



# Summary of 1998-99 Tax Provisions

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# Fiscal Year 1998-99 Tax Actions

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Chapter 56 of the Laws of 1998, enacted as part of the 1998-99 State budget, builds upon tax reductions in prior years by adding several new and expanded deductions for New York individuals and businesses. These tax cuts will continue to benefit families and enhance economic development in New York State. Appendix A provides a detailed summary of the revenue bill, including section numbers, page numbers, brief descriptions, and effective dates for each tax provision.

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## STAR

The budget accelerates the STAR program enacted with the 1997-98 budget. It provides a minimum \$50,000 exemption in the 1998-99 school year for senior citizens age 65 and over with incomes of \$60,000 or less. This exemption level was previously \$12,500, with the \$50,000 amount scheduled to phase in during the 2001-02 school year. The legislation also simplifies the income definition used to determine the higher senior exemption, and removes income from individual retirement arrangements from the definition.

The legislation also accelerates the higher credit for all senior citizens against the New York City resident personal income tax. These individuals will receive a credit of \$125 (married) or \$62.50 (all others) beginning in the 1998 tax year. Previously, they would have received a \$12 credit, with the higher amounts not applying until the 2001 tax year.

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## Corporation Franchise Tax

The budget contains a number of provisions that provide tax relief to both large and small businesses. These include:

- Reducing the corporation franchise tax rate for large and small businesses;
- Reducing the alternative minimum tax for corporation franchise taxpayers;
- Reducing the fixed dollar minimum tax for small business taxpayers;

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- Reducing the Article 22 equivalent rate for determining the S corporation differential tax;
  - Establishing the “New York State Emerging Industry Jobs Act” to provide an emerging technology employment tax credit and an emerging technology capital credit; and
  - Providing an investment tax credit for brokers/dealers in the financial services sector.

The budget legislation also requires that the MTA Surcharge be calculated as if the Article 9-A corporate franchise tax rate had not changed. The effect of this change is to maintain the same amount of MTA Surcharge revenue that would have prevailed in the absence of the Article 9-A rate reduction.

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## Sales Tax Changes

The budget also includes several sales and use tax changes. These include:

- Expanding the existing temporary clothing exemption scheduled for September 1-7, 1998 to include footwear and to increase the threshold at which an article of clothing becomes taxable to \$500.

Providing for a new temporary exemption period for articles of clothing and footwear selling for less than \$500 during the week from January 17th through January 24th, 1999.

Expanding the permanent exemption scheduled to begin on December 1, 1999 to include footwear and raises the threshold at which items of clothing and footwear become taxable from \$100 to \$110.

- Increasing the sales tax exemption threshold for coin-telephone calls from 10 cents or less to 25 cents or less.
- Expanding the exemption for telephone central office equipment.
- Exempting textbooks purchased by full time or part time college students.
- Exempting computer system hardware used in designing and developing computer software for sale.

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## Personal Income Tax

Several provisions provide targeted relief to various taxpayers. These include:

- Increasing the income level at which the maximum child care credit of 100 percent of the federal credit applies. Beginning in tax year 1999, this level increases from \$17,000 to \$35,000 of New York adjusted gross income. In addition, the income level at which the credit equals 20 percent of the federal credit increases from \$30,000 to \$50,000.
- Increasing the maximum acreage limitation under the farmer's school property tax credit from 175 to 250 for the 1998 tax year. The maximum 250 acres was previously scheduled to apply beginning in the 1999 tax year. This change also applies under the corporation franchise tax.
- Creating a new subtraction modification for gain from the sale of qualified emerging technology investments, as defined in the "New York State Emerging Industries Jobs Act." Taxpayers must add the gain to income when they sell the investments, resulting in a deferral of tax for the period they hold the investments. This tax benefit also applies under the corporation franchise tax, the bank tax and the insurance tax.
- Creating a new exclusion for reparation payments and items of income from stolen assets or insurance payments for victims of Nazi persecution.

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## Other Provisions

- Conforming the estate and gift tax to the most recent federal amendments, including a new exclusion for family-owned business assets.
- Reducing the alcoholic beverage tax on beer from 16 cents to 13.5 cents per gallon.
- Reducing the supplemental tax portion of the truck mileage tax by 50 percent.

# Multi-Year Revenue Impacts of Tax Actions

Table 1: New York State Tax Reduction Program Enacted in FY 1994-95 (\$ in Millions)

	1998-99	1999-2000	2000-2001	2001-02	2002-03
Personal Income Tax	\$376.0	\$395.0	\$406.0	\$440.0	\$466.0
User Taxes and Fees	163.0	177.0	182.0	188.0	190.0
Sales and Use Tax	30.0	32.0	33.0	35.0	36.0
Motor Fuel Tax	0.0	0.0	0.0	0.0	0.0
Alcoholic Beverage Tax	1.0	1.0	1.0	1.0	1.0
Hotel/Motel Taxes	100.0	111.0	114.0	117.0	117.0
Container Taxes	0.0	0.0	0.0	0.0	0.0
Highway Use Tax	32.0	33.0	34.0	35.0	36.0
Business Taxes	1,109.0	1,115.0	1,132.0	1,158.0	1,183.0
Corporation Franchise Tax	491.0	488.0	493.0	501.0	511.0
Corporation & Utilities Tax	232.0	240.0	247.0	255.0	264.0
Insurance Tax	102.0	105.0	109.0	114.0	118.0
Bank Tax	102.0	104.0	105.0	107.0	109.0
Petroleum Business Taxes	182.0	178.0	178.0	181.0	181.0
Other Taxes	41.0	38.0	39.0	39.0	39.0
Estate and Gift Taxes	16.0	16.0	16.0	16.0	16.0
Real Property Gains Tax	21.0	18.0	19.0	19.0	19.0
Pari-Mutuel Tax	4.0	4.0	4.0	4.0	4.0
<b>Taxes Subtotal</b>	<b>\$1,689.0</b>	<b>\$1,725.0</b>	<b>\$1,759.0</b>	<b>\$1,825.0</b>	<b>\$1,878.0</b>

Table 2: New York State Tax Reduction Program Enacted in FY 1995-96 (\$ in Millions)

	1998-99	1999-2000	2000-2001	2001-02	2002-03
Personal Income Tax	\$4,282.0	\$4,434.0	\$4,654.0	\$4,859.0	\$5,103.0
User Taxes and Fees	66.0	66.0	66.0	67.0	67.0
Sales and Use Tax	4.0	4.0	4.0	5.0	5.0
Motor Fuel Tax	17.0	17.0	17.0	17.0	17.0
Alcoholic Beverage Tax	16.0	16.0	16.0	16.0	16.0
Hotel/Motel Taxes	0.0	0.0	0.0	0.0	0.0
Container Taxes	26.0	26.0	26.0	26.0	26.0
Highway Use Tax	3.0	3.0	3.0	3.0	3.0
Business Taxes	21.0	20.0	20.0	20.0	20.0
Corporation Franchise Tax	0.0	0.0	0.0	0.0	0.0
Corporation & Utilities Tax	0.0	0.0	0.0	0.0	0.0
Insurance Tax	0.0	0.0	0.0	0.0	0.0
Bank Tax	0.0	0.0	0.0	0.0	0.0
Petroleum Business Taxes	21.0	20.0	20.0	20.0	20.0
Other Taxes	74.0	70.0	71.0	72.0	73.0
Estate and Gift Taxes	67.0	68.0	69.0	70.0	71.0
Real Property Gains Tax	0.0	0.0	0.0	0.0	0.0
Pari-Mutuel Tax	7.0	2.0	2.0	2.0	2.0
<b>Taxes Subtotal</b>	<b>\$4,443.0</b>	<b>\$4,590.0</b>	<b>\$4,811.0</b>	<b>\$5,018.0</b>	<b>\$5,263.0</b>

Table 3: New York State Tax Reduction Program Enacted in FY 1996-97 (\$ in Millions)

	1998-99	1999-2000	2000-2001	2001-02	2002-03
Personal Income Tax	\$44.0	\$58.0	\$65.0	\$65.0	\$65.0
User Taxes and Fees	28.0	30.0	31.0	33.0	34.0
Sales and Use Tax	28.0	30.0	31.0	33.0	34.0
Motor Fuel Tax	0.0	0.0	0.0	0.0	0.0
Alcoholic Beverage Tax	0.0	0.0	0.0	0.0	0.0
Hotel/Motel Taxes	0.0	0.0	0.0	0.0	0.0
Container Taxes	0.0	0.0	0.0	0.0	0.0
Highway Use Tax	0.0	0.0	0.0	0.0	0.0
Business Taxes	36.0	51.0	52.0	53.0	53.0
Corporation Franchise Tax	0.0	0.0	0.0	0.0	0.0
Corporation & Utilities Tax	12.0	12.0	12.0	13.0	13.0
Insurance Tax	0.0	0.0	0.0	0.0	0.0
Bank Tax	0.0	0.0	0.0	0.0	0.0
Petroleum Business Taxes	24.0	39.0	40.0	40.0	40.0
Other Taxes	93.0	103.0	123.0	128.0	137.0
Estate and Gift Taxes	0.0	0.0	0.0	0.0	0.0
Real Property Gains Tax	93.0	103.0	123.0	128.0	137.0
Pari-Mutuel Tax	0.0	0.0	0.0	0.0	0.0
<b>Taxes Subtotal</b>	<b>\$201.0</b>	<b>\$242.0</b>	<b>\$271.0</b>	<b>\$279.0</b>	<b>\$289.0</b>



Table 4: New York State Tax Reduction Program Enacted in FY 1997-98 (\$ in Millions)

	1998-99	1999-2000	2000-2001	2001-02	2002-03
Personal Income Tax	\$17.0	\$69.0	\$77.0	\$83.0	\$88.0
User Taxes and Fees	48.0	229.0	552.0	569.0	596.0
Sales and Use Tax	39.0	203.0	526.0	543.0	570.0
Motor Fuel Tax	0.0	0.0	0.0	0.0	0.0
Alcoholic Beverage Tax	0.0	0.0	0.0	0.0	0.0
Hotel/Motel Taxes	0.0	0.0	0.0	0.0	0.0
Container Taxes	9.0	26.0	26.0	26.0	26.0
Highway Use Tax	0.0	0.0	0.0	0.0	0.0
Business Taxes	86.0	200.0	596.0	498.0	494.0
Corporation Franchise Tax	3.0	20.0	24.0	24.0	24.0
Corporation & Utilities Tax	82.0	173.0	555.0	457.0	453.0
Insurance Tax	0.0	6.0	16.0	16.0	16.0
Bank Tax	1.0	1.0	1.0	1.0	1.0
Petroleum Business Taxes	0.0	0.0	0.0	0.0	0.0
STAR*	187.0	1,020.0	1,862.0	2,700.0	2,700.0
Other Taxes	0.0	79.0	228.0	455.0	482.0
Estate and Gift Taxes	0.0	79.0	228.0	455.0	482.0
Real Property Gains Tax	0.0	0.0	0.0	0.0	0.0
Pari-Mutuel Tax	0.0	0.0	0.0	0.0	0.0
<b>Taxes Subtotal</b>	<b>\$338.0</b>	<b>\$1,597.0</b>	<b>\$3,315.0</b>	<b>\$4,305.0</b>	<b>\$4,360.0</b>

\* Includes both reductions in local school property taxes and reductions in NYC personal income tax. Estimates account for acceleration legislation enacted in 1998-99.

Table 5: New York State Tax Reduction Program Enacted in FY 1998-99\* (\$ in Millions)

	1998-99	1999-00	2000-01	2001-02	2002-03
Personal Income Tax	\$3.0	\$20.0	\$52.0	\$52.0	\$54.0
User Taxes and Fees	68.0	123.0	203.0	209.0	216.0
Sales and Use Tax	63.0	80.0	160.0	165.0	172.0
Motor Fuel Tax	0.0	0.0	0.0	0.0	0.0
Alcoholic Beverage Tax	1.0	8.0	8.0	8.0	8.0
Hotel/Motel Taxes	0.0	0.0	0.0	0.0	0.0
Container Taxes	0.0	0.0	0.0	0.0	0.0
Highway Use Tax	4.0	35.0	35.0	36.0	36.0
Business Taxes	30.0	215.0	277.0	374.0	481.0
Corporation Franchise Tax	24.0	175.0	262.0	364.0	476.0
Corporation & Utilities Tax	5.0	35.0	10.0	5.0	0.0
Insurance Tax	0.0	0.0	0.0	0.0	0.0
Bank Tax	1.0	5.0	5.0	5.0	5.0
Petroleum Business Taxes	0.0	0.0	0.0	0.0	0.0
STAR	517.0	366.0	192.0	8.0	10.0
Other Taxes	4.0	10.0	10.0	10.0	7.0
Estate and Gift Taxes	3.0	4.0	4.0	4.0	4.0
Real Property Gains Tax	0.0	0.0	0.0	0.0	0.0
Pari-Mutuel Tax	1.0	6.0	6.0	6.0	3.0
<b>Taxes Subtotal</b>	<b>\$622.0</b>	<b>\$734.0</b>	<b>\$734.0</b>	<b>\$653.0</b>	<b>\$768.0</b>

\* Excludes medical provider assessment phase out, and motor vehicle fee reductions.

Table 6: Impact of Total Tax Reduction Program (\$ in Millions)

	1998-99	1999-2000	2000-2001	2001-2002	2002-03
Personal Income Tax	\$4,722.0	\$4,976.0	\$5,254.0	\$5,499.0	\$5,776.0
User Taxes and Fees	373.0	625.0	1,034.0	1,066.0	1,103.0
Sales and Use Tax	164.0	349.0	754.0	781.0	817.0
Motor Fuel Tax	17.0	17.0	17.0	17.0	17.0
Alcoholic Beverage Tax	18.0	25.0	25.0	25.0	25.0
Hotel/Motel Taxes	100.0	111.0	114.0	117.0	117.0
Container Taxes	35.0	52.0	52.0	52.0	52.0
Highway Use Tax	39.0	71.0	72.0	74.0	75.0
Business Taxes	1,282.0	1,601.0	2,077.0	2,103.0	2,231.0
Corporation Franchise Tax	518.0	683.0	779.0	889.0	1,011.0
Corporation & Utilities Tax	331.0	460.0	824.0	730.0	730.0
Insurance Tax	102.0	111.0	125.0	130.0	134.0
Bank Tax	104.0	110.0	111.0	113.0	115.0
Petroleum Business Taxes	227.0	237.0	238.0	241.0	241.0
STAR	704.0	1,386.0	2,054.0	2,708.0	2,710.0
Other Taxes	212.0	300.0	471.0	704.0	738.0
Estate and Gift Taxes	86.0	167.0	317.0	545.0	573.0
Real Property Gains Tax	114.0	121.0	142.0	147.0	156.0
Pari-Mutuel Tax	12.0	12.0	12.0	12.0	9.0
<b>Taxes Total</b>	<b>\$7,293.0</b>	<b>\$8,888.0</b>	<b>\$10,890.0</b>	<b>\$12,080.0</b>	<b>\$12,558.0</b>

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# Highlights of Prior-Year Budget Tax Legislation

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The tax reductions included in this year's budget legislation build upon an array of tax cuts enacted over the previous three fiscal years. Listed below are some highlights of tax legislation enacted since 1995. Appendix B provides greater detail on these provisions.

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|---------------------|--|
| Fiscal Year 1995-96 | <ul style="list-style-type: none"><li>• Enacted a three-year personal income tax reduction program totaling over \$4 billion per year when fully effective in 1997. Major provisions included reducing the top rate from 7.875 to 6.85 percent, and increasing standard deduction amounts from \$9,500 to \$13,000 for married couples, \$6,000 to \$7,500 for individuals.</li><li>• Enacted a new estate tax deduction equal to a maximum of \$250,000 equity in decedents' principal residences.</li><li>• Reduced the beer tax from 21 to 16 cents per gallon, the diesel motor fuel tax from 10 to 8 cents per gallon, and the container tax from 2 to 1 cents per container.</li><li>• Reduced certain petroleum business tax and pari-mutuel tax rates.</li></ul> |
| Fiscal Year 1996-97 | <ul style="list-style-type: none"><li>• Repealed the real property gains tax.</li><li>• Created a new tax credit for farmers' school property taxes, and expanded the child care credit.</li><li>• Enacted a temporary exemption from sales tax for clothing and footwear costing less than \$500.</li><li>• Enacted a variety of rate reductions and exemption/credit enhancements in the petroleum business tax.</li></ul>   |
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- Reduced the rate of tax on the additional franchise tax for transportation and transmission companies, and allowed trucking and railroad companies the option of being taxed under the general corporate franchise tax.

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## Fiscal Year 1997-98

- Created the school tax relief (“STAR”) program, which when fully effective provides State homeowners a minimum \$30,000 full value exemption against school property taxes. The minimum exemption for homeowners age 65 and over is \$50,000, and New York City residents also receive a personal income tax credit.
- Replaced the estate tax with a “pickup tax” equal to the maximum federal credit for state death taxes, effective February 1, 2000, and repealed the gift tax, effective January 1, 2000.
- Enhanced the farmers school property tax and child care credits under the personal income tax, and created a new deduction under the “New York State College Choice Tuition Savings Program.”
- Created new temporary sales tax exemptions for clothing costing less than \$100, with the exemption becoming permanent on December 1, 1999.
- Created new corporate tax credits for certain utility costs (“Power for Jobs Program”), and reduced utility tax rates for electricity, gas, and telephone services.
- Reduced insurance taxes and allowed banks to claim net operating loss deductions.
- Eliminated the beverage container tax and the tax on motor vehicle damage insurance awards.

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# Summary of 1998-99 Tax Provisions

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## STAR Property Tax Relief Program

The budget legislation accelerates the State school tax relief (“STAR”) program created in the SFY 1997-98 budget, but which first takes effect for real property taxes levied in the school year beginning on July 1, 1998. The phase-in of the full value exemption for homeowners age 65 and over with incomes of \$60,000 or less is accelerated so that the exemption equals a minimum of \$50,000 in the first year, instead of \$12,500 as previously scheduled. Originally, qualifying senior citizens were scheduled to receive the minimum \$50,000 exemption amount in the 2001-02 school year.

The definition of income for the purposes of determining eligibility for the credit is also changed. Beginning with exemption applications for the 1999-2000 school year, income on which eligibility is based is defined as federal adjusted gross income (FAGI), as reported on the taxpayer’s latest available federal or State income tax return, minus income from individual retirement accounts and individual retirement annuities.

## STAR — New York City

New York City residents are eligible for refundable personal income tax credits in addition to the property tax exemption. Under the legislation, taxpayers age 65 and over qualify for an accelerated credit. For married taxpayers filing jointly, the tax year 1998 credit equals \$125, instead of \$12 as previously scheduled. All other taxpayers age 65 and over will receive \$62.50 instead of \$12. Under the old law, New York City residents would have received the higher credit amounts in tax year 2001.

Another provision of the legislation clarifies who is eligible for the New York City credit. The credit may not be claimed by any taxpayer for whom another taxpayer may claim a federal dependent exemption.

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## Corporation Franchise Tax

### Tax Rate Reduction for Large and Small Businesses

The budget reduces the rate imposed under the entire net income (ENI) base of the Article 9-A corporate franchise tax. The rate reduction is phased in over three years. In the first phase, for taxable years beginning after June 30, 1999 and before July 1, 2000, the rate is reduced from 9 percent to 8.5 percent. In the second phase, for taxable years beginning after June 30, 2000 and before July 1, 2001, the rate is reduced to 8 percent. In the third phase, for taxable years beginning after June 30, 2001, the rate is reduced to 7.5 percent.

Small businesses with ENI of not more than \$200,000 will realize a rate reduction from 8 percent to 7.5 percent. The 7.5 percent rate takes effect for taxable years beginning after June 30, 1999 for these taxpayers.

A separate formula applies to small businesses with ENI of more than \$200,000, but not over \$290,000. The rate calculation equals \$15,000 plus 8.5 percent of the excess ENI over \$200,000 plus 5 percent of the excess ENI over \$250,000. This rate reduction takes effect for taxable years beginning after June 30, 1999 and before July 1, 2000.

The rate is further reduced for these small business taxpayers for taxable years beginning after June 30, 2000 and before July 1, 2001. The rate calculation equals \$15,000 plus 8 percent of the excess ENI over \$200,000 plus 2.5 percent of the excess ENI over \$250,000. For taxable years beginning after June 30, 2001, the formula for these taxpayers no longer applies. The tax rate equals 7.5 percent of ENI.

The following tables illustrate the reduction in the corporate franchise tax rates.

Large Business Taxpayers	
Taxable Year Beginning	Tax Rate
Present Law	9% of Entire Net Income Base
After June 30, 1999 and before July 1, 2000	8.5%
After June 30, 2000 and before July 1, 2001	8%
After June 30, 2001	7.5%

Small Business Taxpayers with ENI of Not More Than \$200,000	
Taxable Year Beginning	Tax Rate
Present Law	8% of Entire Net Income Base
After June 30, 1999	7.5%

Small Business Taxpayers with ENI of More Than \$200,000, but Not More Than \$290,000	
Taxable Year Beginning	Tax Rate
Present Law	Sum of: \$16,000, 9% of excess of ENI base over \$200,000, and 5% of excess ENI over \$250,000
After June 30, 1999 and before July 1, 2000	Sum of: \$15,000, 8.5% of excess ENI base over \$200,000, and 5% of excess ENI base over \$250,000
After June 30, 2000 and before July 1, 2001	Sum of: \$15,000, 8% of excess of ENI base over \$200,000 and 2.5% of excess of ENI base over \$250,000
After June 30, 2001	7.5%

Alternative Minimum Tax Rate Reduction

The alternative minimum tax rate for Article 9-A corporation franchise taxpayers will be reduced from 3.5 percent to 3.25 percent for taxable years beginning after June 30, 1998 and before July 1, 1999. The rate is further reduced to 3 percent for taxable years beginning after June 30, 1999.

Fixed Dollar Minimum Rate Reduction

The legislation reduces the fixed dollar minimum tax for small business taxpayers with gross payrolls of \$500,000 or less. The fixed dollar minimum for businesses with gross payrolls over \$500,000 will not change. No changes have been made to the \$800 fixed dollar minimum tax applicable to “shell” corporations with payroll, receipts and assets each of not more than \$1,000.

The reductions are phased in over two years. Taxpayers with gross payrolls of \$250,000 or less will realize a decrease from the current \$325 fixed dollar minimum tax to \$100. This is effective for taxable years beginning after June 30, 1998. The fixed dollar minimum tax will drop from \$325 to \$225 for taxpayers with gross payrolls of more than \$250,000, but not more than \$500,000. This tax reduction takes effect for taxable years beginning after June 30, 1999.

The following table illustrates the reduction in the fixed dollar minimum taxes:

Reduction in Fixed Dollar Minimum Tax for Small Business Taxpayers			
		Fixed Dollar Minimum	
Gross Payroll (set ranges in accordance with the second year of the new law)	Present Law	Taxable Years Beginning After June 30, 1998 and Before July 1, 1999	Taxable Years Beginning After June 30, 1999
\$250,000 or less	\$325	\$100	\$100
More than \$250,000, but not more than \$500,000	\$325	\$325	\$225

S Corporation Rate  
Differential Reduction

The personal income tax (Article 22) equivalent used to compute the rate differential is reduced over a three year period. For taxable years beginning after June 30, 1999 and before July 1, 2000, the rate is reduced from 7.875 percent to 7.525 percent. The rate is further reduced to 7.125 percent for taxable years beginning after June 30, 2000 and before July 1, 2001. A 6.85 percent rate applies for taxable years beginning after June 30, 2001.

For small business taxpayers with entire net income (ENI) of not more than \$200,000, the Article 22 tax equivalent drops from 7.875 percent to 7.45 percent. If the ENI base is more than \$200,000, but not over \$290,000, the Article 22 tax equivalent equals \$14,900 plus 0.0685 (6.85 percent) of the first \$50,000 of the excess over \$200,000, plus 0.0385 (3.85 percent) of the excess over \$250,000. The reduced rate and formula calculations take effect for taxable years beginning after June 30, 1999.

The following tables illustrate the phase in of the S corporation rate reduction:

S Corporation Differential Rate For S Corporations with Entire Net Income over \$290,000			
Effective Date	Article 9-A Rate (Percent)	Article 22 Equivalent Tax Rate (Percent)	S Corporation Differential Rate (Percent)
Present Law	9	7.875	1.125
Taxable years beginning after June 30, 1999 and before July 1, 2000	8.5	7.525	0.975
Taxable years beginning after June 30, 2000 and before July 1, 2001	8	7.175	0.825
Taxable years beginning after June 30, 2001	7.5	6.85	0.65



S Corporation Differential Rate for S Corporations with Entire Net Income more than \$200,000, but Less than \$290,000	
Effective Date	Formula
Present Law	\$16,000 plus 9% of the amount over \$200,000, but not over \$290,000 plus an additional 5% of the amount over \$250,000, but not over \$290,000
Taxable years beginning after June 30, 1999	\$14,900 plus 6.85% of the first \$50,000 in excess of \$200,000, plus 3.85 % of the excess over \$250,000

S Corporation Differential Rate Under the New Law for S Corporations with Entire Net Income of \$200,000 or Less			
Effective Date	Article 9-A Rate (Percent)	Article 22 Equivalent Tax Rate (Percent)	S Corporation Differential Rate (Percent)
Present Law	8	7.875	0.125
June 30, 1999	7.5	7.45	0.05

Investment Tax Credit for Broker/Dealers in the Financial Securities Sector

The investment tax credit (ITC) currently available to corporations for manufacturing operations, is extended to corporations, banks and personal income taxpayers that are brokers or dealers in securities. The credit is available for equipment or buildings used in the broker/dealer activity and in activities connected with broker/dealer operations such as the provision of investment advice, and lending activities associated with the purchase and sale of securities. The credit is also extended to national security exchanges.

The ITC provides a credit of 5 percent of the cost of qualified expenditures of up to \$350 million. Qualified investment expenditures in excess of \$350 million are eligible for a 4 percent credit.

Eligibility for the credit requires the location of the employees performing the administrative and support functions associated with the qualifying use of the equipment to be substantially within New York. Taxpayers that lease property to an affiliated broker/dealer or exchange are eligible for the credit.

The credit is available for property placed in service for the five year period between October 1, 1998 and September 30, 2003.

“New York State Emerging Industry Jobs Act”

The “New York State Emerging Industry Jobs Act” provides Article 9-A tax credits for qualified emerging technology companies that invest in research and development in New York State. A qualified emerging technology company is defined as a company located within New York whose primary products or services are classified as emerging

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technologies. Emerging technologies include, for example, computer-integrated manufacturing, robotics and automated equipment; microprocessors; optical fibers; and medical and scientific instruments. A qualified company is defined as a company which has research and development activities within New York and whose ratio of research and development funds to net sales equals or exceeds the average ratio for “all surveyed companies classified as determined by the National Science Foundation” in its most recent survey or comparable successor survey. The total annual product sales of the company must be \$10 million or less.

The provisions include an employment tax credit equal to \$1,000 for each individual employed full time over a base year level. The credit is allowed only in the first taxable year in which it is claimed and in each of the next two taxable years. The credit may be carried forward indefinitely. A taxpayer qualifying as a new business that has not been subject to tax under Article 9-A for more than six taxable years prior to the taxable year during which it first becomes eligible for the credit, may elect to treat the carry over as an overpayment to be credited or as a refund. For companies involved in U.S. Food and Drug Administration trials, a new business is one that has not been subject to tax for more than eight taxable years prior.

The new law also establishes two emerging technology capital credits that vary depending on how long the investment is held. Qualified investment means the contribution of property to a corporation in exchange for original issue capital stock or other ownership interest, and similar contributions. The credit equals 10 percent of qualified investments held during the four years following the year the credit is first claimed. The total amount of the credit allowed for all years is capped at \$150,000. For investments held during the nine years following the year in which the credit is first claimed, the credit equals 20 percent. The total amount of the credit allowed for all years is capped at \$300,000. If the investment is sold within 48 or 108 months from the close of the taxable year with respect to the allowance of the credit, depending on the level of credit claimed, there is a recapture of the credit. The credit may be carried forward indefinitely.

The credit provisions apply to tax years beginning on or after January 1, 1999. The Department of Taxation and Finance is required to

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provide annual data to the New York State Science and Technology Foundation for a report to be issued March 31, 2004. The report will examine the effectiveness of the tax credits in light of their influence on the start-up, growth, and retention of emerging technology companies in the state; on job growth within high technology companies; and on the expansion of collaborative research and development undertaken by industry and academia.

Metropolitan  
Transportation Business  
Tax Surcharge

The budget legislation also requires that the MTA Surcharge be calculated as if the Article 9-A corporate franchise tax rate had not changed. The effect of this change is to maintain the same amount of MTA Surcharge revenue that would have prevailed in the absence of the Article 9-A rate reduction. This provision takes effect for taxable years beginning on or after July 1, 1998. The surcharge is calculated as if the Article 9-A corporate franchise tax were imposed under the law in effect for taxable years beginning on or after July 1, 1997 and before July 1, 1998.

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## Sales Tax

### Clothing Exemptions

The budget legislation expands the temporary clothing exemption scheduled for September 1-7, 1998 for articles of clothing selling for less than \$100. The exemption is expanded to include footwear and to increase the threshold at which an article of clothing becomes taxable to \$500. The change is effective immediately.

The legislation also provides for a new temporary exemption period for articles of clothing and footwear selling for less than \$500 during the week from January 17th through January 24th, 1999. As with the past temporary exemptions, localities will have the option to decide whether to participate in the temporary exemption. The new exemption period becomes effective on September 9, 1998.

The legislation also expands the permanent sales and use tax exemption for articles of clothing costing less than \$100 which is scheduled to begin on December 1, 1999. The exemption is expanded to include footwear and to raise the threshold at which items of clothing and footwear become taxable to \$110. The change is effective immediately.

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Coin-Operated Telephone Services	The sales tax exemption threshold for coin-telephone calls is increased from 10 cents or less to 25 cents or less. This change is effective September 1, 1998.
Telephone Central Office Equipment	This provision extends the exemption for telephone central office equipment to include central office equipment or station apparatus used directly and predominately in receiving, amplifying, processing, transmitting and transmitting telephone or telegraph signals. This change takes effect on September 1, 1998.
College Textbooks	Beginning June 1, 1998, an exemption is provided for textbooks purchased by full time or part time college students. The textbooks must be required for a course being taken at a post-secondary institution of higher education.
Computer System Hardware	An exemption is provided for computer system hardware used directly and predominately in designing and developing computer software for sale. This exemption takes effect June 1, 1998.

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## Personal Income Tax

Acceleration of Farmer's School Tax Credit	The legislation increases the acreage limitation under the credit for school property taxes paid on agricultural property from 175 acres to 250 acres for the 1998 tax year. Previously, the 250 acre maximum was scheduled to apply for tax years 1999 and later. This change also applies under the corporation franchise tax.
Enhanced Child Care Credit	The budget legislation increases the child and dependent care credit effective in the 1999 tax year. The level of New York adjusted gross income (NYAGI) at which the credit equals 100 percent of the federal credit increases from \$17,000 to \$35,000. The level of NYAGI at which the credit is phased down to 20 percent of the federal amount increases from \$30,000 to \$50,000.
Emerging Technology Investment Gain Deferral	Effective for investments acquired on or after March 12, 1998, taxpayers may subtract, from federal adjusted gross income, gain from the sale of a qualified emerging technology investment (QETI), if they hold the investment for at least 36 months and reinvest the gain in a replacement QETI within one year. Eligible investments include investments in

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partnerships and limited liability companies which are qualified emerging technology companies. It also includes investments in partnerships or LLCs which in turn invest in qualified emerging technologies companies.

When taxpayers sell the qualified reinvestment, they must add the gain to federal adjusted gross income. Therefore, tax on the gain is deferred, not eliminated. This provision also applies under the corporation franchise tax, the bank tax and the insurance tax.

#### Payments to Victims of Nazi Persecution

The budget legislation creates a new subtraction modification for tax years beginning on or after January 1, 1995, under both the New York State and New York City personal income taxes. The exclusion is for certain distributions, to the extent included in FAGI, made to a taxpayer, their spouse, or a needy descendant, based on their status as a victim of Nazi persecution as defined in Public Law 103-286. A subtraction is also allowed for items of income included in FAGI attributable to, derived from, or in any way related to assets — including proceeds from insurance policies issued by European insurance companies — stolen from, hidden from, or otherwise lost to victims of Nazi persecution immediately prior to, during, or after World War II.

These assets are also removed from the base of the estate tax, with the effective date defined as being deemed to have been in force on or after April 1, 1963.

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#### Other Provisions

##### Estate and Gift Tax — Federal Conformity

The budget legislation updates the conformity of the estate and gift tax to the Internal Revenue Code, from November 5, 1990 to August 5, 1997. This incorporates federal legislation enacted in 1997, most notably including a new estate tax exclusion for assets in family-owned businesses. This exclusion takes effect in 1998, and equals a maximum of \$675,000 in 1998. Estates which elect the new exclusion cannot use the current State credit for closely held business assets.

The conformity legislation also helps ensure that when the pickup tax takes effect on February 1, 2000, it will not apply to estates that are not subject to federal estate tax. Failure to conform to provisions that affect the computation of federal taxable estate would have caused this to occur in certain cases.

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Beer Tax Rate Reduction	The legislation provides that the State alcoholic beverage tax, imposed on the sale of beer by distributors, is reduced from 16 cents to 13.5 cents per gallon. The change is effective January 1, 1999.
Truck Mileage Tax Reduction	The supplemental tax portion of the truck mileage tax (TMT) is reduced by 50 percent. Since the supplemental rate portion of the TMT mirrors the base rate portion, this results in a 25 percent overall rate reduction in the TMT – for taxpayers subject to the supplemental tax. The rate reduction is effective January 1, 1999.

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# Appendix A: Summary of FY 1998-99 Tax Provisions

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Summary of FY 1998-99 Budget Bill Tax Provisions — Chapter 56 of the Laws of 1998 — Part A

Section(s)	Page(s)	Subject	Description	Effective Date
1-4	3-4	STAR Acceleration	Accelerates maximum exemption from \$12,500 to \$50,000 in 1998-99 for qualifying seniors. The NYC PIT credit is also accelerated from \$12 to \$62.50 for individuals and \$125 for married couples.	1998-99 school year
			Amends income definition to equal FAGI minus certain retirement income.	1999-00 school year (TY 1998 PIT returns)
			Denies NYC credit to individuals for whom a federal dependent exemption is allowed.	TY 1998
6-7b	4-6	STAR Administration	Same as above for NYC Admin. Code.	Same as above.
			Creates School Tax Relief Fund for local reimbursement.	Immediate
8	6	Child Care Credit	Increases the 100% to 20% of federal credit phasedown range to \$35,000-\$50,000 of NYAGI, from \$17,000-\$30,000.	TY 1999
8-a	6-7	Hold MTA Harmless from Rate Reduction	The MTA surcharge is calculated as if the Article 9-A corporate franchise tax rate had not been reduced.	For TYBOA 7/1/98, the MTA surcharge is calculated as if the Article 9-A corporate franchise tax were imposed under the law in effect for TYBOA 7/1/97 and before 7/1/98.
9	7-8	Corporate Franchise Rate Reduction for Large and Small Businesses	Reduces the tax rate imposed under the entire net income (ENI) base of the Article 9-A corporate franchise tax over three years. In the first year, the rate is reduced from 9% to 8.5%. In the second year, the rate is reduced to 8%. In the third year, the rate is reduced to 7.5%.	The 8.5% rate takes effect for TYBA 6/30/99 and before 7/1/00. The 8% rate takes effect for TYBA 6/30/00 and before 7/1/01. The 7.5% rate takes effect for TYBA 6/30/01.
			For businesses with ENI of not more than \$200,000, the rate is reduced from 8% to 7.5%.	The 7.5% rate is effective for TYBA 6/30/99.
			For businesses with ENI of more than \$200,000, but not over \$290,000, the rate calculation equals \$15,000 plus 8.5% of the excess ENI over \$200,000 plus 5% of the excess ENI over \$250,000.	The rate calculation is effective for TYBA 6/30/99 and before 7/1/00.
			For businesses with ENI of more than \$200,000, but not over \$290,000, the rate calculation equals \$15,000 plus 8% of the excess ENI over \$200,000 plus 2.5% of the excess ENI over \$250,000.	The rate calculation is effective for TYBA 6/30/00 and before 7/1/01.
			For businesses with ENI of more than \$200,000, but not over \$290,000, the rate equals 7.5% of ENI.	The rate applies to TYBA 6/30/01.



Summary of FY 1998-99 Budget Bill Tax Provisions — Chapter 56 of the Laws of 1998 — Part A

Section(s)	Page(s)	Subject	Description	Effective Date
10	8-9	Alternative Minimum Rate Reduction	The alternative minimum tax rate is reduced from 3.5% to 3.25%, and then the rate is further reduced to 3%.	The 3.25% rate takes effect for TYBA 6/30/98 and before 7/1/99. The 3% rate takes effect for TYBA 6/30/99.
11-12	9-10	Fixed Dollar Minimum Rate Reduction	<p>\$325 for gross payroll of \$1,000,000, but more than \$250,000. \$100 for gross payroll of \$250,000 or less.</p> <p>\$325 for gross payroll of \$1,000,000, but more than \$500,000. \$225 for gross payroll of \$500,000, but more than \$250,000.</p>	<p>Effective 7/1/98 and applies to TYBA 6/30/98 and before 7/1/99.</p> <p>Effective 7/1/99, and applies to TYBA 6/30/99.</p>
12-a	10	Technical Reference	Technical reference to fixed dollar minimum amounts for S corporations	Immediate
13	10	S Corporation Rate Differential Reduction	<p>The income tax equivalent used to compute the rate differential is reduced from 7.875% to 7.525%. This rate is further reduced to 7.175%, and then to 6.85%.</p> <p>For small business taxpayers with ENI of not more than \$200,000, the income tax equivalent rate drops from 7.875% to 7.45%. If the ENI base is more than \$200,000, but not over \$290,000, the equivalent equals \$14,900 plus 6.85% of the first \$50,000 in excess of \$200,000, plus 3.85% of the excess over \$250,000.</p>	<p>The 7.525% rate is effective for TYBA 6/30/99 and before 7/1/00. The 7.175% rate is effective for TYBA 6/30/00 and before 7/1/01. The 6.85% rate is effective for TYBA 6/30/01.</p> <p>The 7.45% rate and calculations take effect for TYBA 6/30/99.</p>

Summary of FY 1998-99 Budget Bill Tax Provisions — Chapter 56 of the Laws of 1998 — Part A

Section(s)	Page(s)	Subject	Description	Effective Date
15-27	11-20	ITC for Broker/Dealers	<p>Provides eligibility for the ITC for corporations, banks and personal income taxpayers that are broker dealers or registered national securities exchanges. The credit is provided for equipment and buildings used in connection with the taxpayer's business as a broker or dealer in connection with the purchase or sale of securities or with lending associated with the purchase or sale of securities.</p> <p>Taxpayers are not allowed the credit unless all or a substantial portion of the administrative and support functions resulting from the equipment are located in New York.</p> <p>Taxpayers that lease property to an affiliated broker/dealer or exchange are eligible for the credit.</p> <p>The credit sunsets in five years.</p>	Effective for property placed in service on or after 10/1/98 and before 10/1/03.
27-b	20	Beer Tax Cut	Reduces the State excise tax on beer from 16 cents to 13.5 cents per gallon	1/1/99
28	20	Truck Mileage Tax Cut	Reduces the supplemental tax portion of the TMT by 50%. This will result in a 25% overall rate reduction in the TMT.	1/1/99
29-32	20-26	"New York State Emerging Industry Jobs Act"	<p>Emerging Technology Employment Tax Credit-- \$1000 for each individual employed full time over base year employment.</p> <p>Emerging Technology Capital Credit-- 10% of qualified investments not sold, transferred etc, during the four years following the year in which the credit is first claimed. The total amount of the credit allowed for all years cannot exceed \$150,000.</p> <p>20% of qualified investments not sold, transferred etc., during the nine years following the year in which the credit is first claimed. The total amount of the credit allowed for all years cannot exceed \$300,000.</p>	The credit provisions apply to TYBOA 1/1/99.
33	26	Estate & Gift Tax	Conforms to Internal Revenue Code as of 8/5/97	Immediate
34-70	26-43	Estate & Gift Tax	Conforms to various federal provisions, mainly those enacted in 1997 (e.g., family-owned businesses)	Various, but mainly for deaths occurring after 1997
71	43	Estate Tax	Repeals \$10 release of lien fee for pre-5/26/90 estates	Applications filed 15+ days after enactment

Summary of FY 1998-99 Budget Bill Tax Provisions — Chapter 56 of the Laws of 1998 — Part A

Section(s)	Page(s)	Subject	Description	Effective Date
72-73	43-44	Farmer's Credit Acceleration	Accelerates the implementation of the maximum base acreage of 250 from TY 1999. The previous acreage limit for TY 1998 was 175.	TY 1998
74-76b	44-46	Motor Vehicle Fees		
77-88	46-54	Clothing Exemption	Expands the September 1-7, 1998 sales & use tax exemption for articles of clothing costing less than \$100. Expanded to include footwear and to increase the threshold to items less than \$500.	Immediate
			Creates a sales tax exemption for articles of clothing & footwear costing less than \$500 during the sales period January 17-24, 1999.	9/8/98
			Expands the permanent sales & use tax exemption for articles of clothing costing less than \$100 which begins December 1, 1999. Expands exemption to include footwear and to raise the threshold to items costing less than \$110. (As before, localities within the MTA electing this exemption would reimburse the MTA for 1/2 of the 1/4% MTA surcharge forgone within their jurisdiction.)	Immediate
89-91	54-55	Holocaust Victims	Creates exclusions under the NYS and NYC PIT for: a) reparation distributions included in FAGI, and b) items of income from stolen assets or insurance payments for victims of Nazi persecution.	TYBOA 1/1/95.
			These assets are also removed from the estate tax computations.	On or after 4/1/63 (sunset 2/1/00).
92-93	55	Coin Telephones	Raises the sales tax exemption threshold for coin-telephone calls from 10 cents to 25 cents.	9/1/98
94-95a	55-56	Central Office Equipment	Modifies the telephone central office equipment sales tax exemption to include central office equipment or station apparatus used directly and predominately in receiving, amplifying, processing, transmitting and transmitting telephone or telegraph signals.	9/1/98
96	56	Textbooks	Exempts from sales tax textbooks purchased by full time or part time college students.	6/1/98
97	56-57	Computers	Exempts from sales tax computer system hardware used directly and predominately in designing and developing computer software for sale.	6/1/98

Summary of FY 1998-99 Budget Bill Tax Provisions — Chapter 56 of the Laws of 1998 — Part A

Section(s)	Page(s)	Subject	Description	Effective Date
98-106	57-59	Technology Investment Deferral	Gain from sale of qualified emerging technology investment is deductible from federal income, for PIT, corporate franchise tax, bank tax and insurance tax, if reinvested in another qualified company. Amount deferred must be added to federal income when reinvestment is sold.	Immediate, for investments acquired on or after 3/12/98.
107-122	59-65	Mental Hygiene Law and Public Health Law		
123	65	Severability Clause		
124	65-70	Effective Dates		
1-14	81-87	Pari-Mutuel Tax	Extends special provisions relating to the disposition of revenue from certain betting pools; the licensing of betting pools; the licensing of simulcast facilities; telephone wagering accounts and in-home and inter-track simulcasting.	Immediate

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# Appendix B: Summary of FY 1995-96, 1996-97 and 1997-98 Tax Actions

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## Fiscal Year 1995-96 Tax Actions

Legislation enacted with the 1995-96 budget contained a significant number of tax reductions aimed at increasing New York State's competitiveness and reducing tax burdens on individuals and businesses.

## Personal Income Tax

The centerpiece of the tax changes accompanying the SFY 1995-96 budget was a multi-year reduction in personal income taxes. The adopted changes, which significantly expanded the remaining phases of the State's 1987 tax reduction program, included:

- Reducing the top tax rate, from 7.875 percent in 1994 to 6.85 percent.
- Raising the standard deduction as currently scheduled from \$9,500 to \$13,000 for married couples and from \$6,000 to \$7,500 for individuals.
- Expanding the income threshold where the top rate becomes effective from \$26,000 to \$40,000 for married filers.
- Retaining the household credit and creating a new excess deductions credit for 1995 to offset potential tax increases that the enacted tax rate schedule could cause for low and middle income taxpayers.

## Further Tax Reductions

In addition to the personal income tax cut, the budget featured tax provisions that had the following effects:

- Reducing the alcoholic beverage tax on beer by 5 cents per gallon.
- Cutting the container tax in half from 2 cents per container to one penny.

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- Enacting a new estate tax deduction equal to a maximum of \$250,000 of the equity in the decedent's principal residence.
  - Reducing the diesel motor fuel excise tax from 10 cents to 8 cents per gallon.
  - Providing an up-front exemption from the petroleum business tax for sales of heating fuel to not-for-profit organizations.
  - Reducing the petroleum business tax on aviation fuels to 5.2 cents per gallon (before surcharge). The monthly minimum petroleum business tax is reduced from \$25 to \$2, and aviation businesses that are not airlines may file annually rather than monthly.
  - Providing an up-front exemption from the motor fuel excise tax for retail sales of aviation gasoline.
  - Extending the qualifying periods for the real property transfer gains tax builders' exemption.
  - Reducing pari-mutuel tax rates for NYRA races and extending provisions for simulcasting.

Extenders

The temporary Metropolitan Commuter Transportation District business tax surcharge was extended for two years. Certain provisions of the bank tax also were extended for two years.

Other Significant Provisions

Aside from tax reductions, the most significant State tax law change enacted with the budget was the restructuring of New York's franchise and excise taxes on telecommunications to conclude the litigation between the State and interstate telecommunications providers. Other significant provisions included:

- Freezing the S corporation entity tax at the difference between the corporate franchise tax rate and 7.875 percent.
- Decreasing the tax liability threshold for sales tax vendors filing by electronic funds transfer from \$4 million to \$1 million annually.
- Enacting a sales tax prepayment system for sales of cigarettes to enhance compliance.

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## Fiscal Year 1996-97 Tax Actions

Legislation enacted with the 1996-97 budget contained significant tax reductions for individuals and businesses intended to promote the continued improvement of the economic climate in the State.

### Real Property Gains Tax

The budget eliminated the real property gains tax enacted in 1983, which imposed a 10 percent levy on the gain derived from non-residential property transfers over \$1 million. The repeal was effective June 15, 1996.

### Personal Income Tax

Several provisions enacted under the personal income tax provided targeted relief to various taxpayers. These included:

- Enacting a school property tax credit for farmers beginning in 1997 for taxpayers that derive at least two-thirds of their total income from farming (also available under the corporate franchise tax);
- Enacting a tax credit for the costs of rehabilitating historic barns in the State (also available under the corporate franchise tax); and
- Enhancing the child and dependent care credit for taxpayers with adjusted gross income below \$14,000 and establishing the credit as refundable for residents beginning in 1996.

### Sales and Use Tax Reductions

The budget also included several sales and use tax changes. These included:

- Exempting clothing and footwear costing less than \$500 from the 4 percent State tax and the 0.25 percent tax imposed in the twelve county Metropolitan Commuter Transportation District (MCTD) for the period January 18, 1997 to January 24, 1997 and providing localities (including New York City) with the option to enact the exemption for the same period;
- Expanding the exemption for printed promotional materials and related services, including storage services, when the promotional materials are mailed or shipped to customers;
- Exempting parking services from the State sales tax, local sales tax outside New York City, and the 6 percent parking tax imposed in New York City;

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Petroleum Business Tax Relief

- Simplifying the sales tax exemption for shopping papers; and
- Expanding the exemption for commercial vessels and aircraft.

The budget contained various provisions which provided tax relief under the petroleum business tax (PBT). These include:

- Reducing the PBT rate on diesel motor fuel used by railroads by 7 cents per gallon on January 1, 1997;
- Exempting from the PBT residual petroleum product and non-automotive diesel gallonage used for manufacturing purposes beginning January 1, 1998;
- Exempting residual petroleum and non-automotive diesel gallonage used for commercial purposes from the PBT supplemental tax effective March 1, 1997;
- Reducing the supplemental PBT rate on automotive diesel product by 0.75 cents per gallon effective January 1, 1998, and by an additional 1 cent per gallon on April 1, 1999; and
- Increasing the credit allowed against the PBT on residual petroleum product and non-automotive diesel product used to generate electricity by 0.5 cents per gallon effective April 1, 1999.

Further Tax Reductions

In addition to the changes outlined above, the budget also featured tax provisions that had the following affects:

- Reducing the section 184 gross receipts tax rate as it applies to truckers and railroads from 0.75 percent to 0.6 percent beginning in 1997; and
- Allowing trucking and railroad companies currently taxed based on gross receipts (Article 9) the option of converting to an income based tax (Article 9-A) beginning in 1998.

Other Significant Provisions

- Establishing a tax amnesty program for the personal income tax, the Article 9-A corporate franchise tax, certain taxes imposed under Article 9, and the sales and use tax during the period November 1, 1996 to January 31, 1997;



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- Extending the time period to claim a fuel use tax or carrier tax refund for fuel purchased within the State but consumed outside the State, and to claim a refund for erroneous payments under the highway use tax from two to four years;
  - Making permanent existing provisions contained in both the State and New York City real estate transfer taxes concerning newly formed real estate investment trusts (REITs), and providing temporary additional tax relief for property transferred into existing REITs;
  - Changing the rate used in the S corporation differential tax from 7.59375 to 7.875 in 1995 for small S corporations to correct for an unintended tax increase;
  - Expanding the electronic funds transfer (EFT) hardship provisions for certain building suppliers;
  - Delaying the implementation of the tax on motor vehicle damage insurance awards from September 1, 1996 to July 1, 1997;
  - Providing for reimbursements of petroleum business taxes on aviation fuels;
  - Correcting unintended tax increases for certain taxpayers under estate and gift taxes which resulted from a 1994 law change; and
  - Expanding the electronic funds transfer program to the alcoholic beverage tax for filers with a tax liability threshold of \$5 million.

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## Fiscal Year 1997-98 Tax Actions

Legislation enacted with the 1997-98 State budget contained significant tax reductions for individuals and businesses intended to enhance economic development in New York State.

### STAR

The budget created a new program that reduced residential school property taxes. The State school tax relief (“STAR”) program took effect for taxes levied in fiscal years beginning on July 1, 1998 for the 1998-99 school year. STAR provides, when fully effective during the 2001-2002 school year, exemptions against school property taxes, resulting in at least a \$30,000 full value exemption for homeowners under the age of 65, and at least a \$50,000 full value exemption for homeowners age 65 and over with incomes at or below \$60,000.

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As part of the property tax relief program, the budget also provided residents of New York City with reductions in the resident City personal income tax. Similar to the property tax relief program, the State will reimburse New York City for its reduced personal income tax revenues.

## Estate & Gift Tax

The budget phased in a reduction of the estate tax, ultimately replacing it with a “pickup” tax equal to the maximum federal credit for State death taxes. It also provided for reduction and eventual repeal of the gift tax.

- The unified credit against the estate tax was increased from \$2,950 to \$10,000, thereby increasing the exemption equivalent from \$115,000 to \$300,000, beginning on or after October 1, 1998.
- The unified credit for gift taxes will be increased for gifts up to \$300,000 made on or after January 1, 1999.
- The gift tax was repealed for gifts made on or after January 1, 2000.
- The estate tax will be replaced with a “pickup” of the tax equal to the maximum federal credit for State death taxes, increasing the exemption level for estates to the current federal level beginning February 1, 2000, with a cap on the exemption equivalent of the pickup of \$1 million.

## Personal Income Tax

Several provisions enacted under the personal income tax provided targeted relief to various taxpayers. These included:

- Enhancing the Farm School Property tax credit by exempting up to the first \$30,000 of nonfarm federal gross income in the determination of eligibility for the credit. It also provided for subtracting principal payments on farm debt when calculating the income limit for the phase-out of the credit.
- Increasing the child and dependent care credit to 100 percent of the federal child care credit for taxpayers with adjusted gross income of \$17,000 or less.
- Extending the Employment Incentive Credit and Economic Development Zone Employment Incentive Credit to businesses whose owners are taxable under the personal income tax.

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- Establishing a new solar credit for residential investment in solar electric generating equipment.
  - Providing an exemption from State and local taxation for the pension income of retired Manhattan and Bronx Surface Transit Operating Authority employees, similar to that allowed other public employees.
  - Creating the New York State College Choice Tuition Savings Program. New York State residents and nonresidents can establish savings accounts to pay for qualified higher education expenses.

## Sales Tax

The budget also included several sales and use tax changes. These included:

- Exempting clothing, excluding footwear, costing less than \$100 from the four percent State sales tax and the 0.25 percent tax imposed in the twelve-county Metropolitan Commuter Transportation District (MCTD) for the periods September 1, 1997 through September 7, 1997 and September 1, 1998 through September 7, 1998. The exemption becomes permanent on December 1, 1999, for the four percent State tax. It also provided that localities (including New York City) have the option to enact the exemptions for the same period.
- Providing relief to various businesses and consumers selling and purchasing goods and services through coin-operated devices.
- Increasing the vendor allowance to three and one-half percent of the State sales tax collected and raising the cap from \$100 to \$150 per quarter.
- Exempting sales of and services to buses used to provide passenger transportation service, including charter and tour services.
- Exempting members of homeowners' associations, including condominium owners and co-op shareholders from the four percent State, and 0.25 percent MCTD taxes on parking services. It also exempted local sales tax on these services outside the City of New York.

## Corporate Tax Provisions

The budget contained many provisions to provide relief under taxes

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imposed on corporations. These included:

- Creating a new tax credit, through the Power for Jobs Program, against the tax on furnishing of utility services imposed under the corporation and utility tax.
- Reducing corporation and utility tax rates for electricity, gas and telephone services.
- Extending the investment tax credit carryforward period from 10 to 15 years under the corporation franchise tax.
- Allowing credits for electric vehicles, clean fuel vehicles using natural gas, methanol and other alternative fuels, and clean fuel refueling facility property.
- Creating a new tax credit for employers who employ individuals with disabilities.
- Reducing the premiums tax rate and limitation on tax liability for life insurers subject to the corporation franchise tax on insurance companies.
- Allowing insurers subject to the corporation franchise tax on insurance companies to claim a credit for investments in certified capital companies.
- Allowing the formation of captive insurance companies and providing these insurers with preferential tax treatment under the corporation franchise tax on insurance companies.
- Providing a prospective net operating loss deduction for banking corporations for losses incurred on or after January 1, 2001.
- Conforming the treatment of New York S corporations to the treatment of federal Subchapter S corporations and allowing certain banks to elect New York S corporation status.
- Extending, for four years through 2000, certain provisions of the bank tax that apply to commercial banks.

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Other Significant Provisions

- Extending, for four years through 2000, the 17 percent Metropolitan Transportation Business Tax Surcharge for taxpayers conducting business in the Metropolitan Commuter Transportation District.
- Creating the “Taxpayer Bill of Rights Act of 1997.”
- Eliminating the one cent non-refillable beverage container tax (Article 18-A) starting October 1, 1998.
- Extending until October 31, 2002, the alcoholic beverage tax enhanced enforcement provisions enacted as part of Chapter 508 of the Laws of 1993.
- Clarifying the operation of the Petroleum Business Tax (PBT) and granting refunds and credits under the PBT and motor fuel excise tax.
- Repealing the tax on motor vehicle damage insurance awards (Article 15).

