



Summary of Tax Provisions in SFY 2000-01 Budget

(Including Multi-Year Revenue Impacts of Tax Actions)

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Overview of Fiscal Year 2000-01 Budget Tax Actions

Chapter 63 of the Laws of 2000, enacted as part of the 2000-01 State budget, builds upon tax reductions in prior years by adding several new and expanded tax reductions for New York individuals and businesses. These tax cuts will continue to benefit New York families and enhance New York's economic development.

Listed below are summaries of the tax provisions contained in the legislation. The next two sections provide overviews of the revenue impacts and descriptions of tax reductions enacted since 1995. A complete description of all of the tax provisions in the 2000-01 legislation, including effective dates, is provided. Finally, Appendix A provides a detailed "road map" of the revenue bill, including section numbers, page numbers, brief descriptions, and effective dates for each tax provision.

Energy Tax Reduction

The Article 9 corporate utility franchise tax on gross receipts will no longer apply to companies providing energy services. Effective January 1, 2000 companies providing energy services, including gas and electric providers and pipelines, will be taxed under Article 9-A, as are other businesses. The other Article 9 gross receipts taxes will be substantially reduced over a five-year period. The tax on energy as a commodity and the natural gas import tax will be eliminated by 2005. In addition, a refundable tax credit is provided for any of the gross receipts taxes and the gas import tax on manufacturing uses of energy paid on or after January 1, 2000.

Because it will be possible to purchase the commodity of gas or electricity outside of New York, a compensating use tax on electricity and natural gas is imposed by the legislation, effective June 1, 2000.

In addition, effective September 1, 2000 the sales tax on charges for separately purchased transmission and distribution of electricity and gas is phased down and will be eliminated by September 1, 2003.

Power for Jobs

A fourth phase of the Power for Jobs Program is added, providing 300 megawatts of lower cost power to employers. Allocations will begin during the Fall of 2000 and three-year contracts for the reduced cost power will begin on or after January 1, 2001.

Personal Income Tax Reductions

The legislation creates a new refundable credit or an itemized deduction for allowable college tuition expenses paid by resident taxpayers on behalf of the taxpayer, the taxpayer's spouse, or dependents to enroll or attend qualifying in- or out-of-state institutions of higher education. The credit and deduction are available only for undergraduate study. The maximum amount of allowable college tuition expenses is \$10,000 phased in equally over a four-year period beginning in tax year 2001.

The legislation also:

- Increases the standard deduction for married couples filing a joint tax return from \$13,000 to \$13,400 in tax year 2001, \$14,200 in tax year 2002, and to \$14,600 thereafter;
- Increases the earned income tax credit (EITC) for low and moderate-income working families from 25 percent of the federal credit in 2001 to 27.5 percent in 2002, and to 30 percent of the federal credit after 2002; and
- Increases the child and dependent care credit from 100 percent of the federal to 110 percent for taxpayers with incomes under \$25,000, and the 100 percent credit applies to incomes of \$50,000, up from \$35,000. The income level at which the credit equals 20 percent of the federal also increases, from \$50,000 to \$65,000.

Finally, the legislation creates new credits for:

- Twenty percent of the cost of installing fuel cell electric generating equipment in the taxpayer's principal residence, up to a maximum credit amount of \$1,500;

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- Up to \$250 of costs associated with each of the following:
1) removing existing residential fuel oil storage tanks, 2) permanently closing existing residential fuel oil storage tanks, and 3) purchasing and installing new replacement tanks; and
 - Ten percent of the cost of purchasing qualifying long-term care insurance.

Business Tax Reductions

- Reduces the corporate franchise tax rate for small businesses from 7.5 percent to 6.85 percent for businesses with entire net income of \$200,000 or less. For small businesses with entire net income between \$200,000 and \$290,000, the rate would range from 6.85 percent to 7.5 percent.
- Reduces the S corporation differential tax rate by 45 percent.
- Creates an “Empire Zones Program Act” to encourage the development of businesses in economic development zones (EDZs) throughout the State.
- Provides an array of tax credits to encourage the construction of environmentally sensitive or “green” buildings.
- Allows the use of the economic development zone employment incentive credit against the alternative minimum tax.
- Exempts qualified homeowners associations, which have no homeowners’ taxable income, from payment of the fixed dollar minimum tax under the corporate franchise tax.
- Allows the acquiring corporation a certain portion of the investment tax credit (ITC) associated with assets transferred by the transferor corporation in certain transactions.
- Prevents the elimination of investment tax credits for companies involved in mergers and acquisitions.
- Provides a new tax credit for qualified transportation improvement contributions.

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- Special provisions under Article 9-A relating to the sale or lease of electric vehicles or clean fuel vehicle property installed in motor vehicles to governmental entities, scheduled to sunset in 2001, have been extended to 2003.
 - Creates a new credit program entitled the “New York State Low Income Housing Tax Credit Program.”
 - Allows securities brokers/dealers to allocate receipts based on the location of their customers, rather than under the current approach based on where they perform their services.
 - Creates transitional provisions relating to the enactment and implementation of the federal Gramm-Leach-Bliley Act of 1999 to allow certain corporations that were taxed under the corporate franchise tax or bank tax in 1999 to maintain that taxable status in 2000. Also permits certain corporations that are owned by financial holding companies or are financial subsidiaries of banks to elect to be taxed under either the corporate franchise tax or bank tax for the 2000 taxable year.
 - Establishes a third Certified Capital Company (CAPCO) program under which insurance taxpayers can claim a credit for 100 percent of the amount invested in CAPCOs.
 - Allows bank taxpayers to situs receipts from management, administrative, or distribution services to regulated investment companies based on the location of the customer. This conforms the situsing method for banks to the method allowed for general business corporations.
 - Extends the ITC currently available to corporations, banks, and personal income taxpayers that are broker/dealers in securities to insurance taxpayers.

Sales and Use Tax Reductions

- Expands the existing farm production exemption for tangible personal property, building materials, utility services, and services provided to farm real property. Provides commercial horse boarding operations with the same exemptions provided to farms.

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- Provides companies developing and operating Internet data centers in New York an exemption for most property and services used in their web site hosting facilities.
 - Exempts food and drink sold through a vending machine when such items cost 75 cents or less.
 - Modernizes and enhances the exemption for property and services used to provide telecommunications services and Internet access services for sale. Exempts certain purchase for conversion to digital cable television service.
 - Provides radio and television broadcasters an exemption for machinery and equipment and certain services used in the production and transmission of live or recorded programs.
 - Exempts manufacturing and industrial pollution control equipment and machinery.

Other Tax Reductions

- Eliminates the pari-mutuel tax on all races taking place at New York Racing Association (NYRA) race tracks during the three days surrounding a Breeders' Cup Event held at a NYRA track.
- Provides for a 33 percent petroleum business tax (PBT) rate reduction for both diesel motor fuel and residual oil used for non-residential heating purposes.
- Repeals two PBT minimum taxes.
- Reduces the beer tax from 12.5 cents to 11 cents per gallon.
- Accelerates the effective date for the expansion of the small brewers exemption under the beer tax retroactively to January 1, 2000 from the original effective date of March 1, 2001.
- Reduces the supplemental tax portion of the truck mileage tax by 20 percent.



Multi-Year Revenue Impacts of Tax Actions

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

	2000-01	2001-02	2002-03	2003-04	2004-05
Personal Income Tax	\$411.0	\$421.0	\$437.0	\$460.0	\$486.0
User Taxes and Fees	143.0	147.0	150.0	157.0	159.0
Sales and Use Tax	26.0	27.0	28.0	31.0	32.0
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	81.0	83.0	84.0	86.0	86.0
Container Taxes	0.0	0.0	0.0	0.0	0.0
Highway Use Tax	35.0	36.0	37.0	39.0	40.0
Business Taxes	1,090.0	1,094.0	1,107.0	1,129.0	1,129.0
Corporation Franchise Tax	449.0	444.0	446.0	459.0	459.0
Corporation & Utilities Tax	234.0	237.0	244.0	250.0	250.0
Insurance Tax	125.0	127.0	128.0	130.0	130.0
Bank Tax	102.0	103.0	106.0	107.0	107.0
Petroleum Business Taxes	180.0	183.0	183.0	183.0	183.0
Other Taxes	74.0	29.0	25.0	23.0	23.0
Estate and Gift Taxes	51.0	6.0	2.0	0.0	0.0
Real Property Gains Tax	19.0	19.0	19.0	19.0	19.0
Real Estate Transfer Tax	0.0	0.0	0.0	0.0	0.0
Pari-Mutuel Tax	4.0	4.0	4.0	4.0	4.0
Taxes Subtotal	\$1,718.0	\$1,691.0	\$1,719.0	\$1,769.0	\$1,797.0

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

	2000-01	2001-02	2002-03	2003-04	2004-05
Personal Income Tax	\$4,939.0	\$5,226.0	\$5,539.0	\$5,881.0	\$6,225.0
User Taxes and Fees	65.0	66.0	67.0	67.0	67.0
Sales and Use Tax	4.0	5.0	5.0	5.0	5.0
Motor Fuel Tax	17.0	17.0	18.0	18.0	18.0
Alcoholic Beverage Tax	15.0	15.0	15.0	15.0	15.0
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	61.0	61.0	62.0	62.0	62.0
Corporation Franchise Tax	0.0	0.0	0.0	0.0	0.0
Corporation & Utilities Tax	42.0	42.0	43.0	43.0	43.0
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	19.0	19.0	19.0	19.0	19.0
Other Taxes	35.0	9.0	7.0	6.0	5.0
Estate and Gift Taxes	30.0	4.0	2.0	1.0	0.0
Real Property Gains Tax	0.0	0.0	0.0	0.0	0.0
Real Estate Transfer Tax	0.0	0.0	0.0	0.0	0.0
Pari-Mutuel Tax	5.0	5.0	5.0	5.0	5.0
Taxes Subtotal	\$5,100.0	\$5,362.0	\$5,675.0	\$6,016.0	\$6,359.0

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

	2000-01	2001-02	2002-03	2003-04	2004-05
Personal Income Tax	\$27.0	\$27.0	\$27.0	\$27.0	\$27.0
User Taxes and Fees	31.0	32.0	33.0	36.0	38.0
Sales and Use Tax	31.0	32.0	33.0	36.0	38.0
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	51.0	51.0	52.0	39.0	39.0
Corporation Franchise Tax	0.0	0.0	0.0	0.0	0.0
Corporation & Utilities Tax	12.0	12.0	13.0	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	39.0	39.0	39.0	39.0	39.0
Other Taxes	123.0	128.0	137.0	137.0	137.0
Estate and Gift Taxes	0.0	0.0	0.0	0.0	0.0
Real Property Gains Tax	123.0	128.0	137.0	137.0	137.0
Real Estate Transfer Tax	0.0	0.0	0.0	0.0	0.0
Pari-Mutuel Tax	0.0	0.0	0.0	0.0	0.0
Taxes Subtotal	\$232.0	\$238.0	\$249.0	\$239.0	\$241.0

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

	2000-01	2001-02	2002-03	2003-04	2004-05
Personal Income Tax	\$48.0	\$54.0	\$59.0	\$64.0	\$69.0
User Taxes and Fees	553.0	570.0	595.0	624.0	654.0
Sales and Use Tax	527.0	544.0	569.0	598.0	628.0
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	26.0	26.0	26.0	26.0	26.0
Highway Use Tax	0.0	0.0	0.0	0.0	0.0
Business Taxes	545.0	484.0	426.0	463.0	463.0
Corporation Franchise Tax	24.0	24.0	24.0	24.0	24.0
Corporation & Utilities Tax	517.0	453.0	391.0	422.0	422.0
Insurance Tax	3.0	6.0	5.0	5.0	5.0
Bank Tax	1.0	1.0	6.0	12.0	12.0
Petroleum Business Taxes	0.0	0.0	0.0	0.0	0.0
STAR*	1,790.0	2,778.0	2,869.0	2,869.0	2,869.0
Other Taxes	261.0	577.0	648.0	683.0	695.0
Estate and Gift Taxes	261.0	577.0	648.0	683.0	695.0
Real Property Gains Tax	0.0	0.0	0.0	0.0	0.0
Real Estate Transfer Tax	0.0	0.0	0.0	0.0	0.0
Pari-Mutuel Tax	0.0	0.0	0.0	0.0	0.0
Taxes Subtotal	\$3,197.0	\$4,463.0	\$4,597.0	\$4,703.0	\$4,750.0

* Includes both reductions in local school property taxes and reductions in New York City 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)

	2000-01	2001-02	2002-03	2003-04	2004-05
Personal Income Tax	\$50.0	\$50.0	\$50.0	\$50.0	\$50.0
User Taxes and Fees	213.0	218.0	228.0	239.0	249.0
Sales and Use Tax	167.0	170.0	178.0	187.0	196.0
Motor Fuel Tax	0.0	0.0	0.0	0.0	0.0
Alcoholic Beverage Tax	8.0	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	38.0	40.0	42.0	44.0	45.0
Business Taxes	283.0	385.0	497.0	497.0	497.0
Corporation Franchise Tax	272.0	374.0	486.0	486.0	486.0
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	11.0	11.0	11.0	11.0	11.0
Petroleum Business Taxes	0.0	0.0	0.0	0.0	0.0
STAR	190.0	8.0	10.0	10.0	10.0
Other Taxes	7.0	7.0	6.0	6.0	6.0
Estate and Gift Taxes	4.0	4.0	4.0	4.0	4.0
Real Property Gains Tax	0.0	0.0	0.0	0.0	0.0
Real Estate Transfer Tax	0.0	0.0	0.0	0.0	0.0
Pari-Mutuel Tax	3.0	3.0	2.0	2.0	2.0
Taxes Subtotal	\$743.0	\$668.0	\$791.0	\$802.0	\$812.0

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

Table 6: New York State Tax Reduction Program Enacted in FY 1999-00*
(\$ in Millions)

	2000-01	2001-02	2002-03	2003-04	2004-05
Personal Income Tax	\$14.0	\$78.0	\$131.0	\$137.0	\$143.0
User Taxes and Fees	5.0	12.0	12.0	13.0	13.0
Sales and Use Tax	1.0	8.0	8.0	9.0	9.0
Motor Fuel Tax	0.0	0.0	0.0	0.0	0.0
Alcoholic Beverage Tax	4.0	4.0	4.0	4.0	4.0
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	17.0	133.0	173.0	213.0	213.0
Corporation Franchise Tax	14.0	50.0	50.0	50.0	50.0
Corporation & Utilities Tax	1.0	5.0	5.0	5.0	5.0
Insurance Tax	0.0	28.0	38.0	53.0	53.0
Bank Tax	2.0	45.0	75.0	100.0	100.0
Petroleum Business Taxes	0.0	5.0	5.0	5.0	5.0
STAR	0.0	0.0	0.0	0.0	0.0
Other Taxes	7.0	11.0	9.0	8.0	8.0
Estate and Gift Taxes	1.0	1.0	0.0	0.0	0.0
Real Property Gains Tax	0.0	0.0	0.0	0.0	0.0
Real Estate Transfer Tax	2.0	2.0	1.0	0.0	0.0
Pari-Mutuel Tax	4.0	8.0	8.0	8.0	8.0
Taxes Subtotal	\$43.0	\$234.0	\$325.0	\$371.0	\$377.0

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

Table 7: New York State Tax Reduction Program Enacted in FY 2000-01
(\$ in Millions)

	2000-01	2001-02	2002-03	2003-04	2004-05
Personal Income Tax	\$5.0	\$50.0	\$153.0	\$337.0	\$515.0
User Taxes and Fees	34.0	83.0	105.0	145.0	192.0
Sales and Use Tax	33.0	75.0	96.0	133.0	178.0
Motor Fuel Tax	0.0	0.0	0.0	0.0	0.0
Alcoholic Beverage Tax	1.0	0.0	0.0	3.0	5.0
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	8.0	9.0	9.0	9.0
Business Taxes	45.0	139.0	311.0	444.0	543.0
Corporation Franchise Tax	2.0	48.0	56.0	110.0	122.0
Corporation & Utilities Tax*	43.0	91.0	229.0	299.0	386.0
Insurance Tax	0.0	0.0	22.0	28.0	28.0
Bank Tax	0.0	0.0	0.0	0.0	0.0
Petroleum Business Taxes	0.0	0.0	4.0	7.0	7.0
STAR	0.0	0.0	0.0	0.0	0.0
Other Taxes	0.0	0.0	0.0	0.0	0.0
Estate and Gift Taxes	0.0	0.0	0.0	0.0	0.0
Real Property Gains Tax	0.0	0.0	0.0	0.0	0.0
Real Estate Transfer Tax	0.0	0.0	0.0	0.0	0.0
Pari-Mutuel Tax	0.0	0.0	0.0	0.0	0.0
Taxes Subtotal	\$84.0	\$272.0	\$569.0	\$926.0	\$1,250.0

* Figures reflect net impact of utility restructuring legislation and Power for Jobs expansion.

Table 8: Impact of Total Tax Reduction Program
(\$ in Millions)

	2000-01	2001-02	2002-03	2003-04	2004-05
Personal Income Tax	\$5,494.0	\$5,906.0	\$6,396.0	\$6,956.0	\$7,515.0
User Taxes and Fees	1,044.0	1,128.0	1,190.0	1,281.0	1,372.0
Sales and Use Tax	789.0	861.0	917.0	999.0	1,086.0
Motor Fuel Tax	17.0	17.0	18.0	18.0	18.0
Alcoholic Beverage Tax	29.0	28.0	28.0	31.0	33.0
Hotel/Motel Taxes	81.0	83.0	84.0	86.0	86.0
Container Taxes	52.0	52.0	52.0	52.0	52.0
Highway Use Tax	76.0	87.0	91.0	95.0	97.0
Business Taxes	2,092.0	2,347.0	2,628.0	2,847.0	2,946.0
Corporation Franchise Tax	761.0	940.0	1,062.0	1,129.0	1,141.0
Corporation & Utilities Tax	849.0	840.0	925.0	1,019.0	1,106.0
Insurance Tax	128.0	161.0	193.0	216.0	216.0
Bank Tax	116.0	160.0	198.0	230.0	230.0
Petroleum Business Taxes	238.0	246.0	250.0	253.0	253.0
STAR	1,980.0	2,786.0	2,879.0	2,879.0	2,879.0
Other Taxes	507.0	761.0	832.0	863.0	874.0
Estate and Gift Taxes	347.0	592.0	656.0	688.0	699.0
Real Property Gains Tax	142.0	147.0	156.0	156.0	156.0
Real Estate Transfer Tax	2.0	2.0	1.0	0.0	0.0
Pari-Mutuel Tax	16.0	20.0	19.0	19.0	19.0
Taxes Total	\$11,117.0	\$12,928.0	\$13,925.0	\$14,826.0	\$15,586.0



Highlights of Prior-Year Budget Tax Legislation

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

Fiscal Year 1995-96

- 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.
- Enacted a new estate tax deduction equal to a maximum of \$250,000 equity in decedents' principal residences.
- 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.
- Reduced certain petroleum business tax and pari-mutuel tax rates.

Fiscal Year 1996-97

- Repealed the real property gains tax.
- Created a new tax credit for farmers' school property taxes, and expanded the child care credit.
- Enacted a temporary exemption from sales tax for clothing and footwear costing less than \$500.
- Enacted a variety of rate reductions and exemption/credit enhancements in the petroleum business tax.

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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.

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.

Fiscal Year 1998-99

- Accelerated the STAR program enacted with the 1997-98 budget. This included providing the higher exemption and New York City resident income tax credit amounts to elderly residents, previously scheduled to be phased in by the 2001-02 school year, and 2001 tax year, in the 1998-99 school year and 1998 tax year, respectively.

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- Reduced tax rates, including the alternative minimum tax rate and the fixed dollar minimum tax, under the corporate franchise tax.
 - Created an investment tax credit for brokers/dealers in the financial services sector.
 - Expanded the permanent sales tax exemption for clothing to include footwear, and raised the threshold amount from \$100 to \$110.
 - Enacted a sales tax exemption for textbooks purchased by college students.
 - Enriched the child care credit under the personal income tax.
 - Conformed to federal tax relief for family owned businesses under the estate tax.
 - Reduced the truck mileage tax by 25 percent.

Fiscal Year 1999-00

- Increased the earned income credit under the personal income tax from 20 percent to 25 percent of the federal credit.
- Reduced the bank tax rate from 9 percent to 7.5 percent.
- Reduced the insurance tax rate from 9 percent to 7.5 percent, and the premiums cap rate for non-life companies from 2.6 percent to 2.0 percent.
- Added two additional sales tax-free weeks for clothing costing less than \$500.
- Reduced the corporate franchise tax alternative minimum tax rate from 3 percent to 2.5 percent.
- Provided a wide array of new business and sales tax credits and exemptions.



Summary of 2000-01 Tax Provisions

Energy Taxes

Elimination of Gross Receipts Based Franchise Tax

Effective January 1, 2000 corporations providing energy services, including gas and electric providers and pipelines, will be taxed under Article 9-A, as are other businesses. The franchise tax under Section 186 of Article 9 on gas or electric corporations, measured primarily on gross receipts, is eliminated. Gas pipeline corporations, formerly subject to franchise taxation under Sections 183 and 184, measured primarily on gross receipts, are transferred to Article 9-A.

Elimination of Gross Receipts Taxes on Energy Used in Manufacturing

A refundable tax credit, the Industrial or Manufacturing Business (IMB) credit, is provided for any of the gross receipts taxes and the Section 189 gas import tax on manufacturing uses of energy paid on or after January 1, 2000.

Commercial, Industrial, and Not-For-Profit Relief Provisions

In addition to the reduction and elimination of the tax on the commodity, the Section 186-a tax on transmission and distribution for commercial, industrial and not-for-profit customers will be eliminated through a phased in exclusion according to the following schedule:

Calendar Year	2000	2001	2002	2003	2004	2005 and After
Rate	0%	0%	25%	50%	75%	100%

Phase-down and Elimination of Gross Receipts Tax on Energy and Gas Import Tax

The Section 186-a tax as it applies to charges for the commodity of gas or electricity and the Section 189 gas import tax will be phased down and eliminated for all taxpayers according to the following rate schedule:

Calendar Year	2000	2001	2002	2003	2004	2005 and After
Rate	2.1%	2.0%	1.9%	0.85%	0.4%	0%

Phase-down of State
Excise Tax on Remaining
Energy Transmission and
Distribution

The Section 186-a tax as it applies to the charges for the transmission and distribution component of gas and electric services will be reduced according to the following rate schedule:

Calendar Year	2000	2001	2002	2003	2004	2005 and After
Rate	2.5%	2.45%	2.4%	2.25%	2.125%	2.0%

Imposition of
Compensating Use Tax

Because it will be possible to purchase the commodity of gas or electricity outside of New York, a compensating use tax is imposed by the legislation for sales to persons located in New York, effective June 1, 2000. State and local sales and use taxes on the services of transportation, transmission or distribution of gas or electricity will be reduced by 25 percent of the rates in effect September 1, 2000, on that date, and on each succeeding September first, until the rate is zero percent on and after September 1, 2003.

Real Property Tax
Abatement

Because companies providing energy services will be taxed under Article 9-A, certain movable machinery and equipment that would otherwise become wholly exempt from taxation under the Real Property Tax Law is phased out of real property assessed valuation by increments of 10 percent each year over 10 years, such that after 2010, such property will be wholly exempt from taxation.

Power for Jobs

Expansion and Extension
of Power for Jobs
Program

Chapter 316 of the Laws of 1997 established the Power for Jobs Program to make low cost power available to businesses, small businesses and not-for-profit corporations for job retention and creation. The rate reductions are funded by a tax credit against the tax on the furnishing of utility services imposed by Section 186-a of the Tax Law. The credit is the value of net revenue loss of the utility associated with the delivery of the low cost power.

A fourth phase is added to the program that will provide 300 megawatts of lower cost power to employers. Allocations will begin during the Fall of 2000 and three year contracts for the reduced cost power will begin on or after January 1, 2001.

Personal Income Tax

College Tuition Tax Credit/Deduction

A new refundable credit or an itemized deduction is permitted for allowable college tuition expenses paid by resident taxpayers on behalf of the taxpayer, the taxpayer's spouse, or dependents to enroll or attend qualifying in- or out-of-state institutions of higher education. The credit and deduction are available only for undergraduate study.

The maximum amount of allowable college tuition expenses is \$10,000. For taxpayers with allowable expenses of \$5,000 or more, the credit equals the applicable percentage of allowed tuition expenses times 4 percent. Taxpayers with expenses of less than \$5,000 may claim a credit equal to the lesser of the applicable percentage of allowed tuition expenses or the applicable percentage of \$200. The itemized deduction equals the applicable percentage of allowed tuition expenses in a given year.

The credit and itemized deduction are phased in over a four-year period. Applicable percentages of allowed tuition expenses are 25 percent in tax year 2001, 50 percent in 2002, 75 percent in tax year 2003, and 100 percent in 2004 and thereafter.

Qualifying tuition expenses are defined as net of scholarships or financial aid. Institutions of higher education include business, trade, technical or other occupational schools, recognized and approved by the regents of the University of the State of New York, or national recognized accrediting agency accepted by the regents, which provides a course of study leading to the granting of a post-secondary degree, certificate or diploma.

Marriage Penalty Reduction

To help reduce income tax penalties facing married couples, the standard deduction for married couples filing a joint tax return increases from \$13,000 to \$13,800 in tax year 2001, \$14,200 in tax year 2002, and to \$14,600 thereafter.

Earned Income Tax Credit

The earned income tax credit (EITC) for low and moderate-income working families is increased from 25 percent of the federal credit in 2001 to 27.5 percent in 2002, and to 30 percent of the federal credit after 2002. These increases in the State EITC are predicated upon funding through the federal Temporary Assistance for Needy Families (TANF)

block grant. Should this funding source no longer be available, the EITC would revert back to its pre-2000 level of 20 percent of the federal credit.

Child and Dependent Care Credit

The credit is increased to 110 percent of the federal child care credit for taxpayers with incomes under \$25,000. Percentages ranging from 110 percent to 20 percent apply for those with incomes from \$25,000 to \$65,000. Taxpayers with incomes over \$65,000 receive 20 percent of the federal credit. Under prior law, taxpayers with incomes under \$35,000 received 100 percent of the federal credit, phasing down to 20 percent for those with incomes over \$50,000. The percentages applicable for various incomes under the new budget are as follows:

NYAGI	Percent of Federal Child Care Credit
Less than \$25,000	110%
\$25,000 - \$40,000	Phased down from 110% to 100%
\$40,000 - \$50,000	100%
\$50,000 - \$65,000	Phased down from 100% to 20%
\$65,000 - over	20%

This enhancement takes effect in tax year 2000. Similar to the earned income tax credit, the child and dependent care credit would revert to its tax year 1999 levels if TANF funding is not available.

Residential Fuel Cell Credit

Effective in 2003, a new credit applies for 20 percent of the cost of installing fuel cell electric generating equipment in the taxpayer's principal residence, up to a maximum credit amount of \$1,500. Qualified expenditures include the fuel cells, assembly and installation, construction, and utility compliance costs. Credit in excess of tax liability may be carried over for 5 years.

Petroleum Tank Replacement Credit

Effective for tax years 2001 and 2002, a new credit applies for up to \$250 of costs associated with each of the following: 1) removing existing residential fuel oil storage tanks, 2) permanently closing existing residential fuel oil storage tanks, and 3) purchasing and installing new replacement tanks. The credit applies to tanks which provide heating fuel for single to four family residences located in the State. The credit may be claimed once for a particular residence and unused credits may be carried forward to future tax years.

Long-Term Care
Insurance Credit

Effective for tax year 2002, a new credit applies for 10 percent of the cost of purchasing qualifying long-term care insurance, as defined in the State Insurance Law. The current subtraction modification is repealed. Amounts in excess of tax liability may be carried over to future tax years. The credit also applies for the corporate utility, corporate franchise, bank, and insurance taxes.

Corporate Franchise
Tax

Small Business Rate
Reduction

The corporate franchise tax rate for small businesses drops from 7.5 percent to 6.85 percent for businesses with entire net income of \$200,000 or less. For small businesses with entire net income between \$200,000 and \$290,000, the rate would range from 6.85 percent to 7.5 percent. The reduction takes effect for tax years beginning after June 30, 2003.

S Corporation Differential
Rate Reduction

The budget legislation reduces the S corporation differential rate by 45 percent for tax years beginning after June 30, 2003.

The following tables reflect the reduction in the S corporation rate differential:

		Taxable Years Beginning	Article 9-A Rate (a)	Article 22 Rate (b)	Differential (a) - (b)
Large S Corps		Before 7/1/99	9%	7.875%	1.125%
		7/1/99 - 6/30/00	8.5%	7.525%	.975%
		7/1/00 - 6/30/01	8%	7.175%	.825%
		7/1/01 - 6/30/03	7.5%	6.85%	.65%
New Law	Represents 45% Differential Reduction	7/1/03 and Forward	7.5%	7.1425%	.3575%
Small S Corps (Entire Net Income of Not More Than \$200,000)		Before 7/1/99	8%	7.875%	.125%
		7/1/99 - 6/30/03	7.5%	7.45%	.05%
New Law	Represents 45% Differential Reduction	7/1/03 and Forward	7.5%	7.4725%	.0275%

	Taxable Years Beginning	Article 9-A Rate (a)	Article 22 Rate (b)	Differential* (a) - (b)
S Corps with Entire Net Income Between \$200,000 - \$290,000	7/1/00 - 6/30/03	7.5%	\$14,900, plus 6.85% of 1st \$50,000 over \$200,000, plus 3.85% of amount over \$250,000	\$790
New Law	7/1/03 and Forward	7.5%	\$14,945, plus 7.1425% of 1st \$50,000 over \$200,000, plus 5.4925% of amount over \$250,000	\$435

* The differential amounts in the above table reflect an example of a taxpayer with entire net income of \$260,000.

Empire Zones Program Act

The “Empire Zones Program Act” would encourage the creation and expansion of businesses in economic development zones (EDZs) throughout the State. Qualified empire zone enterprises include business enterprises certified as EDZ businesses prior to July 1, 2005. To meet the required employment test for the taxable year, the business enterprise’s average number of full time employees in EDZs in the taxable year must meet or exceed its average number in such zones for the base period. In addition, its average number of full time employees in the State outside the EDZs for such taxable year must equal or exceed its average number in the State outside of EDZs for the base period. The base period is the five taxable years immediately before the test year. The test year is the last taxable year of the business enterprise ending on or before the later of July 1, 2000 or the date prior to July 1, 2005.

The tax reduction provisions include a tax reduction credit, a credit for real property taxes for property owned by a qualified zone enterprise, and a State sales and use tax exemption (with a local option) for tangible personal property and services used or consumed by a zone enterprise. Qualified empire zone enterprises may claim the tax reduction credit and the credit for real property taxes for 15 years based on a benefit period factor table ranging from 100 percent for taxable years 1-10 to 0 percent in year 15. The credits are refundable. The State sales tax exemption is allowed for 10 years. The sales tax provisions take effect March 1, 2001 and apply to sales made, services rendered and uses occurring on and after that date. The credit provisions apply to tax years beginning on and after January 1, 2001. The bill also directs the legislative bill drafting commission to change the term “economic development zone” to “empire zone” wherever it appears in the consolidated or unconsolidated laws of the State. The provisions apply to corporate franchise taxpayers, personal income taxpayers, banks and insurance companies.

Green Buildings Tax Credits	New credits would provide incentives for the purchase of recyclable building materials and other environmentally preferable tangible personal property. It also contains tax credits for the purchase of fuel cells, photovoltaic modules, and environmentally sensitive non-ozone depleting refrigerants. The credits apply to costs incurred on or after June 1, 1999, for property placed in service or that has received a final certificate of occupancy in tax years beginning on or after January 1, 2001. In addition to corporate franchise taxpayers, it would also apply to taxpayers under the personal income tax, the utilities tax, the bank tax, and the insurance tax.
Allow Economic Development Zone Employment Incentive Credit Against Alternative Minimum Tax	This new provision reduces businesses' tax rates by allowing the use of the EDZ employment incentive credit against the alternative minimum tax. It would encourage investment in EDZs throughout the State. The provision affects Article 9-A taxpayers and becomes effective for tax years beginning on or after January 1, 2001.
Homeowners Associations	The legislation amends Article 9-A to exempt qualified homeowners associations, which have no homeowners' taxable income, from payment of the fixed dollar minimum tax. The associations would still be subject to the other taxable bases under Article 9-A, if applicable. This provision applies to tax years beginning on or after January 1, 2000.
Investment Tax Credit Carryover	For qualified transactions, this provision allows the acquiring corporation a certain portion of the ITC associated with assets transferred by the transferor corporation. If both the transferor and the acquiring corporations jointly elect, the acquiring corporation would be entitled to the unused amount of the transferor's ITC. If the parties do not jointly elect, then the acquiring corporation is entitled to the recapture amount required to be taken by the transferor. One-fourth of the amount can be taken against tax due or as an overpayment to be credited or refunded, beginning with the second succeeding tax year following the transaction year. This amount is also taken in each of the next three following tax years after the second succeeding tax year. The provisions apply to transfers of property occurring on or after January 1, 1999, in connection with qualified transactions completed prior to June 1, 1999. The provisions affect Article 9-A taxpayers only.

Merger and Acquisition
Retroactive Investment
Tax Credit

This new law would prevent the unfair elimination of investment tax credits for companies involved in mergers and acquisitions. It applies retroactively to tax years beginning on or after January 1, 1997. Amended returns cannot be filed prior to April 1, 2001.

Transportation Access
Credit

The new law provides a tax credit for qualified transportation improvement contributions. The taxpayer must make a certified contribution of at least \$10 million to a qualified transportation improvement project in a prior tax year. The contribution is jointly certified by the commissioner of the New York State Department of Transportation and the commissioner of Empire State Development Corporation. The projects must enhance a qualified business facility, and may include the construction or improvement of transportation infrastructure and related facilities and systems, including bridges, ramps, highways, and mass transit facilities. In addition, the taxpayer must create, by the third full tax year after the tax year during which the contribution was made, more than 1,000 jobs in connection with the qualified business facility. The credit equals 6 percent of the taxpayer's increased qualified business facility payroll for the tax year. The amount of the credit cannot exceed the amount of the certified contribution. If after the third full tax year after the contribution is made the employment increase test is not met, then there is a recapture of the credit. The new law applies to contributions made on or after January 1, 2000. In addition to taxpayers under the corporate franchise tax, taxpayers under the personal income tax, the utilities tax, the bank tax and the insurance tax are also eligible for this credit.

Extension of Alternative
Fuels Tax Credits

Special provisions under Article 9-A relating to the sale or lease of electric vehicles or clean fuel vehicle property installed in motor vehicles to governmental entities now extend through 2003. Previously, the provisions applied only through 2001. The total amount of the credit applicable to these special provisions equals \$2.5 million in 2002 and \$2.5 million in 2003.

Low Income Housing
Credit

The budget creates a new program entitled the "New York State Low Income Housing Tax Credit Program." Based on the existing federal program, it requires an agreement between the taxpayer and the commissioner of the New York State Division of Housing and Community Renewal for a long-term commitment to low-income housing. The amount of the credit depends on the applicable percentage

of the qualified basis of each low-income building. The credit amount allocated is allowed as a credit against tax for 10 tax years. Unused credits may be carried forward indefinitely. The total amount of credit available is \$20 million, or \$2 million each year. The credit program applies to corporate franchise taxpayers, personal income taxpayers, banks and insurance companies. The provisions take effect immediately.

Transitional Provisions for
Financial Services
Industry

Transitional provisions relating to the enactment and implementation of the federal Gramm-Leach-Bliley Act of 1999 allow certain corporations that were taxed under the corporate franchise tax or the bank tax in 1999 to maintain that taxable status in 2000. The legislation also permits certain corporations that are owned by financial holding companies or are financial subsidiaries of banks to elect to be taxed under either the corporate franchise tax or the bank tax for the 2000 taxable year. Parallel amendments are also made to the New York City Administrative Code. These provisions are effective immediately.

Third Certified Capital
Company Credit

The budget establishes a third CAPCO program (“Program Three”) under which insurance taxpayers can claim a credit for 100 percent of the amount invested in CAPCOs. This program includes a \$150 million Statewide cap on the total amount of investments for which taxpayers may claim credits. Under this program, each CAPCO must make qualified investments in qualified businesses in economic development zones that equal one third of the certified capital raised under Program Three. In addition, each CAPCO must make qualified investments in qualified businesses located in underserved areas outside of EDZs that equal one third of the certified capital raised under Program Three. In total, taxpayers may not claim credits of more than \$10 million in any taxable year under Program Three. Taxpayers may earn credits immediately but may claim credits effective for tax years beginning on or after January 1, 2002.

Allocation Rules for Banks
Performing Mutual Fund
Management Activities

Effective for taxable years beginning on or after January 1, 2001, bank taxpayers may situs receipts from management, administrative, or distribution services to regulated investment companies based on the location of the customer. This conforms the situsing method for banks to the method allowed for general business corporations. Parallel amendments are also made to the New York City Administrative Code.

Investment Tax Credit for Insurers

The ITC currently available to corporations, banks, and personal income taxpayers that are broker/dealers in securities is extended to insurance taxpayers. 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 ITC provides a credit equal to 5 percent of the cost of qualified expenditures 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 qualified use of the equipment to be substantially within New York. Taxpayers that lease property to an affiliated broker/dealer are eligible for the credit.

The credit is available for property placed in service between January 1, 2002 and before October 1, 2003.

Allocation Rules for Securities and Commodities Brokers

The bill provides for a market state approach for the apportionment of certain receipts of registered securities or commodities brokers or dealers. Generally such receipts will be apportioned based on the location of customers receiving services.

Effective for taxable years beginning on or after January 1, 2001, receipts which constitute brokerage commissions, margin interest or account maintenance fees will be allocated as services performed at the customer's mailing address.

Effective for taxable years beginning on or after January 1, 2003, receipts which constitute income from: principle transactions, that is from purchases and sales for its own account, will be allocated according to the location of the branch, office or employee making the transaction; interest on loans or advances to corporate affiliates will be allocated to the principal place of business of such affiliate; fees from advisory services for underwriting activities will be allocated to the location of the issuer of the securities; and fees for management or advisory services will be allocated as services performed at the customer's mailing address.

Sales and Use Tax

Farm Production	This legislation provides a State and local exemption from sales and use tax for tangible personal property and building materials used predominantly in farm production. In addition, the legislation exempts utility services used in farm production and services provided to farm real property. The legislation also gives commercial horse boarding operations the same exemptions provided to farms. This change takes effect on September 1, 2000.
Internet Data Centers	The legislation provides a State and local exemption from sales and compensating use tax to companies developing and operating Internet data centers (sometimes referred to as ‘web site hosting facilities’) in New York. It exempts the computer hardware and software purchased by these companies and other required equipment such as air conditioning systems, power systems, raised flooring, and cabling. It also provides an exemption for services related to the exempted property. The exemption takes effect on September 1, 2000.
Vending Machines	This provision creates a State and local exemption from sales and use tax for food and drink sold through a vending machine when it costs 75 cents or less. This provision takes effect on September 1, 2000.
Communications Services Providers	This provision enhances an existing exemption for certain telephone and telegraph equipment by providing a State and local exemption from sales and use tax for tangible personal property used to provide telecommunications services for sale, Internet access services for sale, or a combination of those services. It repeals the former requirement that such equipment be “telephone central office equipment” or “station apparatus.” It also exempts certain services to the exempted property such as installation and maintenance. Finally, the legislation provides a three-year State and local exemption from sales and use tax for certain machinery and equipment used to upgrade cable television systems to a digital-based technology. These exemptions take effect September 1, 2000.
Radio and Television Broadcasting	The legislation provides radio and television broadcasters with a State and local exemption from sales and use tax for machinery and equipment (including parts, tools and supplies) and certain services used in the production and transmission of live or recorded programs. A broadcaster

includes federal communications licensed radio and television stations, television networks, and cable television networks. The exemption takes effect September 1, 2000.

Pollution Abatement

This provision provides a State and local exemption from sales and use tax for manufacturing and industrial pollution control equipment and machinery if not otherwise exempted under existing production exemptions. The effective date is March 1, 2001.

Other Tax
Reductions

Pari-Mutuel Tax NYRA
Relief

Effective immediately, these provisions eliminate the pari-mutuel tax on all races taking place at New York Racing Association (NYRA) race tracks on the day before, during and after the NYRA's Breeders' Cup Event. The Breeders' Cup is set to return to the New York City area in 2001. This provision sunsets December 31, 2002.

Petroleum Business Tax
(PBT) Rate Reduction for
Non-Residential Heating
Gallonage

The legislation provides for a 33 percent tax rate reduction for both diesel motor fuel and residual oil used for non-residential heating purposes. The change is effective September 1, 2002.

Based on current PBT rates, the non-automotive diesel motor fuel tax rate will decline by roughly 2 cents per gallon and the residual oil tax rate will decline by 1.6 cents per gallon on gallonage used for the above purposes. The new non-residential heating tax rate will continue to be indexed annually with the other PBT rates. A reimbursement is also provided for the differential where purchasers of diesel motor fuel absorb the PBT at a higher rate than the new non-residential heating tax rate and then use such fuel for the above purposes. This provision builds on a 20 percent PBT rate reduction for the above fuels which was enacted with the SFY 1999-00 Budget and which becomes effective April 1, 2001.

Petroleum Business Tax
Elimination of Minimum
Taxes

The budget legislation provides for the repeal of the PBT minimum taxes imposed on petroleum business taxpayers. The minimum tax currently is \$25 per month for petroleum businesses (\$75 for quarterly filers) and \$2 per month for aviation fuel businesses (\$6 for quarterly filers). The repeal is effective March 1, 2001.

Beer Tax Rate Reduction	The alcoholic beverage tax (ABT), imposed on the sale of beer by distributors, is reduced from 12.5 cents to 11 cents per gallon. The change is effective September 1, 2003. This provision builds on a 1 cent beer tax rate reduction which was enacted with the SFY 1999-00 Budget and which becomes effective April 1, 2001.
Beer Tax Acceleration of Small Brewers Exemption	The legislation accelerates the effective date for the expansion of the small brewer's exemption from the ABT imposed on beer. The effective date is accelerated retroactively to January 1, 2000 from the original effective date of March 1, 2001 which was enacted with the SFY 1999-00 Budget. The expanded exemption is from the first 100,000 barrels brewed and sold in the State (in a calendar year), by a brewer whose principal executive office is located in the State, to the first 200,000 barrels. (Note: For purposes of the ABT, there are 31 gallons in a barrel of beer.)
Truck Mileage Tax Rate Reduction	The supplemental tax portion of the truck mileage tax (TMT) is reduced by 20 percent. This results in a roughly 7 percent overall rate reduction in the TMT for taxpayers subject to the supplemental tax. The rate reduction is effective April 1, 2001.



Appendix A: Summary of FY 2000-01 Tax Provisions

Summary of Tax Provisions in SFY 2000-01 Budget (Con't)

Section(s)	Page(s)	Subject	Description	Effective Date
Part A	3-6	Corporate Franchise Tax Small Business and S Corp Rate Reduction	Reduces small business franchise tax rate and the differential tax paid by S corporations.	TYBA 6/ 30/03 for both provisions.
Part B	6-11	Sales Tax – Farm Production Exemption	Provides a State and local exemption from sales and use tax for tangible personal property and building materials used predominantly in farm production. These provisions also exempt utility services used in farm production and services to farm real property. Gives commercial horse boarding operations the same exemptions provided to farms.	9/1/00
Part C	11-12	Sales Tax – Internet Data Center	Provides a State and local exemption from sales and use tax for machinery, equipment, and certain other specified tangible personal property used by an operator of an Internet data center in the provision of Internet web site services for sale. These provisions also exempt services to the exempt property and certain other services used in the Internet data center.	9/1/00
Part D	12-13	Corporate Franchise Tax Reduction for Homeowners Associations	Reduces corporate franchise tax on qualified homeowners associations. Homeowners associations will no longer be required to pay the fixed dollar minimum tax, but would still be subject to other taxable bases, such as the capital tax, if applicable.	TYBOA 1/1/00
Part E	13-17	Long-Term Care Insurance Credit	Creates a 10% credit for cost of purchasing long-term care insurance as defined in Insurance Law. Applies to corporate utility, corporate franchise, personal income, bank, and insurance taxes. Current PIT subtraction is repealed. Excess may be carried over.	TYBOA 1/1/02
Part F	17	Corporate Franchise Tax Use of EDZ/EIC Against AMT	Allows economic development zone employment incentive credit to be used against the alternative minimum tax. Applies to corporate franchise taxpayers only.	TYBOA 1/1/01
Part G	17-19	Corporate Franchise Tax ITC Carryover	For qualified Article 9-A transactions, allows acquiring corporation investment tax credit for certain transferred assets. One-fourth of amount can be taken against tax or credited or refunded, beginning the second succeeding tax year following the transaction year. This amount is also taken in each of the next three following tax years following the second succeeding tax year.	Applies to transfers of property occurring on or after 1/1/99, for qualified transactions completed prior to 6/1/99, where such transfers occur in a tax year of the transferee of the property which began in 1999.
Part H	19	M&A ITC Retroactive	Allows retroactive claim for investment tax credit eliminated during merger and acquisition activity.	TYBOA 1/1/97, but amended returns cannot be filed prior to 4/1/01. If time has expired under the applicable provisions of the Tax Law or the administrative code of the City of New York by 4/1/01, then the return may be filed no later than 3/31/02.

Summary of Tax Provisions in SFY 2000-01 Budget (Con't)

Section(s)	Page(s)	Subject	Description	Effective Date
Part I	19-25	Transportation Access Program	Creates a 6% tax credit for qualified transportation improvement contributions of at least \$10 million. Taxpayer must create more than 1,000 new jobs. The amount of the credit cannot exceed the amount of the contribution. Applies to corporate franchise taxpayers, personal income taxpayers, utilities, banks and insurance companies.	Applies to contributions made on or after 1/1/00 in tax years beginning on or after this date.
Part J	25-26	Corporate Franchise Tax Extension of Alternative Fuel Credit Provisions	Extends applicable dates for special provisions relating to the sale or lease of electric vehicles or clean fuel vehicle property installed in motor vehicles to governmental entities. Makes additional appropriations of \$2.5 million in 2002 and 2003. Applies to corporate franchise taxpayers only.	Special provisions extended from 2000-01 to 2003.
Part K	26-29	Sales Allocation for Financial Services	For corporate franchise tax, changes receipts allocation for securities brokers/dealers from where service is performed to where customer is located.	TYBOA 1/1/01
Part L	29-33	Insurance Tax ITC	Insurance taxpayers that are broker/dealers in securities may claim a credit for equipment or buildings used in broker/dealer activity and in activities connected with broker/dealer operations.	Available for property placed in service between 1/1/02 and before 10/1/03.
Part M	33-43	Child Care Credit Increase	Increases State credit to 110% of federal credit for NYAGI up to \$25,000, phasing down to 20% for incomes over \$65,000. Credit will revert to 1999 law if federal government does not allow additional amounts to apply towards maintenance of effort under TANF.	TYBOA 1/1/00
Part N	43-44	Petroleum Tank Credit	Creates a credit of up to \$250 for costs of each of: 1) removing existing residential fuel oil tanks, 2) permanently closing existing tanks, and 3) purchasing and installing new replacement tanks. Excess may be carried over.	TYBOA 1/1/01; sunsets 12/31/02
Part O	44	Sales Tax – Vending Machine Sales Exemption	Provides a State and local exemption from sales and use tax for vending machine sales of certain food or drink sold for 75 cents or less.	9/1/00
Part P	44-45	Marriage Penalty	Increases standard deduction for married couples filing jointly from \$13,000 to \$13,400 in 2001, \$14,200 in 2002, and to \$14,600 thereafter.	TYBOA 1/1/01
Part Q	45	Earned Income Credit Increase	Increases credit from 25% of federal to 27.5% in 2002 and to 30% thereafter. Credit will revert to its pre-2000 level of 20% if federal government does not allow additional amounts to apply towards maintenance of effort under TANF.	TYBOA 1/1/02
Part R	45-46	Ton Mileage Tax Reduction	Reduces the supplemental tax portion of the TMT by 20%. This will result in a 7% overall rate reduction in the TMT.	4/1/01

Summary of Tax Provisions in SFY 2000-01 Budget (Con't)

Section(s)	Page(s)	Subject	Description	Effective Date
Part S	46-51	Sales Tax – Communications Service Providers (Telecommunications, Internet Access, Cable Television) Exemption	Repeals the existing narrow sales and use tax exemptions for telecommunications equipment. Provides a new State and local exemption from sales and use tax for tangible personal property used directly and predominantly in the receiving, initiating, amplifying, processing, transmitting, retransmitting, switching or monitoring of switching of telecommunications services for sale of Internet access services for sale. Provides a new State and local exemption from sales and use tax for machinery, equipment or apparatus used directly and predominantly to upgrade cable television systems for digital cable service and, to the extent not otherwise exempted, to exempt equipment or apparatus used by a cable television service provider to furnish Internet access services. Other provisions exempt services to the exempt property and make conforming changes in the local sales and use tax.	9/1/00 Certain provisions related to Cable Television Service Providers sunset 8/31/03.
Part T	51-52	Sales Tax – Radio and Television Broadcasting Exemption	Provides a State and local exemption from sales and use tax for machinery or equipment or other tangible personal property used by a broadcaster directly and predominantly in the production of live or recorded programs for broadcast or in the transmission of such programs. Other provisions exempt services to the exempt property. A "broadcaster" includes a Federal Communications Commission licensed radio or television station, a radio or television network, and a cable television network.	9/1/00
Part U	52-53	PBT Minimum Tax Repeal	Repeals the PBT minimum tax imposed on petroleum business taxpayers. The minimum tax currently is \$25 per month for petroleum businesses (\$75 for quarterly filers) and \$2 per month for aviation fuel businesses (\$6 for quarterly filers).	3/1/01
Part V	53	Beer Tax Reduction	Reduces beer excise tax rate from 12.5 cents to 11 cents per gallon.	9/1/03
Part W	53-54	Small Brewers Exemption Acceleration	Accelerates the effective date of the small brewer's exemption from the beer excise tax (first 100,000 barrels brewed and sold in the State in a calendar year to the first 200,000 such barrels) from March 1, 2001 retroactively to January 1, 2000.	1/1/00
Part X	54-55	PBT – Non-residential Heating Fuels	Provides for a 33% PBT rate reduction for both diesel motor fuel and residual oil used for non-residential heating purposes.	9/1/02
Part Y	55-84	GRT Plan	Creates new credit for taxes paid on energy used in manufacturing (IMB credit); Gas and electric providers and pipelines, will be taxed under Article 9-A; Section 186-a tax as it applies to charges for the commodity of gas or electricity and the Section 189 gas import tax will be phased down and eliminated for all taxpayers; Section 186-a tax as it applies to charges for the transmission and distribution of gas and electricity will be phased down to 2%; This tax, as applied to non-residential customers will be eliminated through a phased-in exclusion; A compensating use tax is imposed on purchases of the gas and electric commodity; State and local sales taxes on transportation, transmission and distribution are phased down by 25% per year.	TYEOA 1/1/01 TYEOA 1/1/01 Fully Effective 1/1/05 Fully Effective 1/1/05 Fully Effective 1/1/05 6/1/00 Fully Effective 9/1/03

Summary of Tax Provisions in SFY 2000-01 Budget (Con't)

Section(s)	Page(s)	Subject	Description	Effective Date
Part Z	85	Alternative Energy Fuel Cell Credit	Creates new credit up to \$1,500 for costs of installing fuel cell electric generating equipment in taxpayer's residence. Excess may be carried over for 5 years.	TYBOA 1/1/03
Part AA	85-94	Bank Tax Receipts Factor Situsing Rule	Allows banks to situs receipts from mutual fund management activities based on customer location. Makes parallel amendments to the NYC Administrative Code.	TYBOA 1/1/01
Part BB	94	Sales Tax – Pollution Abatement Exemption	Provides a State and local exemption from sales and use tax for manufacturing and industrial pollution control equipment and machinery from the sales and use tax if not otherwise exempted.	3/1/01
Part CC	94-102	Low-Income Housing Credit	Based on the existing federal program, provides a tax credit for the qualified basis of low-income housing based on an applicable percentage. Provides \$20 million over 10 years or \$2 million each year. Applies to corporate franchise taxpayers, personal income taxpayers, banks and insurance companies.	Immediately
Part DD	102-103	College Tuition Credit/Deduction	Creates a refundable credit or itemized deduction for tuition expenses paid by residents for the taxpayer, their spouses, or dependents for undergraduate study at qualifying in- or out-of-state institutions of higher education. Maximum allowable expenses for the credit or deduction are \$10,000. If expenses are \$5,000 or more, the credit equals 4% of expenses. If expenses are less than \$5,000, the credit equals the lesser of allowed tuition expenses or \$200. The credit and itemized deduction are phased in ratably over a four-year period.	TYBOA 1/1/01
Part EE	103-115	Revenue Shift to Dedicated Funds	Shifts the remaining monies collected under the motor fuel and petroleum business taxes that flow to the State's general fund to the dedicated highway, bridge and mass transportation trust funds. Shifts additional motor vehicle registration monies from the general fund to the dedicated highway, bridge and mass transportation trust funds.	Various starting with April 1, 2000
Part FF	116-127	CAPCO Program 3	Establishes third CAPCO program that allows insurance taxpayers to claim credits for 100% of investments in CAPCOs up to \$150 million Statewide cap.	Taxpayers may earn credits immediately and may claim credits for TYBOA 1/1/02.
Part GG	127-139	Empire Zones Program Act – QEZE	Creates the "Empire Zones Program Act" to encourage the creation and expansion of businesses in economic development zones throughout the State. The tax reduction provisions include a tax reduction credit, a credit for real property taxes for property owned by a qualified empire zone enterprise (QEZE), and a State sales and use tax exemption (with a local option) for tangible personal property and services used or consumed by a zone enterprise. Qualified empire zone enterprises may claim the tax reduction credit and the credit for real property taxes for 15 years. The credit provisions apply to tax years beginning on and after 1/1/01. The State sales tax exemption is allowed for 10 years. The sales tax provisions take effect 3/1/01 and apply to sales made, services rendered and uses occurring on and after that date. Also changes existing references of "economic development zone" to "empire zone." Provisions apply to corporate franchise taxpayers, personal income taxpayers, banks and insurance companies.	Various

Summary of Tax Provisions in SFY 2000-01 Budget (Con't)

Section(s)	Page(s)	Subject	Description	Effective Date
Part HH	139-144	Bank Tax & Corporation Franchise Tax – Transition Period	Allows certain corporations taxed under the corporate franchise tax or the bank tax in 1999 to maintain that status in 2000. Also allows certain corporations owned by financial holding companies or financial subsidiaries of banks to elect corporate franchise tax or bank tax status for the 2000 tax year. Makes parallel amendments to the NYC Administrative Code.	Immediately
Part II	144-160	Green Buildings Tax Credits	Provides tax credits for construction and rehabilitation of environmentally sensitive or "green" buildings. Provides \$25 million in total credits according to schedule with respect to taxable years beginning in 2001-2009.	Applies to costs incurred on or after 6/1/99, for property placed in service or that has received a final certificate of occupancy in TYBOA 1/1/01.
Part JJ	160	NYRA – Breeders' Cup	Eliminates the pari-mutuel tax on all races at NYRA race tracks the day before, during and after the NYRA's Breeders' Cup Event. New York State hosts this event about once every 5 years which is set to return to the New York area in 2001.	Immediately; sunsets 12/31/02
Part KK	160-167	Power for Jobs Expansion	Adds a fourth phase providing 300 megawatts of lower cost power to employers. Allocations will begin during the Fall of 2000 and three year contracts for the reduced cost power will begin on or after January 1, 2001.	Immediately; sunsets 12/31/05

TYBA – Taxable years beginning after.

TYBOA – Taxable years beginning on or after.

TMBOA – Taxable months beginning on or after.

TYEOA – Taxable years ending on or after.

Appendix B: Summary of Tax Actions in Fiscal Years 1995-96 Through 1999-00

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; and
- 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; and
 - 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; and
- Enacting a sales tax prepayment system for sales of cigarettes to enhance compliance.

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;

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.
 - Expanding the electronic funds transfer program to the alcoholic beverage tax for filers with a tax liability threshold of \$5 million.

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.

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;

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- Extending the Employment Incentive Credit and Economic Development Zone Employment Incentive Credit to businesses whose owners are taxable under the personal income tax;
 - 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; and
 - 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; and
- 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 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;

Other Significant Provisions

- 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; and
- 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).

Fiscal Year 1998-99 Tax Actions

The 1998-99 State budget built upon tax reductions in prior years by adding several new and expanded deductions for New York individuals and businesses.

STAR

The budget accelerated the STAR program enacted with the 1997-98 budget. It provided 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 simplified the income definition used to determine the higher senior exemption, and removed income from individual retirement arrangements from the definition.

The legislation also accelerated 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.

Corporation Franchise Tax

The budget also contained a number of provisions to provide tax relief to both large and small businesses. These included:

- 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;
- 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 required that the MTA Surcharge be calculated as if the Article 9-A corporate franchise tax rate had not changed. The change maintained the same amount of MTA Surcharge revenue that would have prevailed in the absence of the Article 9-A rate reduction.

Sales Tax Changes

The budget also included several sales and use tax changes:

- 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; and
- Exempting computer system hardware used in designing and developing computer software for sale.

Personal Income Tax

Several provisions provided targeted relief to various taxpayers. These included:

- 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; and

Other Provisions

- Creating a new exclusion for reparation payments and items of income from stolen assets or insurance payments for victims of Nazi persecution.
- 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.

Fiscal Year 1999-00
Tax Actions

Chapter 407 of the Laws of 1999, enacted as part of the 1999-2000 State budget, built upon tax reductions in prior years by adding several new and expanded reductions for New York individuals and businesses.

Earned Income Tax Credit

The budget legislation increased the earned income tax credit under the personal income tax from 20 percent of the federal credit to 22.5 percent in 2000 and 25 percent for tax years beginning after 2000. The increase is contingent upon the federal government's approving the increase as maintenance of effort toward the Temporary Assistance to Needy Families program.

Bank Tax Rate Reduction

The legislation decreased the bank tax rate from 9 percent to 7.5 percent over a three-year period.

Insurance Tax Rate
Reduction

The legislation also reduced the insurance tax rate on entire net income from 9 percent to 7.5 percent over a three-year period. In addition, it reduces the cap rate on premiums for non-life insurance companies from 2.6 percent to 2.0 percent over the three-year period.

Sales Tax Clothing
Exemption

The budget legislation delayed implementation of the permanent exemption for clothing costing less than \$110 from December 1, 1999 to March 1, 2000. However, it added two additional tax-free weeks for clothing costing less than \$500. These weeks occurred September 1-7, 1999 and January 15-21, 2000.

The legislation also provided localities with the flexibility to opt in or out of the permanent exemption effective in March of each year.

Other Personal Income
Tax Reductions

- Enriched the farmers school tax credit by expanding the definition of qualified property to include certain set-aside land, and increased base acreage by certain conservation acreage.
- Extended the “qualified emerging technology company” employment and capital credits from the corporation franchise tax to the personal income tax.
- Streamlined innocent spouse relief by conforming to federal provisions.

Other Business Tax
Reductions

- Extended the credits for “qualifying emerging technology companies” to remanufacturers of certain commodities that would otherwise enter the solid waste stream (applies also for personal income tax).
- Created a new credit of \$500 per automated external defibrillator purchased by all business taxpayers (including the personal income tax).
- Reduced the corporation franchise tax alternative minimum tax rate from 3 percent to 2.5 percent.
- Repealed provisions relating to mergers, acquisitions, and consolidations.
- Provided reductions in the subsidiary capital tax base in the corporation franchise tax for bank and insurance subsidiaries, and for gas and electric subsidiaries.
- Expanded the CAPCO program to provide an additional \$30 million to be invested in certified capital companies.
- Doubled economic development zone and zone equivalent area (ZEA) wage credits, and for ZEAs, increases claim period from two to five years.
- Expanded alternative fuel tax credits to certain vehicles leased to government entities, provided the company produces the vehicles in New York and creates at least 25 full-time jobs in manufacturing the vehicles.

Other Sales Tax
Reductions

- Permitted air freight forwarders to file combined returns with their affiliated airlines, and to allocate their income by the specialized airline industry allocation factors.
- Reduced the corporate tax on airlines by changing the formula used to apportion income to New York.
- Ensured that natural gas used to produce electricity for ultimate consumption is not subject to the gas import tax.
- Eliminated the excess dividends tax for telecommunications companies which provide local telephone service with fewer than one million access lines.
- Expanded exemptions for farming activities.
- Provided an exemption for machinery, equipment and apparatus used to upgrade cable television systems to provide telecommunications services for sale. Also exempted machinery and equipment purchased by telecommunications companies for transmission of Internet access services.
- Extended exemption for hardware used in designing and developing computer software to include hardware used in Internet web site design and development.
- Exempted certain theatrical property and services from tax.
- Exempted repair and maintenance services to manufacturing equipment from non-New York City local sales tax.
- Reduced use tax on self-manufactured items which manufacturers use in their businesses.
- Extended the exemption for hot drinks and certain food items sold from vending machines to include vending machines which accept credit and debit cards.
- Extended special record keeping and on-site inspection provisions applicable to parking garages located in Manhattan.

Other Tax Reductions

- Provided a 20 percent petroleum business tax rate reduction for diesel and residual oils used for non-residential heating, and a full reimbursement when these fuels are used in mining or extracting.
- Reduced the beer excise tax by 1 cent per gallon, and expanded the small brewers exemption.
- Exempted from all taxes qualified settlement funds and grantor trusts established for victims or targets of Nazi persecution and amounts received by victims from such funds or trusts.
- Conformed the estate and gift tax to federal law, enriching the deduction for family owned businesses and other provisions.
- Extended lower State and New York City real estate transfer tax rates for transfers to existing real estate investment trusts.
- Reduced the tax applicable to on-track wagering at New York Racing Association racetracks.
- Reduced the boxing and wrestling tax.

