimbursements.

CLEAN WATER/CLEAN AIR FUND (CWCAF) (millions of dollars)						
	FY 2015 Actual	FY 2016 Estimated	FY 2017 Recommended	FY 2018 Recommended	FY 2019 Recommended	FY 2020 Recommended
Real Estate Transfer Tax	919	1,028	1,019	1,085	1,139	1,189
Total CWCAF	919	1,028	1,019	1,085	1,139	1,189

Local Government Assistance Tax Fund ("LGATF" Fund-364)

The Local Government Assistance Tax Fund was established by Section 92-r of the State Finance Law. The Fund receives moneys collected from the imposition of the State sales and compensating use taxes in an amount attributable to a 1 percent rate of taxation. Payments from the Fund are dedicated to pay the debt service on State-supported Local Government Assistance Corporation Bonds originally issued in the early 1990s to finance payments to local governments previously financed by the State. The Comptroller is required to pay over to the General Fund all money in the LGATF in excess of the aggregate amount required to be set aside for debt service. In addition, local aid payments due to New York City and assigned by the City to the Sales Tax Asset Receivable Corporation (STARC) are appropriated from the LGATF.

LOCAL GOVERNMENT ASSISTANCE TAX FUND (LGATF) (millions of dollars)						
	FY 2015 Actual	FY 2016 Estimated	FY 2017 Recommended	FY 2018 Recommended	FY 2019 Recommended	FY 2020 Recommended
Sales and Use Tax	3,027	3,110	3,241	3,408	3,555	3,693
Total LGATF	3,027	3,110	3,241	3,408	3,555	3,693

Sales Tax Bond Fund ("STBF" Fund-311)

The Sales Tax Revenue Bond Fund was established by Section 92-h of the State Finance Law. The Fund receives moneys collected from the imposition of the State sales and compensating use taxes in an amount attributable to a one percent rate of taxation. This will increase to a two percent rate when LGAC bonds have been retired or defeased. Payments from

the Fund are dedicated to pay the debt service on State Sales Tax Revenue Bonds which, along with State PIT Revenue Bonds, are used to finance various State capital purposes. The Comptroller is required to pay over to the General Fund all money in the STBF in excess of the aggregate amount required to be set aside for debt service.

SALES TAX BOND FUND (STBF) (millions of dollars)						
	FY 2015 Actual	FY 2016 Estimated	FY 2017 Recommended	FY 2018 Recommended	FY 2019 Recommended	FY 2020 Recommended
Sales and Use Tax	3,027	3,110	3,241	3,408	3,555	3,693
Total STBF	3,027	3,110	3,241	3,408	3,555	3,693

Capital Projects Funds

Dedicated Highway and Bridge Trust Fund ("DHBTF" Fund-072)

The Dedicated Highway and Bridge Trust Fund was established by Section 89-b of the State Finance Law. The DHBTF receives moneys from the motor fuel tax, motor vehicle fees, highway use tax, auto rental tax, petroleum business tax, and a portion of the taxes on transportation and transmission companies and telecommunication services. The moneys of the Fund, pursuant to an appropriation, are used to support transportation, including the reconstruction, replacement, reconditioning, restoration, rehabilitation and preservation of State, county, town, city and village roads, aviation projects, matching Federal highway grants, snow and ice removal, acquisition of real property, bus safety inspection, rail freight facilities, intercity rail passenger facilities, state, municipal and private ports, ferry lines, and certain DMV expenses. Payments from the Fund are also pledged to support the debt service on State-supported Dedicated Highway and Bridge Trust Fund Bonds. Revenue listed below does not include an annual General Fund transfer of $62.7 million, effective FY 2015. Legislation proposed in the FY 2017 Executive Budget would create an Aviation Purpose Account within the Fund. This new Account, effective April 1, 2017, would receive moneys from the petroleum business tax on aviation fuel, and be used to support aviation and airport programs and projects.

DEDICATED HIGHWAY AND BRIDGE TRUST FUND (DHBTF) (millions of dollars)						
	FY 2015 Actual	FY 2016 Estimated	FY 2017 Recommended	FY 2018 Recommended	FY 2019 Recommended	FY 2020 Recommended
Petroleum Business Tax	644	614	601	579	574	571
Motor Fuel Tax	386	388	386	382	378	375
Motor Vehicle Fees	727	750	755	755	755	755
Highway Use Tax	140	155	143	144	157	147
Transmission Tax	10	14	15	14	14	14
Auto Rental Tax	74	79	80	84	88	93
Total DHBTF	1,981	2,000	1,980	1,958	1,966	1,955

Environmental Protection Fund ("EPF" Fund-078)

The Environmental Protection Fund was established by Section 92-s of the State Finance Law. The Fund currently receives real estate transfer taxes in the amount of $119 million. Moneys in the Fund are deposited to the following accounts:

- The Solid Waste Account for any non-hazardous municipal landfill closure project, municipal waste reduction or recycling project, or local solid waste management plans.

- The Parks, Recreation and Historic Preservation Account for any municipal park project, historic preservation project, urban cultural park project, waterfront revitalization program, or coastal rehabilitation project.

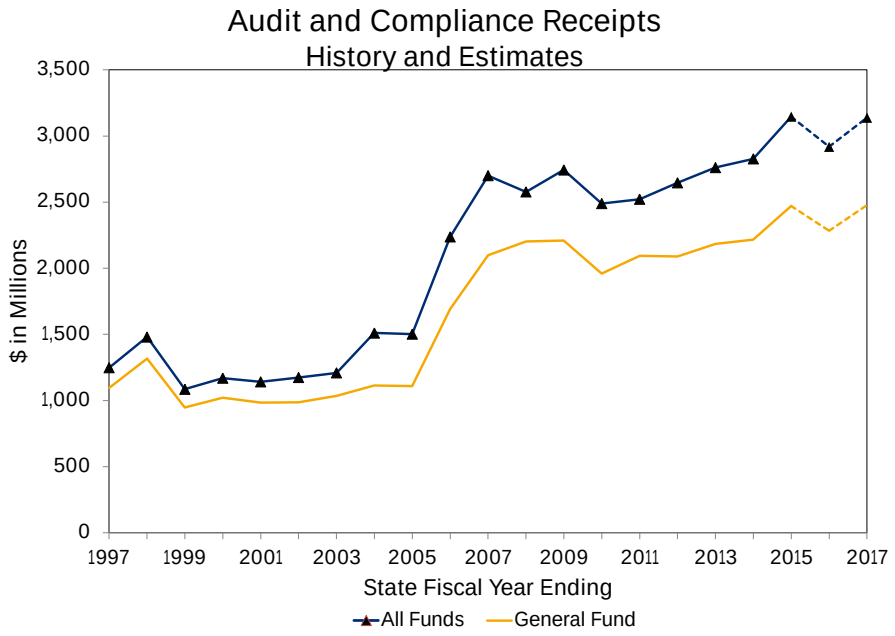
- The Open Space Account for any open space land conservation project, bio-diversity stewardship and research, non-point source abatement and control projects, upon the request of the Director of the Division of the Budget.

ENVIRONMENTAL PROTECTION FUND (EPF)
(millions of dollars)

	FY 2015 Actual	FY 2016 Estimated	FY 2017 Recommended	FY 2018 Recommended	FY 2019 Recommended	FY 2020 Recommended
Real Estate Transfer Tax	119	119	119	119	119	119
Total EPF	119	119	119	119	119	119

AUDIT AND COMPLIANCE RECEIPTS (millions of dollars)							
	FY2015 Actual	FY2016 Estimated	Change	Percent Change	FY2017 Projected	Change	Percent Change
General Fund	2,469.5	2,283	(186.5)	(7.6)	2,477	194.0	8.5
Other Funds	676.5	635	(41.5)	(6.1)	661	26.0	4.1
All Funds	3,146.0	2,918	(228.0)	(7.2)	3,138	220.0	7.5

Note: Totals may differ due to rounding.



Proposed Legislation

Legislation proposed with this Budget would expand jeopardy assessments to the cigarette and tobacco tax.

Description

This section summarizes the cash collected by the Department of Taxation and Finance related to its audit and compliance activities. The amounts reported are already reflected in the estimates of individual tax receipts contained in this volume.

The Department of Taxation and Finance's Office of Tax Enforcement (OTE) is composed of the Audit Division, the Division of Collections and Civil Enforcement ("Collections") and the Criminal

Division. The Audit Division is responsible for verifying that the correct tax has been paid and the Compliance Division is responsible for collecting the correct tax.

The collections base of OTE activities is the correct amount of taxes legally required to be paid, which is verified through the audit process. Receipts from enforcement activities are the result of incorrect tax payments, including filing returns with math errors; filing past due returns or the incorrect return; the improper interpretation of Tax Law, regulations or instructions; and tax evasion that results in a gap between the amount that is legally due and required to be paid and the amount that was voluntarily paid. In certain instances, taxpayers may also be subject to penalties and interest.

Growth in Recent Collections

TABLE 1
Growth All Funds Audit and Compliance Collections
(millions of dollars)

	All Funds Audit and Compliance Collections	Change from Prior Year	Percent Change from Prior Year
FY 1999	1,169		
FY 2000	1,141	(28)	(2.4)
FY 2001	1,174	33	2.9
FY 2002	1,209	35	3.0
FY 2003	1,510	301	24.9
FY 2004	1,232	(278)	(18.4)
FY 2005	1,503	271	22.0
FY 2006	2,237	734	48.8
FY 2007	2,700	463	20.7
FY 2008	2,577	(123)	(4.5)
FY 2009	2,743	166	6.4
FY 2010	2,489	(254)	(9.3)
FY 2011	2,522	33	1.3
FY 2012	2,646	124	4.9
FY 2013	2,761	115	4.3
FY 2014	2,827	66	2.4
FY 2015	3,146	319	11.3
Estimated			
FY 2016	2,918	(228)	(7.2)
FY 2017	3,138	220	7.5

All amounts after FY 2009 include Metropolitan Commuter Transportation Mobility Tax and Taxicab surcharge receipts.

Collectively, it is estimated that the portion of All Funds receipts attributable to enforcement activities and reflected in the estimates and projections of the individual taxes will be roughly $3 billion in FY 2016 and $3.1 billion in FY 2017. The dramatic rise to current collection levels, which began in FY 2006, can be attributed to a combination of policy actions and improved performance by the Department of Taxation and Finance in identifying and concluding productive audits. These factors have included: (1) the Voluntary Compliance Initiative (VCI) enacted in 2005, which provided for reduced penalties for the voluntary reporting of tax shelter activities, (2) several audits involving back years that were closed following a favorable Tax

Tribunal decision, (3) the settlement of audit issues with a significant number of financial service and other large multi-state taxpayers, (4) the Voluntary Disclosure Program enacted in 2008, and (5) improved data matching with data from the IRS and other sources.

Estimated Receipts for FY 2016

TABLE 2
ALL FUNDS AUDIT AND COMPLIANCE COLLECTIONS BY TAX TYPE
(millions of dollars)

	FY2015	FY2016	Change from Prior Year	Percent Change from Prior Year
Personal Income Tax	1,251	1,186	(65)	(5.2)
User Taxes and Fees	383	438	55	14.2
Business Taxes	1,477	1,253	(224)	(15.1)
Corporation and Utilities Taxes	16	56	40	243.6
Corporate Franchise Tax	615	876	261	42.4
Bank Tax	809	284	(525)	(64.9)
Insurance Tax	22	31	10	44.2
Petroleum Business Taxes	15	6	(9)	(58.6)
Other Taxes	34	41	7	19.3
Total	3,146	2,918	(228)	(7.2)

Audit and compliance receipts for FY 2016 are estimated to be $2,918 million, a decrease of $228 million (7.2 percent) from FY 2015. The decrease is composed of: $65 million (5.2 percent) from the personal income tax (PIT), and $224 million (15.1 percent) from business taxes, partially offset by a $55 million (14.2 percent) increase from user taxes and fees, and a $7 million (19.3 percent) increase from other taxes. The annual decline in business tax receipts is the result of an atypical decline in large cases. The decline in PIT receipts represents the return to a long-term trend, and the increase in use tax receipts is due to unusually large proceeds flowing from a small subset of audits.

Estimated Receipts for FY 2017

TABLE 3
ALL FUNDS AUDIT AND COMPLIANCE COLLECTIONS BY TAX TYPE
(millions of dollars)

	FY2016	FY2017	Change from Prior Year	Percent Change from Prior Year
Personal Income Tax	1,186	1,231	45	3.8
User Taxes and Fees	438	395	(43)	(9.8)
Business Taxes	1,253	1,471	218	17.4
Corporation and Utilities Taxes	56	44	(12)	(21.4)
Corporate Franchise Tax	876	1,106	230	26.3
Bank Tax	284	284	0	0.0
Insurance Tax	31	31	0	0.0
Petroleum Business Taxes	6	6	0	0.0
Other Taxes	41	41	0	0.0
Total	2,918	3,138	220	7.5

Audit and compliance receipts for FY 2017 are projected to be $3,138 million, an increase of $220 million (7.5 percent) from FY 2016. The overall increase results from increases of $218 million (17.4 percent) in business taxes and $45 million (3.8 percent) from the PIT. The business tax increase represents the return to a typical large audit caseload, while the PIT increase results from trend growth.

Trends in All Funds Audit and Tax Receipts

Table 4 below reports All Funds audit and compliance collections, All Funds tax receipts, and All Funds audit and compliance collections as a percent of All Funds tax receipts. Although All Funds audit and compliance receipts have fluctuated over time, they have consistently comprised roughly 3 percent to 5 percent of total All Funds tax receipts. This pattern is expected to continue in both FY 2016 and FY 2017.

TABLE 4
All Funds Audit and Compliance Collections
As A Percent of All Funds Tax Receipts
(millions of dollars)

	All Funds Audit and Compliance Collections	All Funds Tax Receipts	Audit and Compliance As a Percent of All Funds
FY 1999	1,169		
FY 2000	1,141	41,389	2.8
FY 2001	1,174	44,658	2.6
FY 2002	1,209	42,475	2.8
FY 2003	1,510	39,626	3.8
FY 2004	1,232	42,851	2.9
FY 2005	1,503	48,598	3.1
FY 2006	2,237	53,578	4.2
FY 2007	2,700	58,740	4.6
FY 2008	2,577	60,871	4.2
FY 2009	2,743	60,338	4.5
FY 2010	2,489	57,668	4.3
FY 2011	2,522	60,871	4.1
FY 2012	2,646	64,299	4.1
FY 2013	2,761	66,300	4.2
FY 2014	2,827	69,690	4.1
FY 2015	3,146	71,034	4.4
Estimated			
FY 2016	2,918	75,086	3.9
FY 2017	3,138	77,697	4.0

All amounts after FY 2009 include Metropolitan Commuter Transportation Mobility Tax and Taxicab surcharge receipts.

As shown in Table 5 below, the historical distribution of audit and compliance receipts by broad tax categories (i.e., personal income tax, business taxes, user taxes and fees, and miscellaneous/other taxes) differs significantly from the distribution of total receipts by tax category. As a result of significant audit collections in the bank and corporate franchise taxes discussed earlier, business taxes accounted for between 51 percent and 57 percent of total audit receipts between FY 2006 and FY 2009. In FY 2010 through FY 2015, the percentage share of

total audit receipts from business taxes fell in the 44 to 48 percent range. In contrast, user taxes accounted for between 12 to 17 percent of All Funds audit and compliance receipts during the FY 2006 to FY 2015 period. In FY 2016 and FY 2017, the share of audit receipts from the business taxes category is expected to remain below the FY 2006 to FY 2009 levels, at 43 and 47 percent, respectively. This percentage share reduction is mainly due to a decline in large case settlements and an increase in the personal income tax share.

Table 5

	Percent of All Funds Audit and Compliance Collections By Tax Category				Percent of All Funds Collections By Tax Category			
	Business Taxes	Other Taxes and Fees	User Taxes and Fees	Personal Income Tax	Business Taxes	Other Taxes and Fees	User Taxes and Fees	Personal Income Tax
FY 1998	39	6	20	35	18	11	20	51
FY 1999	40	5	19	36	17	10	20	53
FY 2000	34	6	20	40	15	10	20	55
FY 2001	31	4	22	43	13	8	19	60
FY 2002	32	5	20	43	12	8	19	61
FY 2003	31	4	20	45	13	8	22	57
FY 2004	27	4	23	46	12	8	23	57
FY 2005	34	3	21	42	12	8	23	57
FY 2006	51	3	15	31	12	8	21	59
FY 2007	57	3	13	27	15	3	23	59
FY 2008	53	1	14	32	14	3	23	60
FY 2009	53	2	14	31	13	3	23	61
FY 2010	44	2	15	39	13	5	22	60
FY 2011	44	2	17	37	12	5	23	60
FY 2012	48	2	15	36	12	5	23	60
FY 2013	47	2	14	37	12	5	22	61
FY 2014	48	1	13	38	12	5	22	61
FY 2015	47	1	12	40	12	5	22	61
Estimated FY 2016	43	1	15	41	11	5	21	63
FY 2017	47	1	13	39	10	5	21	64

All amounts after FY 2009 include Metropolitan Commuter Transportation Mobility Tax and Taxicab Surcharge receipts.

Similarly, the total share of audit and compliance receipts attributable to the personal income tax does not match its share of total taxes. As a result of the high level of business tax audit receipts during the FY 2006 through FY 2009 period, the audit and compliance shares of audit receipts for user taxes and fees and the personal income tax fell, but their respective shares of total tax receipts remained consistent with history. The FY 2016 and FY 2017 audit and compliance share for the personal income tax is expected to remain above FY 2006 through FY 2009 levels.

Risk to the Forecast

The audit and compliance plan in the forecast period contains risk. Even though the share of audit and compliance receipts received from business taxes is expected to remain below the high levels of FY 2006 through FY 2009, these taxes still represent nearly 50 percent of total expected audit and compliance receipts. Audit and compliance receipts for the FY 2006 through FY 2009 period were driven by voluntary compliance programs and the settlement of several

large financial services and multi-state taxpayer cases. Any changes to enforcement programs and audit and compliance staff focused on these tax areas may lead to instability of audit receipts. Corporate tax reform legislation enacted in the FY 2015 Budget is expected to improve voluntary tax compliance which would, in the long run, reduce audit collections from the corporate franchise tax. Quantifying the impact of this shift will be difficult until tax year 2015 returns are audited.

Significant Legislation Impacting Audit Receipts After FY 2009

Significant statutory changes that have had an impact on audit and compliance activities are summarized below.

Penalty and Interest Discount Program (PAID)

As part of the Deficit Reduction Package enacted in November 2009, PAID was designed to increase tax audit and compliance collections by temporarily reducing the penalties and interest owed on many overdue tax liabilities for which the taxpayer had been issued an assessment or final determination by the Department of Taxation and Finance. Specifically, the assessment or final determination must have been issued on or before December 31, 2006. Penalties and interest were reduced by either 20 percent or 50 percent (depending on the age of the assessment) if the tax had been paid in full by the end of PAID, which was open for collections from January 15, 2010, through March 15, 2010. This program increased All Funds audit and compliance receipts by $50 million in FY 2010.