Tax Revenue Forecasting Documentation

Financial Plan
Fiscal Years 2005–2009

The City of New York

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May 31, 2005

TO OUR READERS

The City Charter requires that the Office of Management and Budget (OMB) publish documentation of forecasting methodologies used for projecting tax revenues for those taxes which account for five percent or more of total City tax revenues. The following taxes meet this criterion: the real property tax, the personal income tax, the general corporation tax and the sales and use taxes.

OMB staff use the forecasting models detailed in this report, applying the latest economic forecasts and tax collection data available, when projecting tax revenues for the City's budget and financial plans. This report includes the latest updates to the tax law, most notably: the real property tax rebate of up to $400 to owner-occupants; an earned income tax credit against the NYC personal income tax; and the extension of the temporary repeal of the clothing and footwear sales tax exemption.

I hope this report serves as a valuable aid to public understanding of our forecasting methodologies.

Sincerely,

Mark Page

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Introduction

As mandated by the New York City Charter, this report documents the forecasting methodology for each tax revenue source which represents five percent or more of total tax revenue. The taxes which meet this requirement are the real property, personal income, sales and general corporation taxes. The economic assumptions used in conjunction with these methodologies to develop the forecasts are outlined in Volume 1 of the Financial Plan, issued January 27, 2005.

Although this document focuses on structured approaches, this does not signify that developing the tax forecasts is purely a mechanical process. The methodologies described in this report are the tools used to develop the forecast. The results which these models produce are supplemented by information derived from analysis of collections as well as judgments concerning the many factors, both economic and behavioral, which affect the outcome.

Forecast of Tax Revenue Financial Plan Fiscal Years 2005–2006

($ in Millions)

	Fiscal Year			
Taxes	**2005**	**Share**	**2006**	**Share**
Real Estate-Related Taxes:				
Real Property	$11,536	40.1%	$12,345	43.4%
Commercial Rent	445	1.5	4,844	1.6
Mortgage Recording	818	2.8	517	1.8
Real Property Transfer	885	3.1	555	2.0
Income-Based Taxes:				
Personal Income	5,285	18.4	4,844	17.0
General Corporation	1,754	6.1	1,817	6.4
Banking Corporation	441	1.5	438	1.5
Unincorporated Business	959	3.3	996	3.5
Consumption and Use Taxes:				
Sales and Use	4,205	14.6	4,046	14.2
Utility	309	1.1	311	1.1
Cigarette	126	0.4	121	0.4
Hotel	251	0.9	264	0.9
All Other	453	1.6	456	1.6
*Subtotal**	*$27,467*	*95.5%*	*$27,168*	*95.6%*
Tax Audit Revenue	525	1.8	512	1.8
STAR Aid	784	2.7	734	2.6
*Total**	*$28,776*	*100.0%*	*$28,413*	*100.0%*

**Totals may not add due to rounding.*

Economic Projection: The first step in the tax revenue projection process involves forecasting the City's economic indicators using an econometric model that was developed here at the Office of Management and Budget (OMB).

The Economic Analysis Unit at OMB has constructed a 77-equation econometric model of the New York City economy that is linked directly to the history and outlook for the nation to develop local forecasts. After consulting with OMB's Economic Advisory Panel, OMB finalizes a national and local outlook.

The local data series that are available and projected by the model are:

1. Non-agricultural employment in New York City *(historical data available monthly and on a timely basis)* for fourteen major sectors based on the NAICS (North American Industry Classification System). The sectors are finance, real estate, professional and business services, leisure and hospitality, information, retail trade, wholesale trade, manufacturing, construction, transportation and utilities, health services, educational services, other services and government;

2. Wage rates in the City for the finance, the private non-finance and government sectors *(historical data available with a six to nine month lag);*

3. Consumer Price Index in the New York area *(historical data available monthly and on a timely basis)*, which includes New York City, Westchester, Nassau, Suffolk, Rockland, Putnam and Orange counties in New York State and parts of Connecticut and New Jersey;

4. Personal income in New York City *(historical data available annually generally with a two year lag)*;

5. New York Gross City Product *(OMB estimated series, available quarterly)*;

6. Selected real estate market indicators: vacancy rate and asking rental rate for the Manhattan primary and secondary office markets *(historical data available monthly and on a timely basis)*;

Tax Revenue Projection: The forecast of economic indicators for New York City is used as input to the tax models. The forecasts of sales, general corporation, unincorporated business, mortgage recording and real property transfer taxes rely on econometric techniques.

The personal income tax forecast also relies on econometric analysis but this is supplemented by use of a micro-simulation model.

The outyear forecast of billable assessed value for the real property tax is based on the outlook for market value growth and physical changes, and the limitations imposed by the Real Property Tax Law.

The remaining taxes are forecast using a combination of approaches including time series trend analysis based on collection history and qualitative information about the tax bases.

Once the taxes are projected, monthly cash flow estimates are prepared for each tax. These estimates are essential for determining the City's cash flow as well as for measuring the strength or weakness of tax collections as the year progresses.

The following sections provide history and background for each tax and describe the general procedures used in forecasting tax revenue. Appendix V on page V-3 summarizes the history of City tax collections from 1971 through 2004.

Real Property Tax

Tax Base:

In December 1981, Chapter 1057 of the Laws of 1981, commonly referred to as S.7000A, amended Article 18 of the Real Property Tax Law, significantly restructuring the tax beginning in 1983. Prior to that time, a single tax rate was applied to all taxable real property, regardless of type or use.

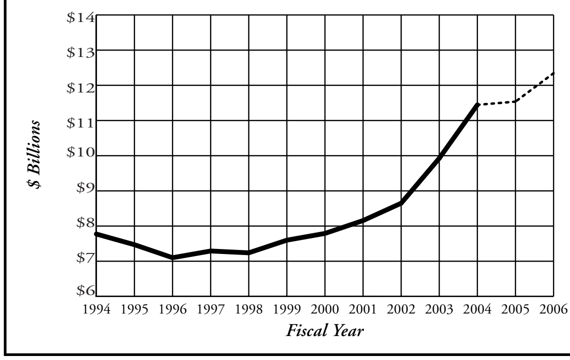
With the enactment of S.7000A, real property was classified into four classes: Class 1, consisting of one-, two- and three-family residential property and small condominiums; Class 2, consisting of all other residential property, including multi-family cooperatives and condominiums; Class 3, consisting of utility real property; and Class 4, consisting of all other real property, such as office buildings, factories, stores, lofts and vacant land.

All properties in the City are reassessed each year between June and January. In mid-January a tentative assessment roll is produced and taxpayers are notified of their new assessment level. Taxpayers may protest this tentative assessment level by applying to the Tax Commission for a hearing. Owners of Class 2, 3 and 4 properties must file their applications before March 1; Class 1 property owners must file by March 15th.

The assessment may be protested because the underlying property is misclassified, or because it is unlawful, unequal or excessive. Adjustments resulting from this process or from Department of Finance changes by notice are integrated into the final assessment roll, which is normally released in late May.

Properties are not assessed at full market value, but at some proportion of market value. The Class 1 assessment percentage has varied over time. It was 18 percent of market value in 1983, which has dropped over time to eight percent and will drop, to six percent in 2006. The Class 2 and Class 4 assessment percentage was reduced to 45 percent from 60 percent in 1985. Class 3 properties are assessed either by the Department of Finance (DOF) or by the State Board of Real Property Services (SBRPS)[1]. Prior to 1994, locally assessed property (plant and equipment, known as Real Estate of Utility Corporations, or REUC) was assessed at 50 percent. Special franchise property (the right to locate, maintain and operate property in the public domain including tangible property like pipelines, cables and other equipment

Real Property Tax 1994-2006



on, below, or over public property, and also the intangible right to use the public right of way) is assessed by SBRPS, using the State equalization ratio, which fell to 22 percent in 1993. In 1994, a uniform 45 percent assessment ratio was adopted for all types of Class 3 property.

The law also established restrictions on annual assessment increases. Assessments of Class 1 properties may not increase by more than six percent annually nor 20 percent over five years. Class 2 assessment increases for rental buildings of less than 11 units, and since 1994 cooperatives and condominiums of less than 11 units as well, are limited to eight percent a year and 30 percent over five years.

For all other Class 2 and all Class 4 properties there are no annual restrictions on assessment increases. Instead, market value changes are reflected in actual assessments and are phased in over five years for tax purposes. Both increases and decreases are phased in. The interim value during the phase-in period is represented by the transitional assessment.

The taxable billable assessment amount in any given year is the lower of the actual or transitional assessment. Increases that are the result of new construction, demolition, alterations or change in taxable status (physical changes) are taxable immediately and are not subject to the assessed value "caps" or the phase-in requirement. There are no statutory limitations on annual assessed value changes in Class 3.

In addition to these legislative changes, the assessment procedure for certain residential types was altered beginning in 1989 by the phased-in implementation of a Computer Assisted Mass

[1] *Formerly known as the Office of Real Property Services (ORPS).*

Appraisal (CAMA) system. The CAMA system maintains more accurate and up-to-date inventories of existing properties and also tracks improvements to properties resulting in greater uniformity in assessment.

The CAMA system has been used to generate values for non-condominium Class 1 properties since 1989. Starting in 1991, values for Class 1 condos are also generated by CAMA. Under DOF's valuation procedure for residential properties, CAMA-generated assessments serve as the initial assessments. These assessments may be updated during field inspections for alterations and new construction.

Class Shares and City Discretion:

The City Council determines property tax rates annually for each of the four classes of property. Under the provisions of the Real Property Tax Law, the total levy is apportioned to each of the four classes of property by the "class shares" referred to as adjusted base proportions (see following section). Once the class levies are set, the tax rate is determined annually by the City Council by dividing the levy for each class by the billable assessed value for the class.

As originally enacted, S.7000A required that the class shares for the 1981 roll be certified as base proportions. These base proportions were to be modified periodically by SBRPS for relative changes in market values among the four classes as well as for physical change. While the adjustment for physical change took place each year, the first market value adjustment was not scheduled until 1987. At that time legislation postponed the implementation of market value changes until calendar year 1989 (for use in fiscal year 1990). This legislation also substituted the 1984 class shares for the 1981 base proportions in calculating

Discretionary Adjustments* and Class Shares

	Class 1		Class 2		Class 3		Class 4	
	Discretionary Shift (%)	Class Share	Discretionary Shift (%)	Class Share	Discretionary Shift (%)	Class Share	Discretionary Shift (%)	Class Share
1983	-3.88	0.141	-2.85	0.263	4.80	0.180	1.25	0.416
1984	-1.58	0.139	0.00	0.260	0.00	0.180	0.53	0.421
1985	-3.22	0.134	-0.37	0.259	-1.28	0.178	1.83	0.429
1986	-2.15	0.129	-0.68	0.255	-2.02	0.182	1.96	0.434
1987	-4.95	0.125	2.69	0.254	-4.60	0.166	1.76	0.455
1988	-2.81	0.122	0.60	0.255	-4.51	0.157	2.07	0.466
1989	-4.36	0.116	0.58	0.256	-4.95	0.150	2.49	0.478
1990	-5.00	0.111	0.23	0.257	-4.49	0.139	2.44	0.493
1991	-5.00	0.109	-2.18	0.258	-4.50	0.103	3.19	0.530
City Council's discretion to adjust class shares is no longer applicable beginning in 1992.								
1992	—	0.115	—	0.280	—	0.078	—	0.527
1993**	—	0.113	—	0.290	—	0.066	—	0.532
1994	—	0.116	—	0.308	—	0.058	—	0.518
1995**	—	0.119	—	0.316	—	0.059	—	0.505
1996**	—	0.122	—	0.326	—	0.062	—	0.490
1997**	—	0.125	—	0.336	—	0.064	—	0.475
1998**	—	0.127	—	0.339	—	0.069	—	0.465
1999**	—	0.130	—	0.332	—	0.071	—	0.467
2000**	—	0.133	—	0.341	—	0.074	—	0.452
2001**	—	0.135	—	0.345	—	0.076	—	0.444
2002**	—	0.137	—	0.349	—	0.074	—	0.440
2003**	—	0.139	—	0.349	—	0.074	—	0.438
2004**	—	0.141	—	0.356	—	0.071	—	0.432
2005	—	0.147	—	0.349	—	0.074	—	0.431

**City Council action to reallocate the tax levy among the classes, subject to a five percent cap over the prior year's shares.*

***The maximum increase in the current base proportion over the prior year's share is capped at five percent by the State Constitution. The State can authorize the City to set cap rates lower than five percent and the City Council has the discretion to reapportion the excess to other classes. The State law capped the maximum increase at 2.0 percent in 1993; 2.75 percent in 1995 and 1996; 2.50 percent in 1997 through 2000; and 2.0 percent in 2001 through 2004.*
Totals may not add due to rounding

market value changes. Legislation passed in the spring of 1989 amended S.7000A, changed the mechanics of the market value adjustment and further postponed it until 1992 in order to prevent a significant shift in tax burden towards Class 1 taxpayers in fiscal year 1990. From 1983 to 1991 the City apportioned the tax levy by using the 1981 proportions, as adjusted annually for physical change. In addition, during this period the City Council had discretion in setting class shares as long as each class's share was within five percent of the previous year's share.

Since 1992, class shares have been adjusted annually for relative changes in market value (subject to a "cap" of five percent over the prior year's share) in addition to physical change. The resulting shares are called adjusted base proportions. In 1993 and 1995 through 2004, State legislation lowered the five percent cap. In 2005, however, the cap remained at five percent.

Adjusted Base Proportions:

The table below illustrates the steps used to determine class shares since 1992. In 1992 the base year percentage for all subsequent calculations was determined. Market value for the base year was calculated by dividing the taxable assessed value from the Department of Finance's fiscal year 1990 roll by the class equalization rate. SBRPS calculated class equalization rates for this roll based on the 1986 market value survey.

The result reflects 1986 market value in terms of the physical characteristics of the fiscal year 1990 roll. The resulting market value for each class was adjusted to reflect reclassification of parcels between 1990 and 1991. This market value is used as the base over which future market value growth is determined and is known as the *base percentage.*

A similar calculation is done each year to derive the *current percentage*. The market value by class reflects SBRPS's most recent market value survey. It is determined by dividing the taxable assessed value of each class from the prior year's assessment roll (the reference roll) by the class equalization rates for that roll. For example, to determine the 2006 current percentage, the calculation will use the fiscal year 2005 assessment roll and the class equalization rates for that roll (SBRPS refers to these as the class equalization rates for the calendar year 2004 assessment roll).

The 1991 class shares are designated as the local base proportions. Each year these class shares are updated for market value changes by multiplying them by the ratio of the current percentage to the base percentage for each class, yielding the *current base proportion*[2] for that class. Since the current base proportion for any class cannot exceed the class's prior year adjusted base proportion by more than five percent any excess must be redistributed to other classes. The City Council has discretion on how the excess is to be apportioned. The last step in updating

Calculation of Adjusted Base Proportions

	Base Year (FY1990)	FY 2006
Given:	SBPRS: Class Equalization Rate DOF: Assessed Value by Class *(FY90 Roll)*	SBRPS: Class Equalization Rate DOF: Assessed Value by Class *(This calculation uses the rate and AV for the prior year's roll)*
Derive:	Market Value by Class = AV by Class/ Class Equalization Rate	Market Value by Class = AV by Class/ Class Equalization Rate
Calculate:	Each Class's Market Value as % of Total Market Value = *BASE PERCENTAGE*	Each Class's Market Value as % of Total Market Value = *CURRENT PERCENTAGE*

For Each Class:

$\frac{\text{Current \%}}{\text{Base \%}} \times$ Local Base Proportion (FY91 Share) $=$ Current Base Proportion → Adjustment for Physical Change → Adjusted Base Proportion (FY05 Class Shares)

[2] *The current base proportion (CBP) calculation is an interim step in setting class shares, reflecting market value changes from the base year of 1986.*

the current base proportions for market value changes is to normalize the proportions so that the sum of all class percentages adds to 100 percent. Finally, the current base proportions are adjusted for physical changes to arrive at the *adjusted base proportions.*

The table on page 2 shows the resulting class shares over time. From 1983 through 1991 Class 2 properties consistently represented about one-quarter of citywide billable assessed value, while the City's tax base shifted toward Class 4 and away from Classes 1 and 3 over the same period. Beginning in 1992 this pattern changed as residential properties' share increased, while Class 4 saw a decline. This shift continued through 2005, reflecting the relative decline in class 4's market value share. Class 4's share of the tax levy dropped from 53.0 percent in 1991 to 43.1 percent in 2005, an 18.7 percent decline. Class 1's share grew 34.9 percent during the same period, from 10.9 percent to 14.7 percent. Class 2's share grew 35.3 percent through 2005, from 25.8 percent to 34.9 percent. In 2005, Class 1 and Class 3's shares increased while Class 2 and Class 4's shares declined.

Components of the Tax Levy:

The real property tax is the primary source of revenue for the General Debt Service Fund. Under the State Constitution, the City's ability to levy a real property tax for the payment of principal and interest on the City's long-term debt is unlimited. There is a limit, however, on the amount of real property tax that can be raised for operating purposes. This operating limit is equal to 2.5 percent of the average full value of taxable real estate for the current and prior four years, less payments for City short-term debt and business improvement district levies. In addition, total debt outstanding, including business improvement district debt, may not exceed 10 percent of the five-year average full value. SBRPS estimates full value as of January 1 for each of the five years of the average. The market value survey results from calendar year 2003 were incorporated into the calculation to determine the operating limit for Fiscal Year 2005.

The levy is divided into a levy for education and non-education purposes. Veterans receive a partial exemption on their assessed value for purposes of calculating the tax they pay for non-education purposes. They are however, required to pay the full amount of their levy for education purposes.

Tax Rate Determination:

Each year the tax fixing resolution (TFR) certifies the City's fiscal year appropriations and sets the property tax revenue and the class tax rates. Property tax revenue equals the difference between the City appropriations for expenses and the Mayor's best estimate of revenues from all sources including tax revenue, miscellaneous revenue and state and federal aid, but excluding the property tax. Once the property tax revenue is estimated, the tax levy is calculated by adding back the reserve for uncollectibles on taxes. The levy is then distributed by class based on the class share. The class share determines the share of the total levy that each class must pay. The individual class levy is then divided by the billable assessed value of that class to determine the class tax rate. In fact, the tax fixing resolution calculates 16 tax rates in total; four tax rates per class. For each class there are a tax levy and rate for: (1) education debt service; (2) education operating; (3) other debt service; (4) other operating.

Real Property Tax Operating Limit*

Fiscal Year	Operating Limit ($ Millions)	Unused Margin ($ Millions)	Percent
1983	$2,718.1	$15.1	0.56%
1984	3,181.6	209.7	6.59
1985	3,589.1	407.6	11.36
1986	4,010.5	361.7	9.02
1987	4,432.0	476.0	10.74
1988	4,969.5	537.2	10.81
1989	6,808.5	1,812.2	26.62
1990	7,789.1	2,387.8	30.66
1991	9,109.3	2,892.9	31.76
1992	10,631.8	4,369.0	41.09
1993	11,945.0	5,475.1	45.84
1994	13,853.8	7,932.9	57.26
1995	13,380.2	7,832.6	58.54
1996	8,633.4	3,451.2	39.97
1997	7,857.3	2,924.0	37.21
1998	7,599.7	1,665.5	21.92
1999	7,170.3	862.6	12.03
2000	7,268.7	45.5	0.63
2001	7,573.1	140.4	1.85
2002	8,128.0	42.1	0.50
2003**	8,881.0	1,158.0	13.00
2003***	8,925.2	230.6	2.60
2004	9,893.5	506.1	5.10
2005	10,675.8	1,060.9	9.94

* *Source: Adopted Budget Tax Fixing Resolution. Figures for 1999, 2000, 2001, 2002 and 2004 reflect the November 1998, September 1999, September 2000, October 2001 and November 2003 amended resolutions, respectively.*

** *Reflects levy fixed in June, 2002.*

*** *Reflects levy fixed in November, 2002.*

There are two main reasons for these four sub-components of the levy: (1) veterans pay only the education levy and hence the education and non-education levies must be calculated separately and (2) the property tax levy must be allocated between debt service and operating purposes, since the State constitution limits the amount of the property tax that can be levied for the City's operating purposes.

Tax Rates:

The table on page I-29 in Appendix I shows tax rates by class since the implementation of S.7000A. From 1983 through 1992 the average tax rate grew consistently, a result of decisions to increase the tax levy at a rate in excess of the growth in billable assessed value.

As discussed earlier, beginning in 1992 the City Council no longer had discretion to adjust class shares. With the introduction of the market value adjustment mechanism in 1992, Class 1, Class 2and Class 4's tax rates increased significantly, and a commitment was made to freeze the average tax rate at

Real Estate Tax Collections and Delinquencies as of the Fiscal Year End

($ Millions)

Fiscal Year	Tax Levy [1]	Tax Collection on Current Year Levy [2]	Tax Collection as a Percentage of Tax Levy	Prior Year (Delinquent Tax) Collections	Refunds [3]	Cancellations Net Credits, Abatements, Exempt Property Restored and Shelter Rent	Delinquent as of end of Fiscal Year [4]	Delinquency as a Percentage of Tax Levy	Lien Sale [5]
1989	$6,233.0	$5,913.4	94.9%	$108.4	$(78.9)	$(166.7)	$(152.7)	2.45%	$---
1990	6,872.4	6,507.1	94.7	109.6	(74.1)	(135.0)	(230.2)	3.35	---
1991[6]	7,681.3	7,199.2	93.7	149.7	(62.7)	(166.4)	(315.7)	4.11	---
1992	8,318.8	7,748.4	93.1	193.7	(124.3)	(200.2)	(370.2)	4.45	---
1993	8,392.5	7,766.1	92.5	227.7	(107.2)	(215.2)	(411.2)	4.90	---
1994	8,113.2	7,520.3	92.7	223.1	(199.1)	(189.5)	(403.4)	4.97	---
1995	7,889.8	7,377.4	93.5	210.8	(164.2)	(130.8)	(381.6)	4.84	---
1996	7,871.4	7,306.9	92.8	240.6	(399.7)	(275.5)	(289.1)	3.67	169.1
1997	7,835.1	7,371.3	94.1	146.8	(279.0)	(179.4)	(284.4)	3.63	51.5
1998	7,890.4	7,414.4	94.0	148.2	(345.6)	(199.1)	(277.1)	3.51	22.5
1999	8,099.3	7,519.7	92.8	127.7	(175.5)	(303.4)	(276.2)	3.40	127.3
2000	8,374.3	7,768.1	92.8	149.2	(200.2)	(345.7)	(260.5)	3.11	73.0
2001	8,730.3	8,069.1	92.4	132.3	(256.2)	(410.5)	(250.7)	2.87	210.9
2002	9,271.2	8,590.4	92.6	151.2	(138.1)	(374.2)	(306.2)	3.30[7]	44.5
2003	10,688.8	9,943.5	93.0	126.3	(149.1)	(457.2)	(288.1)	2.70	22.6
2004	12,250.7	11,370.3	92.8	180.1	(195.1)	(591.1)	(289.3)	2.36	89.8
2005[8]	12,720.0	11,534.1	90.7	152.0	(194.0)	(853.7)	(332.2)	2.61	44.3

[1] *As approved by the City Council.*

[2] *Quarterly collections on current year levy. Amounts for fiscal years 1994, 1995 and 1996 are adjusted to eliminate the effects of the 1994 and 1995 sales of delinquent tax receivables.*

[3] *Includes repurchases of defective tax liens amounting to $19.7 million, $10.8 million, $12.9 million, $10.8 million, $15.1 million, $3.9 million, $11.1 million, and $5.6 million in 1997 through 2004 respectively.*

[4] *These figures include taxes due on certain publicly owned property and exclude delinquency on shelter rent and exempt property restored.*

[5] *Net of reserves for defective liens.*

[6] *Does not include supplemental levy of $61.7 million raised in mid-year for the Criminal Justice Fund.*

[7] *Includes $68.1 million delinquency for the World Trade Center. Delinquency rate adjusting for this is 2.57%.*

[8] *Forecast.*

$10.591 per $100 of assessed value. Class 3's rate declined considerably in 1994, mainly as a result of a change in the assessment percentage, which caused the class's billable assessed value to increase dramatically while the Class 3 share decreased proportionally. The increase in billable assessed value was considered a technical change which did not yield additional tax levy. However as a result, the "freeze" tax rate of $10.591 fell to $10.366 where the average tax rate remained through 2002. Effective January 1, 2003, the average tax rate was increased from $10.366 to $12.283 affecting the second half of the year.

Reserve for Uncollectible Taxes:

The property tax levy, approved by the City Council each year, includes a reserve for uncollectible taxes. Uncollectible taxes fall into three general categories: delinquency, cancellation of tax liability due to reductions in assessed value, and tax expenditures for a number of housing and economic development programs. In addition, there are significant cash inflows and outflows affecting the reserve, including refunds of current and past year payments due to overpayments and reductions in assessed value, collections against prior year levies[3], and payments from exempt property restored to taxable status.

The delinquency rate rose from 2.45 percent in 1989 to nearly five percent in 1994 due to a weak local economy, but with a recovery in the local economy and the beginning of the lien sale program, the delinquency rate declined to 2.9 percent by 2001.

In 2002, however, the trend of declining delinquency rates ended and the delinquency rate rose to 3.3 percent, in part due to the destruction of the World Trade Center (WTC) in the September 11, 2001 terrorist attack. The overall delinquency rate adjusted for WTC was 2.6 percent. In 2004, however, deliquency returned to the declining trend at 2.4 percent, reflecting a rebound in the economy.

Remissions in assessed value granted by the City Tax Commission during the summer hearings after the final assessment roll is released are reflected in the reserve for cancellations. These actions represent most of the value of cancellations, which also include reductions resulting from court decisions and Law Department settlements.

The reserve for refunds covers reimbursement to taxpayers who have overpaid their tax liabilities, or whose liabilities were reduced after payment was made. There are reserves for tax expenditures that are given in the form of tax abatements. However, it is not necessary to reserve for exemptions since they are not included in the tax base to start with. A description of tax abatements and exemptions is included in Appendix I.

Tax Expenditures:

Each year the City forgoes revenue that it could collect under the basic tax structure in order to protect certain taxpayers or to create an economic incentive for taxpayers to take certain actions that would be beneficial to the City as a whole. The foregone revenue is commonly referred to as a tax expenditure.

Real property tax exemptions and abatements, which totaled $2,286.9 million in 2004, can be grouped in three general categories: economic development, housing development and individual assistance. Economic development exemptions are granted under the City's Industrial and Commercial Incentive Program (ICIP), the Commercial Revitalization Program, the Commercial Expansion Program and by City and State development corporations. The New York City Housing Authority is the single largest source of residential exemptions. The remainder of residential tax relief is provided by a variety of legislatively mandated exemption and abatement programs. The other exemptions are for certain utility properties, public authority properties and special incentives to promote cultural institutions. (Descriptions of these programs can be found in Appendix I.)

The Department of Finance, which administers many of the City's taxes and maintains records of these expenditures, aids in the estimation of their value (see the "Estimated Value of Exemptions and Abatements" table on page I-5 in Appendix I).

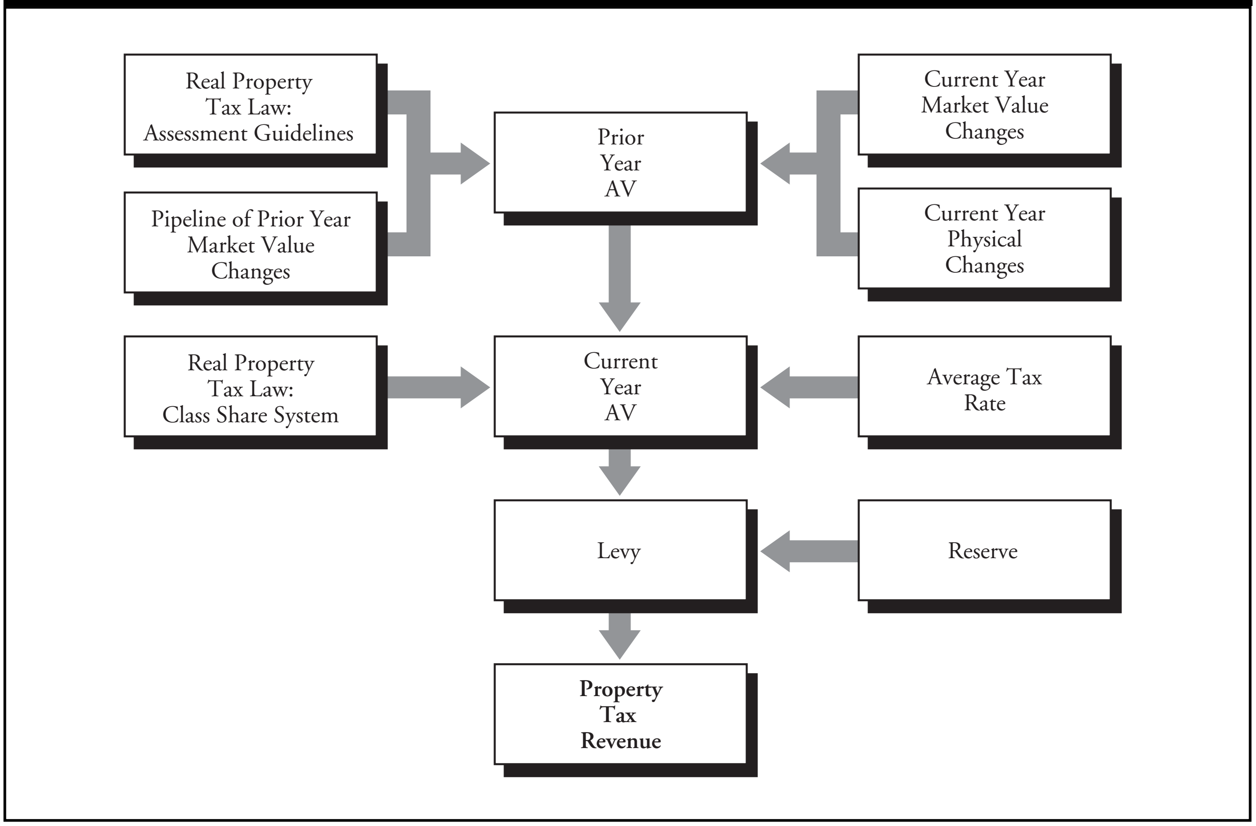
Administration:

The real property tax is administered by the New York City Department of Finance (DOF), which assesses properties annually, issues bills, collects revenues and conducts enforcement. SBRPS assesses special franchise properties and approves current and adjusted base proportions. Real property

3 *In 1994 and 1995, anticipated collections from prior year delinquencies or receivables (along with the accrued penalty and interest) were sold netting $200.6 million and $223.1 million, respectively. Once sold, the actual collections of prior year levies as it occured were turned over to the purchaser until the purchase price (interest and expenses) was satisfied.*

taxes are due each July 1 and January 1 for all Class 3 and Class 4 properties, for Class 1 and Class 2 properties assessed at over $80,000, including payments by mortgageescrow agents. In 1997 the City Council enacted provisions which expanded the eligibility criteria for quarterly payment schedules for Class 1 and 2 quarterly taxpayers (due July 1, October 1, January 1 and April 1) to $80,000 of assessed value from the previous $40,000 threshold, effective July 1, 1998. The higher threshold also applies to cooperative buildings if the average assessed value per unit is no higher than $80,000.

Real Property Tax Revenue Estimating Procedure



All semi-annual taxpayers and mortgage escrow agents are required to pay their taxes on the first day of the month. Interest is charged on late payments at a rate of nine percent per annum on properties for which the annual tax does not exceed $2,750 and at 18 percent per year on all others. These rates are set annually by the City Council. For fiscal years 1997 and 1998, taxpayers who prepaid their July 1 and/or October 1 installment of taxes on or after June 6, but no later than June 12, received a special five percent discount. Since then only the regular two percent discount has been available.

There is a 15-day interest-free grace period for Class 1 and Class 2 properties with assessed values of $80,000 or less (up from $40,000). All other properties with assessed values of $40,000 or less and whose owners pay their taxes directly to the City are also eligible for a 15-day interest-free grace period.

Forecasting Methodology:

The forecast of property tax revenue starts with projections of billable assessed value which is converted to the levy using the current average tax rate. In the second stage the reserve for uncollectibles is forecast. The levy less this reserve produces the revenue forecast. The forecast of assessed value for the four classes of property is guided by the limitations set forth by the Real Property Tax Law.

The assessed value forecast has three components:

(1) Estimates of assessed value change due to physical changes (construction or demolition, alteration and change in taxable status);

(2) Change to actual assessments due to market value changes in the current year, and for Class 2 and Class 4 the phase-in of those changes and

(3) Phase-in of prior year changes to actual assessments for Class 2 and Class 4–the "pipeline".

Physical change has three components: reclassification of property, restoration and removal of exempt property, and change due to new construction, alterations and demolitions. In reviewing these three components for each class, legislative and administrative changes are taken into account, along with construction activity and historical levels of physical change. Increases in assessments due to physical change are not subject to any limitations.

For Class 1 properties, the assessed value growth due to equalization change is limited by law to six percent per year and 20 percent over five years. As a result, during the rising market of the 1980s the assessed value of individual properties rose by close to six percent in the first three years of the five-year cycle, and then grew by about two percent in the fourth year with no growth in the fifth year. With the recovery of the real estate market since 1996, which accelerated over the next four years, the assessed value caps play a major role in the overall growth of the billable assessed value.

Class 2 properties are generally assessed as income-producing properties. Section 581 of the Real Property Tax Law provides that the assessment of residential cooperatives or condominiums, which are generally not income producing properties, be based on the value of a comparable rental building, rather than a unit's sale price. Therefore, the forecast for Class 2 properties is guided by the outlook for rental buildings net operating income, a function of the allowable rent increases set by the Rent Guidelines Board for rent-stabilized units, and forecasts for changes in building expenses.

Class 3 is unique in that three utility companies comprise the vast majority of the class tax base. In appraising the full value of special franchise properties, SBRPS converts inventory information reported by the utility companies into a reproduction cost less depreciation basis. The final assessment is determined by the Department of Finance by multiplying the SBRPS certified full value by the City's assessment ratio of 45 percent at which all property in Class 3 is assessed.

This procedure of using the City's assessment ratio was instituted starting November 1, 1994. Prior to this change, SBRPS computed special franchise assessments by converting data from the utility companies into a reproduction cost less depreciation form, and then equalizing that data using the latest State equalization rate. Valuation of REUC properties (assessed by DOF) is also determined on a cost-less-depreciation basis. Because of the dominance of the cost-less-depreciation approach, inflation is used as a benchmark for projections of billable assessed value.

Prior to the early 1990s, DOF's assessment policy emphasized the sales approach to establish the estimated market value of Class 4 properties. Properties which were sold during this period were assessed at 45 percent of their purchase price regardless of their actual income, and capitalization rates derived from these sales were applied by assessors to the income of unsold properties (the income approach). During or soon after construction, the cost approach was often used.

With the onset of the 1990-91 recession, fewer sales were available to derive capitalization rates and DOF began to focus less on the sales comparison approach to value and instead relied primarily upon the income approach. The deepening local recession led to large increases in vacancy rates and drops in asking rents. Consequently, the current rent of a building no longer indicated the rents the building would command upon lease renewal. Therefore, actual or contractual rents were increasingly discounted in favor of current market rents. This "mark-to-market" technique resulted in significant assessment reductions for buildings where income and expenses were estimated, and tenants were paying above-market rents.

As a result of the reliance on the "mark-to-market" technique the forecast of actual assessed value relies upon the outlook for net income, which in turn is based on the forecast of asking rents, vacancy rates and building expenses.

For Class 2 and 4, assessment changes due to market value growth and decline are phased in over five years at 20 percent each year. The pipeline of assessed value changes is based on the equalization changes of the previous four years. The pipeline acts to smooth the rate of increase and decrease in billable assessed value.

For example, Class 4's actual assessed value began to decline in 1992, but its billable assessed value did not decline until 1994. By 1994 billable assessed value for Class 2 and 4 saw a decline as continued erosion in market values practically extinguished any surviving pipeline. By 1995 the gap between billable and actual assessed value narrowed to a point where the two were almost equal.

Market value remained stable in 1997 and 1998, adding very little to the pipeline, but strong market value increases from 1999 through 2005 resulted in a buildup of a substantial pipeline of assessed value to be phased in.

The September 11 terrorist attack resulted in destruction of the World Trade Center complex, physical damage to commercial office space in the immediate vicinity and a general decline in travel and tourism that affected the market values of the hotel sector adversely. In addition, the continued slow down in the commerical real estate market, due to local and national recessions, suppressed market values in 2003 to 3.9 percent from 7.6 percent in 2002. However, the overall market value still showed growth over the prior year.

In 2004, the market value growth recovered slightly to 4.5 percent reflecting a stabilizing commercial real estate market. With the mid-year tax increase, the 2003 levy was based on the combined rate of old and new tax rates while the 2004 levy was based on the new tax rate.

The market value growth soared in 2005 to 15.8 percent due largely to assessment methodology changes implemented by DOF. On the 2005 roll, growth of over 21 percent for Class 1 and 18.0 percent for Class 2 market value was seen. The surge in market values in these classes however does not translate significantly into billable assessed value due to the cap on assessment growth. Overall, the 2005 billable assessed value growth is similar to recent years.

The market value growth continued on the 2006 tentative roll with a 14 percent overall growth. Class 1 and Class 2 market values grew over 14 percent, although the impact of high market value growth is again significantly reduced on the billable assessed value due to the cap. Class 4 market value growth reached the highest since 1990, a 13.5 percent growth. Overall, the billable assessed value grew 7.7 percent, the highest since 1991.

Although the average tax rate is unchanged for the 2006-2009 forecast period, tax rates for individual classes may change because of the yearly adjustment to the share of taxes paid by each class (adjusted proportions).

Reserve Forecasting:

The reserve provides for that portion of the tax levy which remains uncollected in the levy year because of delinquency, cancellations and abatement programs such as the Senior Citizen Rent Increase Exemption program and the J-51 program.

The reserve also allows the City to account for shelter rent and exempt property restored to the tax roll after the final roll is published. Refunds due to taxpayers for prior overpayments and collections against prior year levies are also tracked in the reserve.

After determining the prior year uncollectible balance which is not sold through a lien sale, a projection is made of how much of this outstanding balance will be collected by the City in the first through the six plus years following the year the levy is due. This projection is based on the trend in the delinquency rate and its outlook based on economic conditions.

Following the implementation of the tax lien program, the composition and size of the pool of delinquencies retained and serviced by the City changed dramatically. It should be remembered that the composition of the City's pool of prior year delinquent balances will continue to change in coming years, as the City divests itself of more liens through lien sales.

Real property tax reductions given out by the Tax Commission and the Law Department to correct for overvaluation are included in the refunds and cancellations components of the reserve. The forecasts for refunds and cancellations are based on an estimate of the number of outstanding petitions, the amount of reductions that will be granted and the relationship between billable and actual assessed values on those properties in dispute.

The remaining components of the reserve are forecast by maintaining their historic percentage of the levy or by extrapolating current trends.

Tax Lien Sale:

Beginning in 1996 a comprehensive plan to improve compliance by selling real property tax liens was instituted. Under the terms of the lien sale, the City forgoes future cash flows from the delinquent taxes sold in exchange for a lump sum payment and a subordinate position in any cash flow that remains after the holders of the senior position are repaid.

For Class 1 or Class 2 (residential co-ops and condos only) properties, the tax liens are eligible for sale if the real property tax component of the tax liens remained unpaid for three years. For all other properties the tax liens are eligible for sale if the real property tax component of the tax liens remained unpaid for one year.

Other liens are included in the sale when a qualifying property tax lien exists. Upon sale, each lien is levied a mandatory five percent surcharge and accrues interest at the rate of 18 percent per year.

The lien sale program, which was originally set to expire in 1997, was extended in 1997, 1999, 2001 and in 2004. Currently, the program is set to expire in 2008. The lien law was amended in 2001 to close a loophole. Certain taxpayers, after being notified of inclusion in the lien sale, paid only the property tax lien which removed them from the sale but left other tax liens unpaid. The amendments allow the sale of Class 2 (excluding residential co-ops and condos), Class 3 and Class 4 liens remaining unpaid after the publication of the first notice of sale whether or not they include a real property tax component. In addition, the law was amended to allow the sale of sewer and water liens on Class 4 properties independent of whether there is a real property lien on the property. Similar amendments were made for the sale of subsequent tax liens.

The sale of real property tax liens netted $169.1 million in 1996, $51.5 million in 1997, $22.5 million in 1998, $127.3 million in 1999, $73.0 million in 2000, $210.9 million in 2001, $44.5 million in 2002, $22.6 million in 2003, and $89.8 in 2004. Revenues in 2005 from real property tax liens are expected to be $44.3 million.

Cash Flow Model:

The cash plan is a monthly forecast of expected tax receipts. It is a method for monitoring and assessing monthly collections to determine whether tax receipts will meet planned revenue. A separate cash plan is made for each of the four quarterly billing periods, for prior year collections, refunds, and for the lien sale.

After the final roll is released, an initial payment schedule for taxpayers is determined based on the amount of assessed value that falls in each of the semi-annual or quarterly payment schedules. After July 1998, if the assessed value is greater than $80,000, taxpayers' bills are paid semi-annually, in July and January. If the assessed value is $80,000 or less, the real property tax is billed four times per year, due in July, October, January and April.

Once the breakout by billing schedule is set, a monthly cash plan is made for the upcoming fiscal year. This is done by using historical data, usually from the past several years, on the percentage of collections received each month. While most taxpayers make timely payments, there are receipts of prepaid bills as well as late payments throughout the year. Other pertinent information is factored in to the extent it affects the timing of collections, such as administrative and legislative changes.

The monthly pattern for prior year collections and refunds is also generated using historical experience as a guide. For prior year collections and refunds, however, July and August receipts are accrued back to the prior fiscal year. Therefore, the current year cash plan is for the months of September through August.

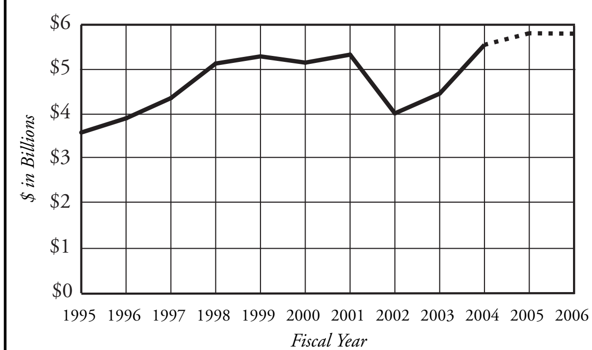
A shortfall or surplus of revenue signals an incorrect reserve. If it is judged that this variance will not be resolved in the current fiscal year, adjustments to the reserve are made at budget modifications, resulting in a change in revenue. The cash plan is revised to reflect the current expected revenue as well as any evolving trends in the collections pattern.

Personal Income Tax

Tax Base and Rates:

The personal income tax is imposed on the taxable income of New York City residents, estates and trusts. The starting point for determining taxable income is Federal Adjusted Gross Income (AGI). This amount is adjusted for statutory modifications to yield New York AGI. Taxable income results from subtracting the New York deduction and New York exemptions from New York AGI. Taxpayers may claim the New York standard deduction or the New York itemized deduction (the Federal itemized deduction amount subject to New York modifications). High income taxpayers are subject to percentage reductions in their New York itemized deductions. Finally, taxpayers are allowed a flat amount exemption for each dependent. There are different tax rate schedules for single (and married taxpayers filing separately), head of household, and married taxpayers filing jointly. These

Personal Income Tax 1995–2006



Note: Personal income tax revenue includes Transitional Finance Authority retention.

New York City Resident Personal Income Tax Rates[1]

Tax Year	Single Taxpayers: Taxable Income Over	Single Taxpayers: Top Rate	Joint Filers: Taxable Income Over	Joint Filers: Top Rate	Head of Household Filers: Taxable Income Over	Head of Household Filers: Top Rate
2003-05[2, 3]	$100,000	4.45%	$150,000	4.45%	$125,000	4.45%
2002[3, 5]	50,000	3.65	90,000	3.65	60,000	3.65
2001[3, 4]	50,000	3.59	90,000	3.59	60,000	3.59
2000[3]	50,000	3.78	90,000	3.78	60,000	3.78
1999[3]	50,000	3.83	90,000	3.83	60,000	3.83
1997-98	50,000	4.46	90,000	4.46	60,000	4.46
1996	60,000	4.46	108,000	4.46	72,000	4.46
1995	60,000	4.46	108,000	4.46	69,000	4.46
1991-94	60,000	4.46	108,000	4.46	66,000	4.46
1990	60,000	3.91	108,000	3.91	66,000	3.91
1989	60,000	3.40	108,000	3.40	66,000	3.40
1988	60,000	3.50	108,000	3.50	66,000	3.50
1987	60,000	4.10	99,000	4.10	66,000	4.10
1976-86[6]	25,000	4.30	25,000	4.30	25,000	4.30
1971-75	30,000	3.50	30,000	3.50	30,000	3.50
1966-70	30,000	2.00	30,000	2.00	30,000	2.00

[1] *Complete rate schedules can be found in Appendix II.*

[2] *Reflects the top rate applied to the new higher income bracket of the temporary rate schedule for tax years 2003 through 2005.*

[3] *Reflects the expiration of the 12.5 percent surcharge and the State-sponsored STAR reductions.*

[4] *Reflects both of the reductions of the 14 percent additional tax enacted for tax year 2001 and the last installment of the STAR program rate cut, effective January 1, 2001.*

[5] *Reflects the re-instatement of the 14 percent additional tax effective January 1, 2002.*

[6] *1982 and 1984 taxpayers with AGI from $15,000-$20,000 paid a 2.5% surcharge. A 5.0 percent surcharge was levied on taxpayers with AGI over $20,000. For 1983, the surcharge rates were doubled.*

separate schedules were introduced in 1987. The rates and brackets have changed over the years. The current top rate is 4.45 percent (see table on the previous page and Appendix II).

Effective January 1, 2003, legislation added two new upper income brackets and rates along with a tax table benefit recapture provision, which were enacted for tax years 2003 through 2005. A new temporary rate schedule for tax years 2003 through 2005 replaced both the base rate and the 14 percent additional tax. The two higher rates for tax year 2003 included the current top marginal rate of 4.45 percent and 4.25 percent for the second highest income bracket. In tax years 2004 and 2005, the increase is phased out by dropping the first additional rate to 4.175 percent in 2004 and to 4.05 percent in 2005. In addition to the base tax, taxpayers who make extensive use of tax preferences are liable for a tax of 2.85 percent on their New York minimum taxable income.

From 1966 through 1970, a nonresident earnings tax was levied at 0.25 percent on wages and 0.375 percent on net earnings from self-employ-

New York Dependent or Personal Exemptions and Standard Deductions, 1966-2005

Tax Year	Exemption	Standard Deduction
2003-5	None for taxpayers, $1,000 for each dependent.	$7,500 for individuals, $10,500 for heads of household, $14,600 for joint filers, and $3,000 for dependent taxpayers
2002	Same as above	$7,500 for individuals, $10,500 for heads of household, $14,200 for joint filers, and $3,000 for dependent taxpayers
2001	Same as above	$7,500 for individuals, $10,500 for heads of household, $13,400 for joint filers, and $3,000 for dependent taxpayers
1997-2000	Same as above	$7,500 for individuals, $10,500 for heads of household, $13,000 for joint filers, and $3,000 for dependent taxpayers
1996	Same as above	$7,400 for individuals, $10,000 for heads of household, $12,350 for joint filers, and $2,900 for dependent taxpayers
1995	Same as above	$6,600 for individuals, $8,150 for heads of household, $10,800 for joint filers, and $2,800 for dependent taxpayers
1989-94	Same as above	$6,000 for individuals, $7,000 for heads of household, $9,500 for joint filers, and $2,800 for dependent taxpayers
1988	Same as above	$5,000 for individuals, $6,000 for heads of household, $8,500 for joint filers, and $2,800 for dependent taxpayers
1987	$900 *(Available for taxpayers and each dependent)*	$3,600 for individuals, $4,600 for heads of household, $5,300 for joint filers, and $2,800 for dependent taxpayers
1986	$850	$2,600 for individuals, $3,000 for married couples and heads of household
1985	Same as above	$2,500 for individuals, $2,750 for married couples and heads of household
1982-84	$800	17% of AGI subject to a minimum of $1,500 ($2,000 for married couples) and a maximum of $2,500
1981	$750	Same as above
1980	Same as above	16% of AGI subject to a minimum of $1,400. ($1,900 for married couples) and a maximum of $2,400
1979	$700	Same as above
1978	$650	Same as above
1976-77	Same as above	15% of AGI subject to a minimum of $1,000 ($1,500 for married couples) and a maximum of $2,000
1966-75	$600	For all taxpayers 10% of AGI or $1,000, whichever is less

ment. Nonresidents were taxed only on their New York City source income. From 1971 through July 1, 1999 the tax rates were 0.45 percent on wages and 0.65 percent on net earnings from self-employment. Effective July 1, 1999, the City's nonresident earnings tax was selectively repealed for New York State residents. Because the application of the City nonresident earnings tax to only New York State nonresidents posed constitutional problems, the legislation provided for repeal of the the non-resident tax on out-of-state residents, effective July 1, 1999 upon decision by the courts. The final determination of the legality of the selective repeal of the nonresident tax was rendered by the State's highest court, the New York State Court of Appeals on April 4, 2000. The court's decision overturned the selective taxation, repealing the tax for NYS nonresidents, effective July 1, 1999.

As a consequence of the original selective repeal, New York State nonresidents had City nonresident earnings tax withheld for the second half of tax year 1999 and for tax year 2000 until the Appeals Court decision was rendered. The rate of tax applicable to NYS nonresident commuters fell to 0.25 percent on wages and 0.375 percent on net earnings with the expiration of the higher rates on January 1, 2001 (which had been in effect since 1971).

Legislative History:

New York City has imposed a personal income tax on residents and nonresidents since 1966 at various rates. The values of the personal exemption and standard deduction have also varied as shown in the table on the previous page.

From 1982 through 1984, the City imposed a temporary surcharge on the personal income tax of every City resident, estate and trust. For calendar years 1982 and 1984, taxpayers with City adjusted gross income below $15,000 paid no surcharge. Taxpayers with adjusted gross income between $15,000 and $20,000 paid a surcharge of 2.5 percent of their tax liability, and taxpayers with adjusted gross income above $20,000 paid a 5.0 percent surcharge. For tax year 1983, the surcharge rates were doubled.

In 1985, New York State enacted a tax cut to be phased in over three years. Standard deductions and personal exemptions were raised, marginal tax rates were reduced, the real property tax credit was increased and a benefit for married taxpayers called the "family adjustment" was introduced. Only changes to the standard deductions and the personal exemption flowed through to City tax liability. The standard deduction became a flat amount instead of being calculated as a share of adjusted gross income. It was to increase from $2,500 in 1985 to $2,800 in 1987 for single taxpayers and from $2,750 in 1985 to $3,800 in 1987 for joint and head of household filers. The personal exemption was to increase from $800 to $900. The final year of this program, 1987, was superseded by subsequent tax reform legislation.

The Tax Reform Act of 1986 substantially altered the Federal personal income tax code. The definition of gross income, the deductions and exemptions allowed in the computation of taxable income, and the rates applied to such income were altered. Since State law conforms to Federal definitions of income and deductions, the State tax base was significantly broadened. In response, New York State altered its tax code in April 1987. The State legislation phased in a tax cut and restructured the tax over five years beginning in tax year 1987.

Both the Federal and State changes significantly altered the definition of City taxable income. Since the City's personal income tax base was broadened,

Taxable Income Thresholds:
(The taxable income below which no tax is owed)

Tax Year	1990	1991-94	1995	1996	1997	1998	1999	2000	2001	2002	2003-5
Single Taxpayer	$6,682	$6,598	$7,184	$7,905	$7,501	$7,501	$8,796	$9,007	$9,882	$9,668	$9,668
Joint Filer with 2 dependents	16,046	15,484	16,691	17,499	15,001	15,001	16,164	17,831	20,079	20,518	20,918
Head of Household with 2 dependents	14,999	14,976	14,999	14,999	12,517	12,517	13,796	14,007	14,862	14,668	14,668

Note: Assumes the standard deduction, and for 1997 through 2005 the non-senior STAR credit and no use of the resident UBT credit and the NYC household credit.

New York City Household Credit*

Single Taxpayers	1987-95	1996-05
If household gross income is:		
Not over $7,500	$15	$15
Over $7,500 but not over $10,000	10	15
Over $10,000 but not over $12,500		10

Married Taxpayers and Heads of Household	1987	1988	1989-95	1996-05
If household gross income is:				
Not over $12,500	$30	$50	$50	$30
Over $12,500 but not over $15,000	20	40	50	30
Over $15,000 but not over $17,500	10	20	25	25
Over $17,500 but not over $20,000	0	15	15	15
Over $20,000 but not over $22,500	0	0	0	10

**Credit amount for each Federal exemption.*

the City would have received a tax "windfall" if it had taken no action. The New York City Tax Reduction Act of 1987 was enacted to return this windfall to taxpayers and reduce income taxes for fiscal year 1988 by an additional $75 million. The City's five-year tax cut plan was designed to conform to State actions and combined new rate schedules and a low-income credit with the modified definition of taxable income. In 1987, the City introduced new rate schedules for single, joint, and head of household filers. Each schedule had nine brackets rather than the 14 used in 1986. At the same time the top rate was reduced to 4.1 percent. By 1991 the legislation would have reduced the top rate to 3.4 percent and the number of tax brackets to four brackets. A 0.5 percent credit for net capital gains income and a two-earner married couple deduction were transitional measures only in effect during tax year 1987.

The most significant changes to the law were large increases in the standard deduction and the introduction of a household credit to replace the low-income exclusion. The household credit is shown above. These measures provided relief to low-income taxpayers. The taxable income threshold below which no tax is due for various years can be seen in the table on the previous page.

Finally, progressivity was also enhanced by placing limitations on the amount of itemized deductions allowable for New York purposes. For single filers with New York adjusted gross income over $100,000 and joint filers with New York adjusted gross income over $200,000 itemized deductions were reduced up to 20 percent in 1988 and up to 50 percent beginning in tax year 1989.

As part of New York State's budget for fiscal year 1990-91, the last two years of the five-year tax reduction program were postponed. The legislation retained the 1989 tax rate schedule, standard deductions and the household credit for 1990. The scheduled phase-in of tax rates and deductions was to be completed by 1994. In order to avoid distortions in tax burdens, which would result from coupling the City's 1990 rate schedule with the State's 1989 deductions, the City also retained its 1989 rate schedule for tax year 1990. Changes to the City rate schedules were made for tax years 1991 through 1994 in proportion to changes the State made to the standard deductions. For tax years 1991 through 1994, changes to the State's tax rate schedule, standard deductions and household credit were deferred. Consequently, the City retained its 1990 rate schedule for tax years 1991 through 1994.

Effective for tax years 1990, 1991, and 1992, the City imposed a 12.5 percent temporary income tax surcharge on City residents. The top rate was increased to 3.91 percent from 3.40 percent. Single taxpayers with AGI below $15,000, married taxpayers with AGI below $25,000, and heads of households with AGI below $16,500 were not subject to the surcharge. In February of 1991, the "Safe Streets, Safe City" program was signed into law. Part of the funding came from the extension of this surcharge for tax years 1993 through 1996. The surcharge was subsequently extended through 1998 and expired at the end of that tax year.

Beginning in tax year 1991, the City imposed a three-year additional tax equal to 14 percent of the base personal income tax (including the surcharge). The additional tax was levied on City residents only and increased the top rate from 3.91 percent to 4.46 percent. Low-income taxpayers were not exempt from the additional tax. The additional tax has since been extended four times, in 1993, 1995, 1997 and 1999. The 1999 legislation extended the increase through tax year 2001. State legislation granted local authority to lower by local law the 14 percent additional tax, effective July 24, 2000. Subsequently, the 14 percent additional tax was reduced, effective January 1, 2001.

The reduction in the additional tax was structured as follows: for taxable income below the top tax bracket for each filing type ($50,000 for single filers, $90,000 for joint filers, $60,000 for head of household filers) the 14 percent additional tax was reduced to 7 percent. For taxable income at or above the top tax bracket the additional tax remained at 14 percent. As part of the Adopted Budget for 2002 the 14 percent additional tax was again reduced retroactive to January 1, 2001. The reduction, intended as an across-the-board 3.5 percentage point cut effective for one-half year, was implemented as a retroactive 1.75 percentage point cut effective for the full year.

The reductions in the 14 percent additional tax were expected to extend beyond tax year 2001. However, after September 11, 2001 the extension of the reductions in the 14 percent additional tax was no longer sought. Consequently, the full 14 percent additional tax was re-instated, effective January 1, 2002.

The additional tax was scheduled to expire December 31, 2003. This did not occur; instead, effective January 1, 2003, the base tax and the additional tax were replaced by a temporary rate schedule in effect for tax years 2003 through 2005.

Federal tax law changes, to which State law conformed, have also altered the City's income tax. Effective for tax years beginning in 1991, taxpayers with AGI exceeding $100,000 are subject to percentage reductions in their Federal itemized deductions. The $100,000 threshold is adjusted annually for inflation. Regulations issued by the State provide that the Federal limitation also applies in calculating New York State taxable income.

Another Federal law change, to which the State conformed, revised rules governing payment of estimated taxes by certain high income filers. Beginning in tax year 1992, these taxpayers were no longer allowed the "safe harbor" of submitting the same tax paid the previous year; estimated payments needed to equal at least 90 percent of their current year liability. This required taxpayers to calculate tax liability on a quarterly basis and "pay as you go".

The Omnibus Budget Reconciliation Act of 1993 again revised Federal rules governing estimated tax payments and the State enacted conforming legislation for the State and City for tax year 1994. The new rules repealed the "pay as you go" requirement and allowed all taxpayers with New York adjusted gross income over $150,000 to pay estimated taxes based on either the "safe harbor" of 110 percent of the previous year's liability or 90 percent of current year liability. The legislation also reduced the period within which refunds must be made without payment of interest from 90 to 45 days after the due date for final returns.

As part of New York State's budget for fiscal year 1995-96, the State enacted an enhanced version of the 1987 tax cut, which had been on hold since 1990. In tax years 1995 through 1997, the State lowered its tax rates, increased the standard deductions and the earned income tax credit, and reduced the number of tax brackets. The City rates effective for 1996 and 1997 reflected the City Tax Reduction Act of 1987, the 12.5 percent surcharge enacted in 1990 and the 14 percent additional tax enacted in 1991.

As part of New York State's budget for fiscal year 1997-98, the State enacted the STAR program to provide education aid and tax relief to localities. In addition to reductions in the property tax, the STAR program reduced City personal income tax liability through both a rate cut and a refundable credit. The credit is effective in tax year 1998 and increases according to the schedule shown in the table below.

The STAR rate cut is an across the board reduction in tax rates starting in tax year 1999 and increasing through tax year 2001 according to the schedule shown in the table. The State reimburses the City for the foregone personal income tax revenue. As part of New York State's budget for fiscal year 1998-99, the State accelerated the STAR program credit for senior citizens. Beginning in tax year 1998, resident senior citizen personal income tax filers were eligible for the full STAR credit (joint filers: $125.00, other filers: $62.50).

City Personal Income Tax Under STAR Program

Tax Year	1998	1999	2000	2001-05
Credit				
Joint Filers	$12.00	$35.00	$85.00	$125.00
All Other	$12.00	$39.00	$45.00	$62.50
Rate Cut	0.0%	-1.25%	-2.5%	-5.9%

In 1997, the State enacted legislation enabling the City to establish a credit against the personal income tax for owners of unincorporated businesses for a portion of their distributive share of unincorporated business tax liability, effective beginning with tax year 1997. The credit is based on a sliding scale, and ranges from a high of 65 percent of unincorporated business tax liability for taxpayers with NYS AGI of $42,000 or less, to 15 percent of liability for taxpayers with NYS AGI of $142,000 or more.

As part of New York State's budget for fiscal year 2000-2001, the State took several actions which reduced both State and City liability. In order to reduce the marriage penalty, the State increased the standard deduction for married families filing jointly from $13,000 to $13,400 in tax year 2001, to $14,200 in tax year 2002, and to $14,600 thereafter.

The State also enacted a college tuition benefit granted either through a refundable credit, (which does not affect the City return) or itemized deduction, (which does) for college tuition expenses paid by taxpayers on behalf of the taxpayer, the taxpayer's spouse, or dependents who enroll or attend a qualified institution of higher learning. The credit and deduction are available only for undergraduate study. The allowable itemized deduction is limited to $10,000 of tuition expenses and is phased in over four years. For 2001, 25 percent of the tuition expense is deductible, reaching 100 percent of the tuition expense in 2004.

In addition, as a result of the September 11, 2001 terrorist attack, the filing deadline for the quarterly estimated tax payment due September 11, 2001, was extended to December 10, 2001. Additionally, allowance was made for late filing of payroll withholding until December 10, 2001.

Tax relief for the victims of the September 11, 2001 terrorist attack was provided under New York State Tax Law as part of Chapter 85 of the Laws of 2002. For tax year 2000 and after, New York State forgave the New York State, New York City and Yonkers income tax liabilities of decedents who died as a result of the attack. Income tax was forgiven for these decedents whether they were killed in the attack or in rescue or recovery operations. Any forgiven tax liability owed but not paid was not required to be paid. Any forgiven tax liability that had already been paid was refunded. This tax relief is estimated to have reduced revenues by $7 million in City fiscal year 2003.

As part of New York State's budget for fiscal year 2003-2004, the State authorized the City to raise revenue through State legislation. Effective January 1, 2003, state and local laws were amended imposing a temporary personal income tax rate schedule which superseded the existing base rate schedule and the 14 percent additional tax. The temporary rate schedule combined the base rates with the 14 percent additional tax, at the existing brackets, and added two new upper income brackets and rates.

A tax table benefit recapture provision was also imposed. The temporary rate schedule along with the recapture provision are scheduled to expire January 1, 2006, at which time, unless legislation is passed to re-impose the base rates and the 14 percent additional tax, a lower rate schedule with a maximum rate at 1.61 percent is to become effective.

The temporary rate schedule sets the new brackets at $100,000 in taxable income for single, $150,000 for joint and $125,000 for head of household filers and at $500,000 for all filers. The two higher rates are 4.25 percent and 4.45 percent in tax year 2003. The increase is phased out by dropping the first additional rate to 4.175 percent in 2004 and to 4.05 percent in 2005. The tax table benefit recapture provision applies a supplemental tax to adjusted gross incomes over $150,000 which "recaptures" the benefit that upper income taxpayers receive because lower tax rates are applied to the lower portions of their taxable incomes. The supplemental tax recaptures a fraction of the benefit previously accorded taxpayers with adjusted gross incomes of between $150,000 and $200,000, and would recapture all of the benefit for taxpayers with over $200,000 of adjusted gross income (a taxpayer of any filing status with adjusted gross income over $200,000 would be taxed at the top rate on all of his or her income).

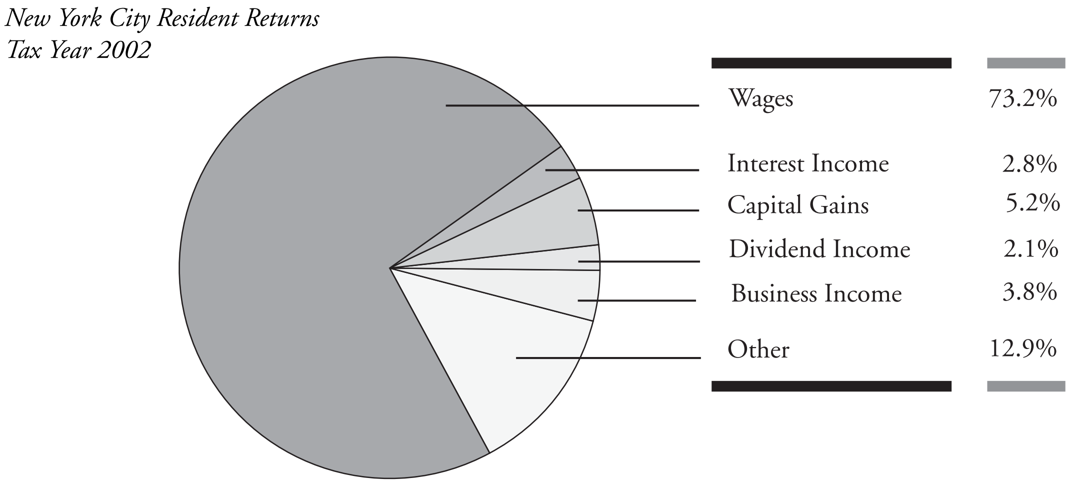
Additionally, the following New York State laws and New York City local laws adopted during 2003 affect the New York City personal income tax: the Federal deduction altered under Internal Revenue Code section 179 for a sport utility vehicle weighing over 6,000 pounds is not allowed (except in the case of an eligible farmer) in the computation of State and City personal income tax (effective 2003 and thereafter); certain Federal bonus depreciation provisions enacted in 2002 and 2003 will not apply to the New York State and New York City personal income tax, except with respect to property located in Manhattan below Houston Street (effective 2003 and thereafter). The New York State and New York City personal income tax laws have been amended to provide that a resident trust will not be taxable if: (1) all the trustees are domiciled in a state other than New York; (2) the entire corpus of the trust is located outside New York State; and (3) all income and gains of the trust are from sources outside New York State.

The following New York State laws and New York City local laws adopted during 2004 affect the New York City personal income tax. For tax years beginning on or after January 1, 2004, New York City residents are allowed a credit against the City's personal income tax equaling five percent of the Federal earned income tax credit allowed under section thirty-two of the internal revenue code for the same taxable year (New York City Local Law 39). If the City credit is greater than the taxpayer's liability (net of other allowable credits) the excess will be treated as an overpayment and refunded to the taxpayer. If the taxpayer is a City resident for only part of the tax year, the credit will be pro-rated based on the adjusted gross income for the period of residence as a share of the adjusted gross income for the full year. New York State tax law is amended and reverses a New York State Tax Appeals Tribunal determination regarding hearing procedures for mathematical and clerical errors (known as the Meyer's Decision) and permits formal hearing rights for mathematical or clerical errors post-payment, adequately providing taxpayers with due process rights while at the same time allowing the acceleration in collection of outstanding tax liabilities. New York State authorizes the City Commissioner of Finance and the State Commissioner of Taxation and Finance to enter into an agreement under which certain State tax overpayments due to a taxpayer can be credited against tax warrant judgment debt owed to the City by the taxpayer. The State overpayments which can be claimed by the City as offsets are those arising under the State's corporate franchise taxes and the State, City, and Yonkers personal income taxes. Under the new law, the City can claim an offset for any City-administered income or excise tax that is the subject of a docketed tax warrant issued by the Department of Finance. This new offset program is similar to one that currently allows various state and local agencies to offset State tax overpayments against debts owed to them. The new law establishes priorities where there is more than one claimant to a State overpayment.

Withholding Tables:

Withholding tables are adjusted to reflect changes made to tax rates, standard deductions or the dependent exemption. To implement the New York City Tax Reduction Act of 1987, withholding tables were adjusted in October 1987, October 1988 and October 1989. Withholding tables were changed in October 1990 to implement the temporary 12.5 percent surcharge. Withholding tables were again changed in October 1991 to reflect the implementation of the 14 percent additional tax. Withholding tables were changed in January 1999 to reflect the expiration of the 12.5 percent surcharge and again in July 1999 to reflect a reduction in rates due to implementation of the STAR program. Effective January 1, 2000, the City nonresident withholding tables were changed to reflect the expiration of the higher nonresident tax rates prior to a court decision repealing the selectively applied out-of-state nonresident earnings tax. Effective January 1, 2001, the withholding tables were changed to reflect the first reduction of the 14 percent additional tax and the last installment of the STAR program rate cut. In response to the second reduction of the 14 percent additional tax effective for tax year 2001, the withholding tables were changed again, effective October 1, 2001. On June 1, 2002, the withholding tables

Components of Income



were changed to reflect the full imposition of the 14 percent additional tax. Effective July 1, 2003, the withholding tables were changed to reflect the enactment of the two higher income brackets and rates for tax year 2003. In order to capture the full year liability change in six months of withholding, the increase was doubled for half of tax year 2003. Effective January 1, 2004, withholding tables were changed to reflect the full-year impact of the new brackets and rates for tax year 2004. Effective January 1, 2005, withholding tables were changed again to reflect the reduction in the personal income tax rate for the second highest income bracket for tax year 2005. (A history of withholding table changes since 1980 is detailed in Appendix II.)

Distribution of Liability:

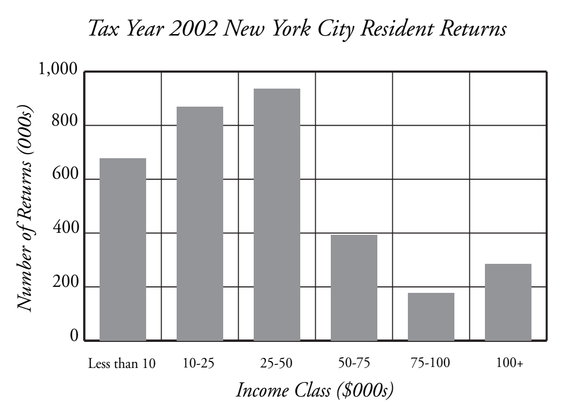
From a sample of 2002 tax returns, it can be seen that the majority of resident returns were filed by taxpayers with adjusted gross income less than $50,000. However, the 26 percent of the taxpayers with income greater than $50,000 paid 82 percent of the tax. Wage income was 73 percent of total reported income on resident returns. Capital gains realizations accounted for five percent of income. Interest incomed accounted for approximately three percent of total reported income. Generally, higher income taxpayers earned most of the nonwage income in the City.

Administration:

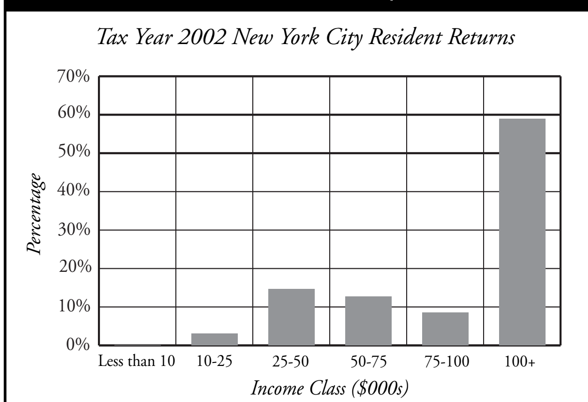
The New York City personal income tax has been administered by New York State since 1976. All collection information received is from the New York State Department of Taxation and Finance. Daily collection and refund reports are produced by the Accounting Bureau and sent to the City. At the end of the month the City receives a letter from the State Comptroller verifying the final amount of personal income tax revenue by component due to the City for that month.

Each month the State charges the City for the administration of the tax. The charge is based on State expenditures for data entry, processing of tax

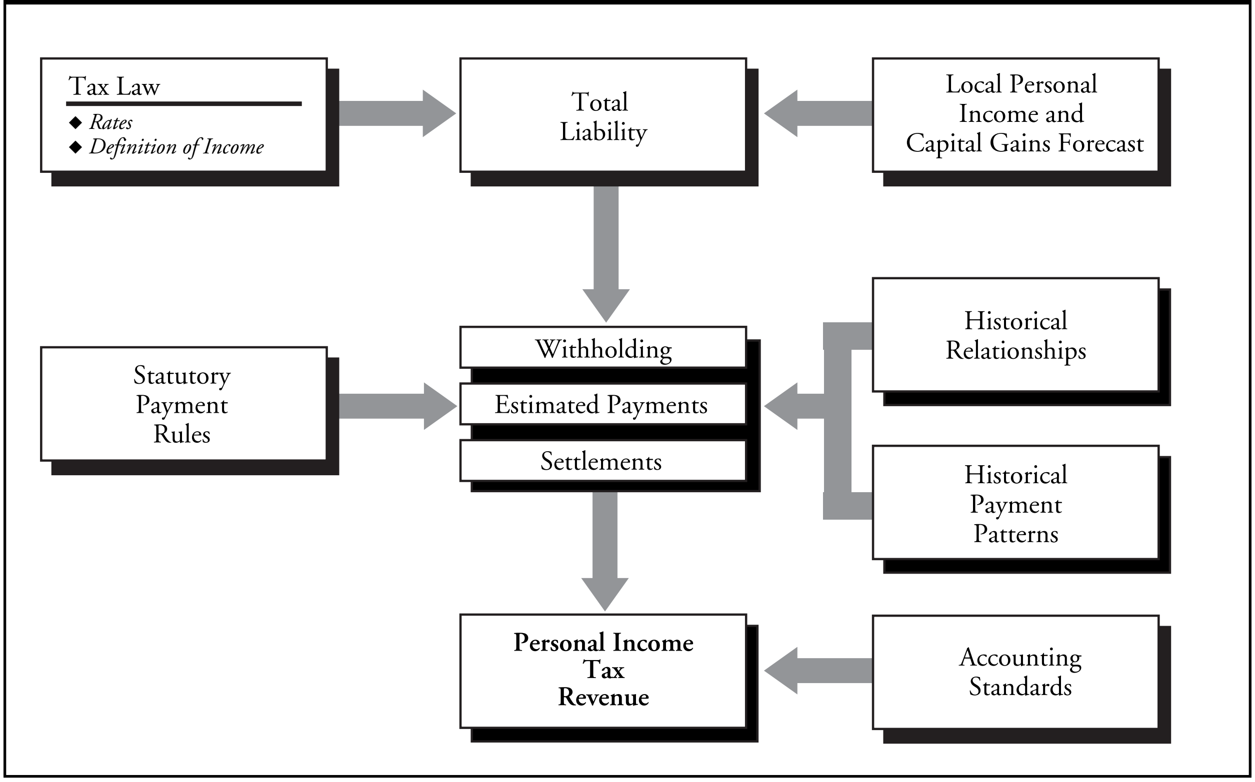
Number of Filers



Share of Liability



Personal Income Tax Forecast Methodology



returns and taxpayer services (primarily the telephone line for answering taxpayer questions) which can be attributed to the City. For fiscal year 2004 the administrative charge paid by the City was $33 million.

Unlike the other components of the tax, final returns are initially distributed to the City based on a percentage of the State pool of final returns. The distribution percentage is based on the City's historical share of total statewide final returns. Adjustments are then made for prior distributions, changes to State and City tax laws and relative rates of economic growth.

Forecasting Methodology:

Taxpayers prepay their liability through withholding and estimated payments. These prepayments are a function of income, the tax rates and statutory prepayment rules. In April, taxpayers must reconcile prepayments with a determination of final liability. Those taxpayers who have overpaid are due refunds and those taxpayers who owe tax pay the additional liability on the final return. Taxpayers must either prepay an amount equal to 100 percent of their prior year liability (110 percent for certain high income filers) or 90 percent of their current year liability to avoid an underpayment penalty. Taxpayers not able to timely file a final return can request an extension of time to file and make extension payments (IT-370's). The four components—final returns, refunds, offsets and extensions—make up the settlement payments and are a function of taxpayers' tax liabilities less their prepayments.

The forecast begins with projections of local personal income. A micro simulation model forecasts total tax liability using these projections, the most recent sample of taxpayers available from the New York State Department of Taxation and Finance, and the current year tax law. Withholding, estimated payments and settlement payments are forecast based on historical relationships between personal income and tax liability. The results are then adjusted for tax law changes and any expected taxpayer behavior changes. These payment streams are allocated to various fiscal years based on statutory payment rules and historical experience.

Prepayments are forecast econometrically. Withholding is a function of wages and salaries in the City and the tax rate. Nonwage income is an additional factor affecting withholding, since taxpayers may adjust wage withholding to reflect changes in their nonwage income. The final forecast is adjusted for any withholding table changes. The withholding equation takes the following form:

LOG (WITHHOLDING) =
a+ b1 log (Wage Earnings + Dividends, Interest and Rental Income)
+ b2 log (Maximum City PIT Rate)

The equation forecast is supplemented with analysis of monthly patterns of withholding, particularly the growth in the daily average of withholding collections.

Estimated payments, paid predominantly by taxpayers with nonwage income, are a function of nonwage income in the prior year, capital gains realizations, and the maximum City tax rate in that prior year. Nonwage income includes income from interest, dividends, rent, proprietorships, partnerships and subchapter S corporations. Capital gains realizations, in particular, have led to large swings in estimated payments. The estimated payments equation takes the following form:

ESTIMATED PAYMENTS =
a + b1 (NYC Dividends, Interest and Rental Income) [-1]
+ b2 (Net Capital Gains Realizations)
+ b3 (Maximum City PIT Rate) [-1]

A similar equation is used to forecast the sum of estimated and extension payments, since extension payments are made primarily by the same taxpayers who make estimated payments. When liability growth is high or accelerating, liability often slips from estimated payments into extension payments.

An econometric equation is currently being used to forecast capital gains realizations. The capital gains equation takes the following form:

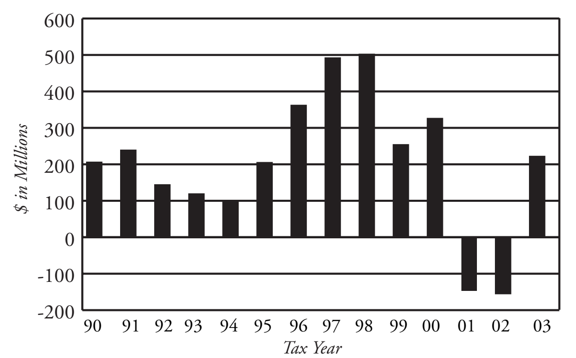
LOG (NET GAINS REALIZATIONS) =
a + b1 * log (Value of Corporate Equity Held by U.S. Households)
+ b2 * log (Value of large Commercial Real Estate Transactions in the City)
+ b3 * log (Sum of NYC, NYS and Federal Tax Rates) `
+ b4 * (Value of Corporate Equity Held by U.S. House Households/Value of Corporate Equity Held by U.S. Households.3)
+b5 * Dummy for Federal Tax Law Change in 1987

Settlement payments (final returns, refunds, offsets and extension payments) represent total tax liability less prepayments made throughout the liability year in the form of withholding and estimated payments. Settlements can be highly volatile from year to year, especially as a result of tax law changes.

For example, the high settlements in 1990 and 1991 were due to the retroactive implementation of the City's tax increases. In both cases, withholding was changed in October of the tax year affected, so most of the tax increase was collected in the settlement. After the first year of each tax program, the majority of each increase was collected through withholding and estimated payments. Therefore, settlement payments fell after 1991. Other tax law changes that have effected settlement payments are the expiration of the 12.5 percent surcharge after tax year 1998, the repeal of the nonresident earnings tax effective 1999, and the reductions in the 14 percent additional tax for tax year 2001.

Economic swings also effect settlement payments. In years when taxpayer liability grows much faster than taxpayer prepayments, the settlement surges. This explains, in part, the high settlements seen in tax years 1996 through 2000, as well as in tax year 2003. Conversely, when taxpayer liability falls faster than taxpayer prepayments, the settlement collapses. This is seen in tax years 2001 and 2002.

Cash Settlements



Historically, total settlements have been positive, and refunds have traditionally been a consistent percentage of liability year withholding. While these historical relationships are still used as guidelines in developing the forecast, many of the relationships have broken down as a result of the combined effects of City, State and Federal tax reform.

Cash Flow Model:

The monthly cash plan for the personal income tax translates annual liabilities into monthly fiscal year collections. A historical average of the monthly share of total collections for each component of the tax is the starting point. It is adjusted for nonrecurring collections and tax law changes.

The cash flow model is used to monitor revenue forecasts by comparing actual monthly cash collections from each component to the monthly plan. The variation of actual monthly collections from the cash plan is the main determinant of current year revenue modifications.

Beginning in 1994, City taxpayer assessed taxes are recognized on an accrual basis as required by GASB (Governmental Accounting Standards Board) Statement No. 22. Final returns, refunds, assessments and audits, are recognized with a 60-day accrual. As of 2001, taxes are recognized on an accural basis as required by GASB Statement No. 33.

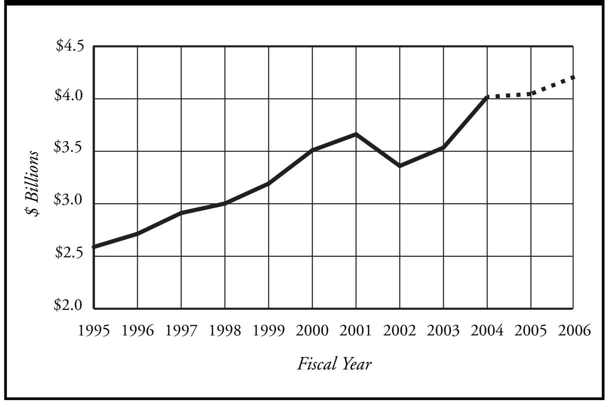
Beginning in 1998, personal income tax cash flow to the City changed with the introduction of the Transitional Finance Authority (TFA). The TFA gives the City an additional financing vehicle to meet capital commitments beyond the constitutional debt limit. The new authority has the first claim on personal income tax revenue to meet its debt service and administrative costs, with the remaining personal income tax revenue distributed to the City by the end of each month. There are four debt service retention periods beginning the first of November, February, May and August. Beginning on the first day of the first month of a retention quarter, personal income tax collections are retained by the TFA until one-half of the projected debt service for the quarter following the retention quarter has been collected. The remainder of the personal income tax collections is distributed to the City. The same procedure is followed in the second month of the retention quarter, and if collections in the second month are not adequate to cover projected debt service in the following quarter, collections from the third month are retained until the total projected debt service is collected. After debt service requirements are met, the TFA retains personal income tax collections to fund its operating expenses and pay its subordinate creditors.

Sales Tax

Tax Base and Rate:

The sales tax rate is 4.125 percent and is applied to sales and use of tangible personal property and services; sales of gas, electricity, steam, refrigeration, and intrastate telephone and telegraph services; food and beverages sold by restaurants and caterers; hotel and motel occupancies; admission charges to certain places of amusement; and club dues. The current sales tax rate, 4.125 percent, is in effect from June 4, 2003 through May 31, 2005. Prior to June 4, 2003, the rate was 4.0 percent, and after May 31, 2005, the rate will revert to 4.0 percent. The higher rate was effective September 1, 2003 for the special city sales taxes on credit rating and reporting services, protective and detective services and personal services. In addition, a sales tax rate of 6.125 percent, effective September 1, 2003 through May 31, 2005, is applied to receipts from parking, garaging or storing motor vehicles in the City. Prior to September 1, 2003, the rate was 6.0 percent, and after May 31, 2005, the rate will revert to 6.0 percent.

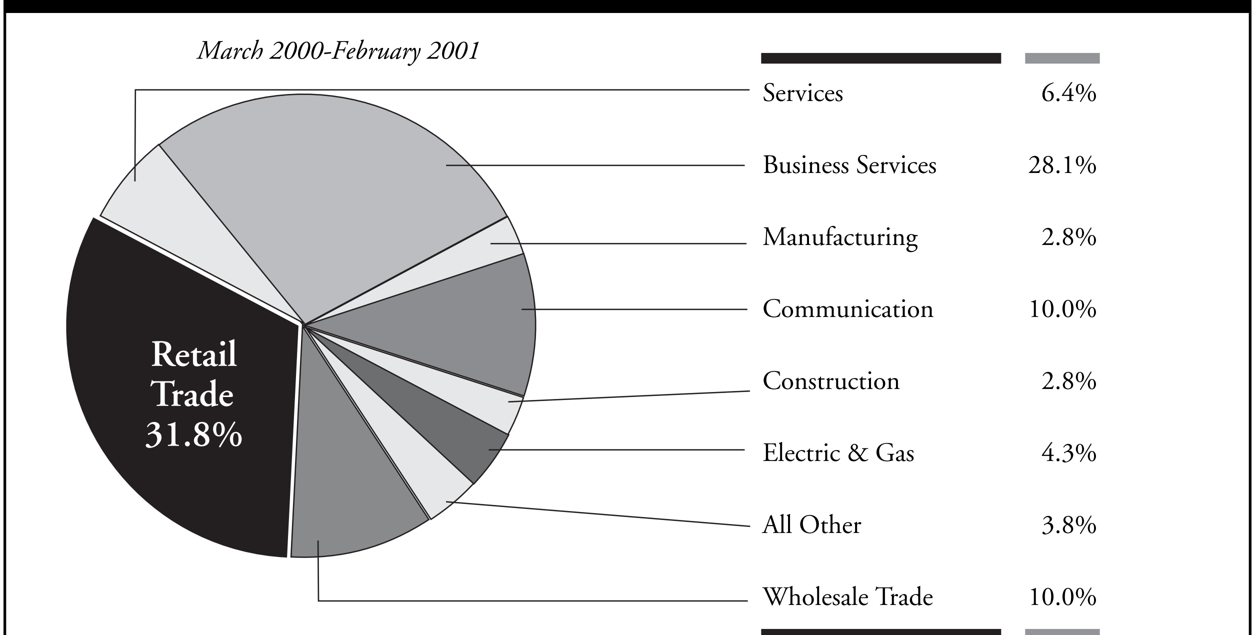
Sales Tax 1995–2006



Exemptions include food (except certain drinks, candies and alcoholic beverages), rent, prescription drugs, newspapers and periodicals, textbooks for college students, and public transportation. These exemptions are intended to reduce the degree of regressiveness of the tax. Exemptions are also allowed for purchases of tangible goods and services intended for resale. The tax does not apply at the time of purchase for resale, but rather at the time the items are sold at retail. Other exemptions include fuel sold to airlines, energy used for research and development, transmission and distribution of energy, certain promotional materials, internet access services, interstate and international telecommunications services, and clothing and footwear purchases under $110 through March 31, 2003. The clothing and footwear exemption was repealed effective June 1, 2003 through March 31, 2007 (see Appendix III, 2005).

With the State sales tax rate of 4.25 percent (effective June 1, 2003 through May 31, 2005), and a 0.25 percent sales tax in the Metropolitan Commuter Transportation District (MCTD), the aggregate sales tax rate in the City is 8.625 percent through May 31, 2005. After May 31, 2005, State

Components of Sales Tax Base



legislation allows the MCTD tax rate to increase 0.125 percent, from 0.25 percent to 0.375 percent. Additionally, after May 31, 2005, both the City and State tax rates revert back 4.0 percent, bringing the aggregate sales tax rate in the City to 8.375 percent.

The components of the sales tax base are detailed in the chart on the previous page. Prior to March 2000, the sectors were classified according to SIC codes; now they are classified according to NAIC (North American Industrial Classification) codes. Retail trade, which includes sales of building materials, general merchandise, restaurant meals and drinks, cars, apparel, furniture, health and personal care, gasoline stations, and motor vehicles and parts, represents the largest portion of the sales tax base. The next largest sector consists of professional, administrative, health care, art, entertainment and recreational, accommodation and food services, which make-up the business services component. In addition, the growth of wholesale trade, construction, and communication sectors continue to increase due to the cyclical nature of the City's economy.

Legislative History:

From 1934 to 1974, the City was authorized by State laws to impose the sales tax. Upon the establishment of the Municipal Assistance Corporation (MAC) in 1975, the City's authority to impose the sales tax was suspended. A similar tax was imposed by the State and these sales tax revenues are subject to appropriation by the State Legislature to provide funds to pay for MAC obligations. MAC is required to certify to the State Comptroller each quarter what portion, if any, of sales tax revenues is needed by MAC to make payments on all of its outstanding debt obligations and its other expenses (collectively known as the "MAC Funding Requirements"). Revenues derived from future expansions of the City's sales tax base are not subject to appropriation. MAC's outstanding debt obligations are scheduled to mature on or before July 1, 2008. At that time, or when all MAC Funding Requirements are met, the sales tax imposed by the State will expire, and the sales tax imposed by the City will again be in effect and sales tax revenues will no longer be subject to State or City appropriation. Additionally, due to the expiration of certain State legislation, the City imposed sales tax would take effect at the rate of three percent on July 1, 2008 or the date when all MAC Funding Requirements are met. The City would require State authorization to again impose an additional one percent sales tax to bring the cumulative City sales tax rate back to four percent.

New York City has imposed a sales and use tax since 1934. The rate and base of the tax have seen many changes since it was first introduced (see Appendix III).

Administration:

New York State and local sales tax laws provide that the State Department of Taxation and Finance will administer the taxes imposed by both the State and the localities. A general sales tax is collected from about 593,518 registered vendors in New York State. Vendors are responsible for collecting the sales tax from buyers at the time of sale. These vendors must file tax returns periodically. The frequency and timing of filing is determined mainly by their level of receipts.

Beginning December 1, 1992, State law mandated the implementation of the electronic funds transfer (EFT) program (Promp Tax Program) for large sales tax vendors. Taxpayers with annual tax liability exceeding $5 million were required to make monthly payments of tax liability by electronic funds transfer. This program does not affect the filing or remittance schedule of other sales tax vendors. The system results in the earlier collection and distribution of revenue to localities. This shift in timing for large vendor remittances caused an overlap of sales tax payments in December 1992, resulting in a one-time boost to City revenue of $45 million. The threshold for mandatory participation was lowered to $4 million in December of 1994 and to $1 million in December of 1995 and resulted in one time boosts to City revenue of $4 million and $20 million, respectively. Effective September 1, 2002, the threshold was lowered to $500,000, resulting in a one-time boost to City revenue of $19 million. The threshold remains unchanged for taxpayers remitting prepaid sales and use taxes on motor and diesel fuel and for taxpayers remitting motor fuel and petroleum business taxes.

- **Monthly EFT Filers:**

  EFT filers are defined as vendors with annual tax liability of $500,000 or more for the twelve-month period prior to June 1 of the current fiscal year. Effective December 1, 2001, the State tax law was amended changing the PROMP Tax Program.

Vendors are no longer required to file each

Sales Tax Activity, Payment, Filing, and Distribution Dates*

Sales Activity	Monthly EFT Payment Dates	Monthly Non-EFT Payment/ Filing Dates	Quarterly Filing Dates	Distribution Dates*
June 1-22	June 25			June 29
June 23-30	July 25	July 20		August 4 & 12
July 1-22	July 25			August 4
July 23-31	August 25	August 20		September 4 & 12
August 1-22	August 25			September 4
August 23-31	September 25	September 20	September 20	October 4 & 12
September 1-22	September 25			October 4
September 23-30	October 25	October 20		November 4 & 12
October 1-22	October 25			November 4
October 23-31	November 25	November 20		December 4 & 12
November 1-22	November 25			December 4
November 23-30	December 25	December 20	December 20	December 28 & January 12
December 1-22	December 25			December 29
December 23-31	January 25	January 20		February 4 & 12
January 1-22	January 25			February 4
January 23-31	February 25	February 20		March 4 & 12
February 1-22	February 25			March 4
February 23-28	March 25	March 20	March 20	April 4 & 12
March 1-22	March 25			April 4
March 23-31	April 25	April 20		May 4 & 12
April 1-22	April 25			May 4
April 23-30	May 25	May 20		June 4 & 12
May 1-22	May 25			June 4
May 23-31	June 25	June 20	June 20	June 28 & July 12

Typical Quarterly Sales Tax Distribution to Localities

Distribution Date*	Percentage of Collections	Taxpayer Sales Period	Filer Status
April 4	75%	February 1-28	Monthly Non-EFT
	100%	February 23-28	Monthly EFT
	75%	December 1-February 28	Quarterly Non-EFT
	100%	March 1-22	Monthly EFT
April 12	25%	February 1-28	Monthly Non-EFT
	25%	December 1-February 28	Quarterly Non-EFT

**Payment, filing and distribution dates are shifted to the following business day (or the third business day following the 22nd day for monthly EFT payments) when the normal payment/filing/distribution dates fall on a weekend or holiday.*

month the New York State and Local Sales and Use Tax Return for Part-Quarterly Filers (form ST-809). They are now required to file the New York State and Local Sales and Use Tax Return Quarterly for Part Quarterly Filers (form ST-810). Additionally, these taxpayers will no longer remit payment using paper checks, but will remit any tax due as part of their PROMP Tax payment each month. The PROMP Tax payment due date remains the third business day after the 22nd of each month, but the payment now must include the prior month's day-23 through the end of the month's liability in addition to the current month's day-1 through day-22 liability.

- **Monthly Non-EFT Filers:**

  Vendors with $300,000 or more in taxable receipts or who sell 100,000 or more gallons of automotive fuel in any one of four successive quarters. These vendors file by the 20th of each month for collections from the previous month.

- **Quarterly Filers:**

  Vendors with less than $300,000 in taxable sales or who sell less than 100,000 gallons of automotive fuel, but who collect more than $250 in sales taxes for the twelve-month period ending May 31. These vendors must file by the 20th of March, June, September, and December for the three-month period which ends during the previous month.

- **Annual Filers:**

  Vendors who collect less than $250 in sales taxes for the twelve-month period ending May 31. These vendors must file by June 20.

Filing Procedure for Monthly Non-EFT Filers:

Monthly filers must file two "part-quarterly" returns and one "recap" return each quarter. The "part-quarterly" returns can be based on actual sales data, or may be a "short-form" return in which the tax remitted is one-third of the total State and local taxes paid in the comparable quarter of the preceding year, provided that the vendor has been in business at least one year. The "recap" return is filed after the last month of each quarter, and reports actual sales and services by each locality for the entire quarter.

The amount of sales tax receipts remitted to the State at this time is calculated by subtracting the amounts paid in the "part-quarterly" months from the amount indicated as due for the quarter in the "recap" report.

The table on the previous page shows the filing dates for sales tax returns for the respective activity periods, and the dates on which collections are distributed to the City by the State.

Sales Tax Distribution:

Since a large percentage of monthly sales tax collections for the "part-quarterly" months is comprised of estimated payments paid on "short-form" returns where sales are not broken down by locality, the State estimates the local share for monthly distribution purposes. Revenue is distributed based on the percentage that each locality had of the total sales tax pool in the comparable quarter of the preceding year (the comparable quarter, rather than the comparable month, is used since the quarter has "recap" information about sales by locality).

The distribution for the "recap" month in each quarter is based on actual sales and service information by locality, from both monthly and quarterly filers. This distribution is determined by subtracting the previous estimated distributions in the first two months of the quarter from the quarter totals reported in the "recap" reports.

In order to expedite the monthly distribution of revenue, the State Comptroller makes two distributions to localities. The first distribution or "early draw" is generally made on the 4th (or next business) day of each month and the second distribution or "final draw" is made on the 12th (or next business) day of each month. The "early draw" is comprised of approximately 75 percent of estimated or actual liability filed by vendors on the 20th of each month. Also distributed on the 4th (or next business) day is 100 percent of EFT liability due from large vendors on the 25th (or the third business day following the 22nd day) of each month.

The "final draw" is made up of the remaining 25 percent of actual or estimated liability. The table shown on the previous page includes an example of a typical distribution of sales tax to localities using the April distribution which also includes quarterly filers.

The months of June and December are, however, exceptions to this pattern. The State makes three distributions of revenues on collections due to localities in these months. This is due to the fact that some localities are on a cash accounting basis and have fiscal years ending on June 30 or December 31. The State sales tax law requires that the State make estimated distributions of the first 25 days of sales tax collections, prior to the first day of January and July, for sales tax revenue collected by the State during these months (December and June). This ensures that the bulk of current year cash collections are received by each locality in the current fiscal year. As a result, in December and June distributions on the 29th replace the distributions which otherwise would have been made on the fourth of the following month.[1]

The collections distributed on the 12th day of every month are net of administrative charges and Prior Period Adjustments (PPAs). These collections are further reduced by credits claimed, which are reported by the City Department of Finance.

- **Prior Period Adjustments (PPAs):**

  The State is not always in possession of complete information at the end of each quarter from all reporting vendors. As this information becomes available, it becomes necessary to adjust the original distribution of revenue among localities.

  This adjustment (PPA) may be positive or negative, depending on whether the previous distribution is determined to be too large or too small. PPAs can also result from late payments or audits.

- **Administrative Charges:**

  The State charges localities for administering and collecting the sales tax. The charge to each locality is based on the proportion of the locality's collections to the total pool. The formula is:

Locality Administrative Fee = (Locality Sales Tax Receipts/Statewide Sales Tax Receipts) x Total Administrative Charges

The administrative charges, which include direct and indirect costs such as salaries, fringe benefits, materials, printing and mailing, are tallied by the State Department of Taxation and Finance's Office of Business Administration. Indirect costs refer to locality-specific charges which are usually charges to localities for special mailings to vendors in the specific locality and usually relate to legislative changes and/or rate changes. Indirect costs account for approximately four percent of the total administrative charges to the City.

Administrative charges are billed to the localities quarterly. In 2004, administrative charges of $21 million were paid by the City.

Forecasting Methodology:

Forecasting sales tax revenue involves making predictions for the levels of the various components of collections. They are as follows:

- Revenue flowing to the Municipal Assistance Corporation (MAC)
- Revenue from the City's non-MAC sales tax base (NYC)
- Prior Period Adjustments (PPAs)
- Assessments
- Administrative charges

MAC and NYC: Collections from the MAC and NYC components are driven by economic forces. More than half the sales tax base is non-retail trade related, in the form of services, electricity and gas sales, purchases made by manufacturing, communications and construction firms and wholesale purchases. One possible approach to forecasting the sales tax is to use a disaggregated model where retail sales and electricity and gas sales, for example, are projected separately. The lack of timely disaggregated collection information minimizes the usefulness of this approach. The alternative that is used predicts revenue from the aggregated base using broad-based economic indicators such as wage rate, personal income and employment.

After examining a series of econometric specifications, an annual linear regression model was found to yield the best overall results for the forecast of City sales tax revenue. The dependent variable is actual historical sales tax collections adjusted for changes in tax law. The explanatory variables are City total employment, and City wage rate. The separation of wage rate and employment proved more sensitive than wage income alone. The sales tax revenue

[1] *The second date, June and December 29, was added beginning in 1992 to separately account for the distribution of newly-instituted EFT sales tax payments. The first early distribution is collections from non-EFT monthly filers only. The second early distribution is collections from EFT filers only.*

equation takes the following form:

SALES TAX REVENUE =
a + b1 (NYC Wage Rate)
+ b2 (NYC Total Employment)

The model is intended to provide a structured framework to aid in developing forecasts. Predicting sales tax collections is not a mechanical process, but reflects both modeling and analysis of other factors affecting the tax. Local total taxable sales and same store sales data, in addition to national retail and durable goods sales, consumer confidence, consumer installment debt, the real estate market, and general business conditions are significant factors considered in the forecast process.

Prior Period Adjustments: PPAs result from the State's lack of complete information from all vendors at the time the initial sales tax distribution is made. Consequently, they are not correlated to any economic drivers. Predictions for PPA levels are based on historical averages.

Assessments: Assessments include collections from audit activity. They are disaggregated into City audits and State assessments less City audits. The forecast of the State assessment is based on the expected rate of growth for the MAC and NYC components.

Administrative Charges: The administrative charges consist mainly of the salaries of the State employees who administer the tax. Since salaries generally grow at the rate of inflation, the forecast of administrative charges is based on the rate of inflation.

Cash Flow Model:

The City's cash flow forecast for the sales tax represents sales tax prior to any MAC retention and is on a revenue recognition basis. For example, sales tax collections released to the City on September 4 and September 12 are counted as August revenue. The estimates for monthly revenue from the sales tax are determined based on each month's historical share of total collections. The third month of each quarter is larger than the other two since quarterly filers must file in that month. Analysis of collections in the first two months of the quarter has proven a poor predictor of current collection activity because these collections reflect prior year collections rather than current year activities. Analysis of collections over the entire quarter has proven more helpful in monitoring collections against current year revenue forecasts.

Beginning in 1994, City taxpayer assessed taxes are recognized on an accrual basis as required by GASB (Governmental Accounting Standards). Statement No. 22. Late sales tax payments, State assessments and City audits, are recognized with a 60-day accrual. As of 2001, taxes are recognized on an accrual basis as required by GASB Statement No. 33.

Because most City sales tax revenue is dedicated to repayment of MAC bonds, the actual City cash flow is less than projected revenue. Generally collections from the City MAC sales tax base are certified to the State Comptroller and then held in the Municipal Assistance Tax Fund (which includes the MAC Bond Payment Fund and Bond Reserve Fund) for one quarter until the MAC dedication (debt service, capital reserve and operating expenses) is certified, whereupon the remaining monies are transferred to the City. From 1995 through 1998, MAC certifications were made as early in the quarter as possible. For City fiscal years 1999, 2000 and 2001, there were no MAC certifications because the MAC funding requirements for these years were prepaid out of the City's General Fund. MAC certifications resumed in City fiscal year 2002. In May 2003, the State legislature passed legislation requiring the New York Local Government Assistance Corporation to pay the City $170 million annually from revenues appropriated by the State. The City created the Sales Tax Asset Receivable Corporation ("STAR Corp."), a local development corporation, which issued bonds in November 2004 secured by this annual payment. STAR Corp. then transferred to MAC proceeds of STAR Corp. bonds sufficient to defease all of MAC's remaining debt. However, MAC will continue to retain sales tax sufficient to pay its administrative costs, oversight fees of the Financial Control Board and the State Comptroller and the State Cost Recovery Assessment.

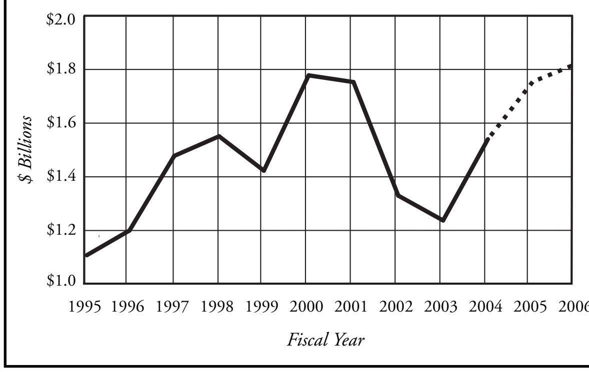
General Corporation Tax

Tax Base and Rate:

New York City's general corporation tax was first enacted in 1966, and is imposed on all corporations, domestic and foreign, for the privilege of doing business, employing capital, owning or leasing property, or maintaining an office in the City of New York. Banking companies are subject to the banking corporation tax and therefore do not pay the general corporation tax. Insurance firms, nonprofit corporations, and the Residential Mortgage Insurance Corporation (REMIC) are exempt from the general corporation tax. For taxable years beginning on or after January 1, 1998, the general corporation tax also does not apply to an alien corporation where the activities in New York City are limited solely to investing or trading in stocks, securities or commodities for its own account.

To determine tax liability, a corporation is required to make three alternative calculations, and compare these to a fixed minimum tax of $300. The tax due is the largest of the four amounts. The three alternative tax calculations are: (1) 8.85 percent of the firm's entire net income allocated to the City, (2) 2.655 percent of the sum of allocated net income plus compensation paid to all stockholders owning more than five percent of the taxpayer's issued capital stock and (3) 0.15 percent of the firm's business and investment capital allocated to the City. There is an additional tax on subsidiary capital allocated to the City, at the rate of 0.075 percent. The sum of the liability paid on the highest of the four alternative bases and the tax on subsidiary capital is the firm's total tax liability.

General Corporation Tax 1995–2006



The starting point for determining the net income base, 77.7 percent of corporate liability in tax year 2001, is Federal taxable income, which must be modified to account for differences between New York City and Federal treatment of various items, including depreciation, tax-exempt interest, and net operating loss deductions. This modified income must be divided between business income and investment income, and then allocated between income derived from New York City activities and income derived from activities outside of the City.

Business income is defined as the firm's entire net income minus its investment income (dividends and interest from nonsubsidiary operations). Investment income is allocated according to the amount of capital employed in New York City by the issuer's allocation percentage. The allocation formula used by most firms for business income is the average of the following ratios: (1) New York City tangible property to total property; (2) New York City

Distribution By Tax Base (Tax Year 2001) ($ in Thousands)	Taxpayers		Liability	
	Number	% Total	Number	% Total
• 8.85% of Net Income Allocated to the City	$64,286	25.0%	$1,120,968	77.7%
• 2.655 % of Allocated Net Income + Compensation Paid to All Stocholders Owning More Than 5% of Capital Stock	25,556	9.9%	181,535	12.6%
• 0.15% of Business and Investment Capital Allocated to the City	15,450	6.0%	80,623	5.6%
• Minimum Tax ($300)	149,957	58.3%	46,402	3.2%
• Not Available	1,925	0.7%	12,389	0.9%
Total	**257,174**	**100.0%**	**$1,441,917**	**100.0%**

receipts to total receipts; and (3) New York City payroll to total payroll. Manufacturing firms are allowed to "double weight" the receipts factor beginning in tax years on or after July 1, 1996. Slightly over half of the general corporation tax paid on the net income basis is from firms which allocate business income because they have operations both inside and outside of New York City.

The income-plus-compensation base accounted for approximately 12.6 percent of corporate tax liability in tax year 2001. The purpose of this alternative base is to tax firms which lower their taxable income by disguising dividends (which are not deductible) as salaries and other forms of compensation (which are deductible).

The starting point for determining this base is New York City allocated net income, to which must be added back the compensation paid to shareholders owning more than five percent of the corporation's outstanding stock. After a statutory deduction of $40,000 is taken, the firm applies the 8.85 percent rate to 30 percent of this base (hence the 2.655 percent effective tax rate).

The alternative tax on allocated business and investment capital accounted for approximately 5.6 percent of corporate tax liability in tax year 2001. This base is designed to tax firms which have low net income, either because of temporary financial difficulties or because of extensive use of tax preferences, such as deductions and net operating loss carryforwards.

To determine the tax obligation under this base, a firm must compute the value of its business and investment assets, deduct liabilities against those assets and, if eligible, allocate a portion of the business capital and investment capital to the City using the same allocation formulas described previously. The 0.15 percent rate is then applied. In 1988, a cap was placed on the business and investment capital tax base, limiting a corporation's tax on New York City allocated business and investment capital to a maximum of $350,000.

The additional tax on subsidiary capital (defined as a corporation of which over 50 percent of the outstanding voting stock is owned by the taxpayer) is imposed because entire net income excludes income derived from subsidiary operations. Subsidiary capital is allocated according to the amount of capital employed in New York City and taxed at a rate of 0.075 percent. Every taxpayer is eligible to allocate subsidiary capital.

Tax Exemptions and Credits:

Several tax exemptions and credits are available to New York City corporations. Each of the following exemptions and credits reduces total tax liability:

- **Energy Used in Manufacturing**

  (Administrative Code of the City of New York § 11-503(g), 11-604.15) Purchases of fuel, gas, electricity, refrigeration or steam used in the production of tangible personal property for sale by manufacturing, processing or assembling are exempt from the City sales tax, effective November 1, 2000. The purchases are exempt from the State sales tax but were taxable by the City prior to November 1, 2000. Firms could claim a credit equal to the amount of City sales and use tax paid.

- **Production-Related Machinery, Equipment, Parts, Tools, Supplies and Services**

  (NYS Tax Law § 1105-B, 1115(a)(12)) The purchase of the services of installing, repairing, maintaining or servicing machinery and equipment used in the production of tangible personal property (or gas, electricity, refrigeration, steam) for sale, has been exempt from the City sales tax effective September 1, 1996. These purchases are exempt from the State sales tax but were taxable by the City prior to September 1, 1996. Firms could claim a credit equal to the amount of City sales and use tax paid.

- **Relocation and Employment Assistance Program (REAP)**

  (Admin. Code. § 11-503(i), 11-604.17, 11-643.7, 11-1105.2, Chapter 6-B of Title 22) The Relocation and Employment Assistance Program (REAP) was established in 1987 to encourage firms with a regular business location south of 96th Street in Manhattan to expand or relocate their business anywhere else in the City. The program originally provided a credit of $500 per relocated employee for a period of 12 years. The credit amount was subsequently increased to $1,000 in 1995 and could be carried forward for five years. As of July 1, 2000 the credit amount was raised to $3,000 and is refundable for the first four years.

Under a 2004 statutory amendment, firms may claim a $3,000 per relocated employee credit if they relocate to qualifying areas in Lower Manhattan (below Houston Street) from outside the City. To qualify for the credit, a firm must have been established outside the City for at least 24 months prior to relocating and must not have employed any persons in the City between January 1, 2002 and the date it leases or purchases the relocation premises. The credit is available for 12 years; if the amount of the credit exceeds a firm's annual tax liability, the excess is refundable for the year of relocation and the next four years. Unused credits that are not refundable can be carried forward for five years. The Lower Manhattan credit has been made retroactive to relocations occurring on or after July 1, 2003.

The 2004 law also expanded and changed the pre-existing REAP by allowing leased premises to qualify for eligibility based on improvements made by the tenant to their own space rather than requiring building-wide improvements and by increasing the cap on the number of employees for which small businesses can claim the credit. Previously, firms could only claim the credit for a maximum of twice the number of employees that worked outside the eligible area in the year prior to the year of the relocation. The 2004 amendment allows firms to claim up to 100 employees for the credit. An additional provision was added permitting a discretionary reduction in the REAP benefit in instances in which a firm relocates from Lower Manhattan to another REAP-eligible area. The regular benefit will apply if the relocation involves no more than 100 employees; however, if the number of relocated employees exceeds 100, the Mayor or his or her designee can reduce the number of employees eligible for the credit.

The Lower Manhattan REAP benefit sunsets for new applicants on July 1, 2008. The pre-existing program, which had technically expired on July 1, 2003, has been reinstated retroactive to that date and has also been extended through June 30, 2008.

- **Employment Opportunity Relocation Costs Credit (EORC)**

  (Admin. Code. § 11-503(f), 11-604.14) The Employment Relocation Credit is available to firms relocating to New York City from outside New York State. The credit is allowed for certain costs incurred in relocating commercial or industrial jobs to New York City. To be eligible for the credit, a taxpayer must relocate a minimum of ten full-time jobs. The allowable credit is based upon relocation costs incurred by the taxpayer during the taxable year and may not exceed a maximum of $300 for each commercial job and $500 for each industrial job.

- **Real Estate Tax Escalation Credit (RETE)**

  (Admin. Code. § 11-503(e), 11-604.13) Taxpayers relocating to the City from outside of New York State who have created at least 100 full-time industrial or commercial jobs in the City are eligible for the Real Estate Tax Escalation Credit (RETE). The value of the credit is equal to the additional rent paid as a result of higher real estate taxes.

- **Energy Cost Savings Program (ECSP)**

  (Admin. Code. § 11-503(h), 11-604.16, 11-643.5(c), 11-704.1, 11-1105.1 and Chapter 6 of Title 22) Prior to November 1, 2000, an eligible commercial or industrial firm that relocated or expanded operations to Manhattan north of 96th Street, Brooklyn, the Bronx, Queens or Staten Island that purchased electricity or natural gas from a vendor or utility not under the direction of the Public Service Commission could receive a credit through the City's Energy Cost Savings Program (ECSP) equal to 30 percent of the total electricity bill or 20 percent of the total natural gas bill (firms purchasing electricity or gas from a vendor or a utility not under the PSC direction received the benefit directly from the utility company).

Effective November 1, 2000, ECSP was extended and restructured. The credit mechanism was repealed and all benefits are through the utility vendor. Additionally, the discount on energy costs is calculated as a percentage of the cost of delivery, rather than the combined costs of the delivery and purchase of the commodity. Eligible firms now will receive a 45 percent discount off the delivery portion of the electric bill and 35 percent off gas delivery costs. These changes parallel energy deregulation which enables businesses to purchase the electric or natural gas commodity on the deregulated market and realize additional savings. Also, under the new law, ECSP benefits were extended to firms using space in buildings in Long Island City or Fulton Ferry that are converted from manufacturing to commercial use. The new law sunsets June 30, 2005.

- **Personal Income Tax Credit for Unincorporated Business Tax Payments**

  (NYS Tax Law § 1310(e)) A corporate partner in a business subject to the unincorporated business tax (UBT) may claim a credit against the corporate tax (UBT/GCT nested credit) for its share of the unincorporated business's UBT if the corporation's distributive share of the income, gain, loss or deductions from the partnership is subject to the GCT. In 1996 the calculation of the credit was modified to allow a carryforward of the credit to be taken against tax liability in any of seven succeeding taxable years.

- **Film Production Credit**

  (Admin. Code. § 11-604.20) For tax years beginning on or after January 1, 2004, film and television companies may claim a credit against the general corporation (or unincorporated business) tax equal to five percent of specified production costs incurred in producing a qualified film or television program in the City, in addition to the 10 percent credit they can claim against the State's Article 9-A franchise tax or personal income tax. The total amount of credits issued per calendar year is capped at $12.5 million; claimed credits which exceed this amount can be carried over to the following calendar year. The credit expires on August 20, 2008.

- **Large Sports Utility Vehicle (SUV) Tax Treatment**

  (Admin. Code. § 11-602.8, §11-602.12) For tax years beginning on or after January 1, 2004, large SUV's will be taxed according to the same Federal depreciation and expensing formulas that apply to passenger automobiles. Prior to this date, the City's general corporation tax had been coupled with Federal depreciation and expensing provisions which allowed favorable tax treatment for large SUV's.

Industrial Mix of General Corporation Tax Revenue:

The chart located on the bottom of the next page is based on data from a statistical report of corporate returns for tax year 2001 (the latest year for which data is available from the Department of Finance (DOF)) and reflects the distribution of City tax liability and number of filers by industrial sector.

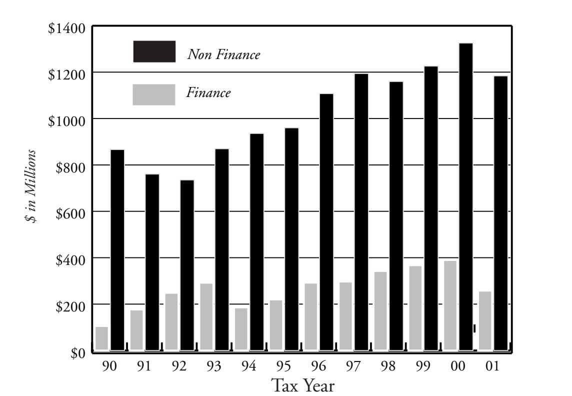
In 2001, the service sector (information, professional/technical/managerial and other services) and finance sector accounted for over half of GCT liability. The service and trade sectors accounted for the largest amount of taxpayers, 37 percent and 21 percent, respectively.[1]

Since 1990 the GCT total liability has increased 77 percent from $972 million in 1990 to $1,442 million in 2001. A large portion of the growth in liability is a result of growth in the finance sector, more specifically in securities and commodities firms. Securities and commodities liability has grown 209 percent from $65 million in 1990 to $201 million in 2001. This sector now accounts for over 14 percent of GCT liability up from seven percent in 1990.

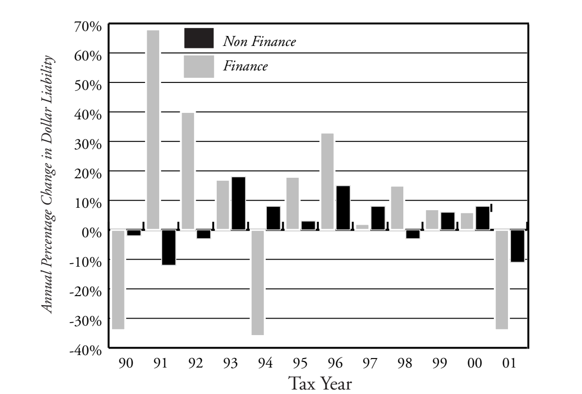
During the 1990's the securities industry grew rapidly in New York City. Strength in the stock market and robust earnings for investment banking firms increased tax liability. In addition to the finance sector, the real estate sector grew significantly during the 1990s. Real estate liability more than doubled and the number of firms has steadily increased as well.

[1] *Prior to 1998, the industrial sectors were classified according to SIC codes; now they are grouped according to NAIC (North American Industrial Classification) codes.*

GCT Finance Liability Increased 149 Percent and Non-Finance Liability Increased 63 Percent During the 1990s



The Finance Sector is More Volatile Than the Non-Finance Sector



The number of firms paying the GCT increased from 203,223 in 1990, to 257,174 in 2001. However, not all sectors have been growing.

Manufacturing firms have been steadily moving out of the City. In 1990, 18,115 manufacturing companies accounted for almost nine percent of GCT liability. In 2001 there were only 11,742 manufacturing companies in New York City and accounted for only five percent of GCT liability.

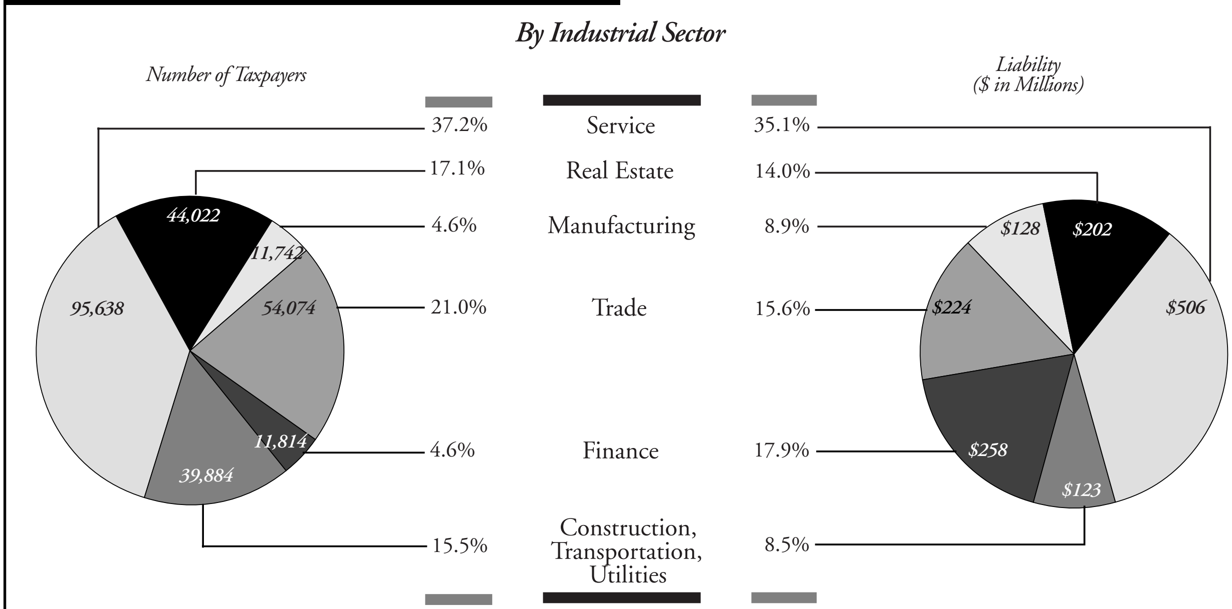
Comparisons of liability between years are estimated due to changes in the classification of companies and categories. Until 1998 liability was reported in five main categories with 27 sub-categories. In 1998, reported liability was broken into eight categories with 40 sub-categories. Prior to 1998, the industrial sectors were classified according to SIC codes; now they are grouped according to NAIC (North American Industrial Classification) codes. Definitions for certain categories were also changed in 1998.

Legislative History:

Prior to 1977, the tax rate on net corporate earnings was 10.05 percent. In 1977, the rate was reduced to 9.5 percent and, in 1978, the rate was again lowered to 9.0 percent where it remained until 1987, when it was reduced to 8.85 percent.

In response to business tax reform initiatives at the Federal level, New York City has altered the general corporation tax. The Federal Economic Recovery Tax Act of 1981 and the Tax Equity and Fiscal Responsibility Act of 1982 substantially altered Federal business taxes by instituting the Accelerated Cost Recovery System (ACRS) and more liberal

General Corporation Tax (Tax Year 2001)



Source: NYC Department of Finance, Office of Tax Policy leaseback provisions. Under the provisions of ACRS, property could be rapidly depreciated in the first few years of service. Since the general corporation tax uses the Federal definition of net taxable income as the starting point in determining tax liability, firms depreciating property under ACRS would have been able to drastically lower their New York City tax obligation. To avoid a substantial loss of revenue, the City uncoupled from the Federal ACRS in 1982 and required firms to depreciate assets under the Asset Depreciation Range. In 1985, however, the City joined with New York State in allowing New York State assets to be depreciated under ACRS. In 1994 ACRS was extended to property placed in service outside the State.

The Federal Tax Reform Act of 1986 substantially broadened the State and City corporate tax base by limiting or eliminating various deductions (such as entertainment expenses and natural resource depletion allowances) and accelerating taxable income by requiring corporations to recognize income earlier than under previous law. In order to return the business tax "windfall" which was expected to result from this change, New York State passed the Business Tax Reform and Rate Reduction Act (BTRRRA) in 1987.

The City also took steps to return the "windfall" by lowering its corporate tax rate by 0.15 percentage points, to 8.85 percent, effective for tax year 1987. In July of 1988, the State Legislature passed a bill to conform the City tax law to changes made as part of BTRRRA. As part of this legislation, which became effective in tax year 1988, the City: (1) exempted real estate mortgage investment conduits from the tax; (2) established a ceiling on the alternative capital base of $350,000; (3) amended the definitions of subsidiary, investment, and business capital to allow for the deduction of long-term debt; (4) required leased personal property to be included in the formula for calculating the business allocation percentage; (5) eliminated the deduction for franchise, income or similar taxes paid to other states and localities; and (6) repealed the interest add-back rule which required that 90 percent of the interest paid to a shareholder owning more than five percent of issued capital stock be added back to income when computing entire net income.

Effective July 1, 1990, the general corporation tax was amended by local law to conform the filing schedule for estimated payments to the schedule used at the Federal and New York State levels. Estimated payments by calendar year corporations are now due in September and December.

The Federal Omnibus Budget Reconciliation Act of 1993 enacted a host of tax law changes including a number of provisions affecting corporate taxes which flow through to the City tax. Among the major provisions are a mark-to-market inventory valuation rule change for securities dealers, a reduction in the business meals and entertainment deduction and an increase in the capital investment limit allowed for small businesses.

In 1994, New York State enacted legislation which allows the formation of a new type of business entity in New York State, a limited liability partnership or company (LLC). LLCs have some of the limited liability aspects of corporations and the tax treatment of partnerships for Federal, State and local tax purposes. LLCs pay a fee to the State, and those conducting business in the City are subject to the City unincorporated business tax. Over time, the number of corporations is expected to decline as new businesses increasingly opt for the LLC business form.

The general corporation tax's income-plus-compensation alternative tax computation has been modified by phasing out the officers' add-back requirement and by increasing the per-firm statutory deduction. For tax years beginning on or after July 1, 1996, 25 percent of officers' compensation was exempted from the add-back requirement. For tax years beginning on or after July 1, 1997, the per-firm statutory deduction was raised from $15,000 to $30,000. For tax years beginning on or after July 1, 1998, 50 percent of officers' compensation was exempt from the add-back requirement. The per-firm statutory deduction was raised from $30,000 to $40,000 effective July 1, 1998. For tax years beginning on or after July 1, 1999, officers' compensation is no longer included in the base for calculating the income-plus-compensation tax base. Compensation paid to individual shareholders owning at least five percent of the firm remains fully subject to the alternative tax.

For tax years beginning on or after July 1, 1996, the "place of business" requirement for allocation of taxable income for the general corporation tax has been repealed. Under City tax law, a business operating in the City with a place of business outside the City is allowed to apportion its business income according to a three-factor formula based on the share of its total property, payroll and receipts in New York City. The right to apportion income was previously not available to firms that sold goods or services throughout the country or the world, but only had a City business location. These firms were required to pay tax on all taxable income. All taxpayers conducting business outside the City are now allowed to allocate income with the elimination of the "place of business" requirement.

For tax years beginning on or after July 1, 1996, manufacturing firms are allowed to "double weight" the receipts factor in the allocation formula for the general corporation tax. This enables City-located manufacturers to allocate more of their income outside the City, thus reducing their City business income taxes and aiding their competitiveness.

In an effort to promote greater uniformity between the State and City corporate income tax laws, amendments were made to the City's tax in 2001 which include: (1) repeal of City tax provisions enacted in 1990 that penalized certain highly leveraged mergers, consolidation and acquisitions for tax years beginning after 1999; (2) modification to the calculation of the mandatory first estimated tax installment to allow credits to be deducted in determining the amount of the prior year's tax used to calculate the first installment; (3) amendment of various tax provisions governing deficiencies and overpayments attributable to net operating loss carrybacks to include deficiencies in overpayments attributable to carrybacks of capital losses.

The Federal Job Creation and Worker Assistance Act of 2002 allows taxpayers an additional 30 percent depreciation deduction in the first year "qualified property" is placed in service. A similar depreciation deduction for "qualified property" in the New York Liberty Zone (NYLZ) and the Resurgence Zone is allowed. The NYLZ generally encompasses the area in the borough of Manhattan below Canal Street and the Resurgence Zone encompasses the area between Canal Street and Houston Street. Additionally, the Act also allows NYLZ leasehold improvements to be depreciated over a five-year period using a straight line method as well as an additional first-year expense deduction of up to $35,000 for "qualified NYLZ property". To avoid a significant loss of revenue, New York City general corporation tax law was amended to limit the depreciation deductions to "qualified property" within the NYLZ and the Resurgence Zone only and to limit the additional first-year expense deduction to "qualified NYLZ property."

Administration:

The general corporation tax is administered by the New York City Department of Finance. Firms subject to the tax must file according to a payment schedule which conforms to Federal and State filing dates. (See chart below.)

For firms which have a fiscal year beginning January 1, final returns and a prepayment on current year liability equal to 25 percent of prior year liability are due in March, the annual declaration of estimat-

General Corporation Tax Payment Schedule

Payment	Due Date	Amount
Final Annual Return	2 1/2 months after fiscal year close	Balance of tax liability outstanding
Prepayment	At time of filing annual return	25% of preceding year's tax liability
Declaration of Estimated Tax/First Installment	On or before 15th day of the sixth month of the liability year	One-third of balance
Second Installment	On or before 15th day of the ninth month of the liability year	One-third of balance
Third Installment	On or before 15th day of the last month of the liability year	One-third of balance

ed tax (the first installment) is due in June and estimated payments are made in September and December. Firms may file amended declarations of estimated tax at any time, to correct or change tax estimates. The Department of Finance is also empowered to grant a reasonable extension of time for filing returns when there is good cause for doing so. For annual returns, an automatic six month extension can be granted if the firm files an application for extension.

As a result of the September 11, 2001 terrorist attack, the filing deadline for the quarterly estimated tax payment due September 17, 2001, was extended to December 17, 2001.

Forecasting Methodology:

The general corporation tax is forecast using linear regression models. Annual tax liability is disaggregated into finance and non-finance liability and modeled separately. This approach has two advantages. First, liability year tax information more accurately reflects economic activity than fiscal year collection data which includes payments from more than one liability year. Second, the disaggregated approach captures often divergent responses to economic conditions by the finance and non-finance sectors. The finance sector, representing about one-fourth of total liability, is highly volatile and often responds immediately to factors affecting the financial markets, such as interest rate moves, which may only affect firms in other sectors with a lag as the economy responds. The non-finance sector, accounting for about three fourths of GCT liability, is more closely linked to the general profit conditions nationwide.

The Department of Finance has provided annual tax liability data by sector from 1981 to 2001. The finance and non-finance series were extended back to 1975 by backcasting, using growth in liability of the State's Article 9 taxpayers (which is available by sector).

An annual linear regression model is used to forecast finance sector liability. The explanatory variables for finance are NYSE member-firm profits and gross domestic product (GDP). Overall these variables serve to capture finance sector profits allocated to the city.

The finance sector equation is as follows:

FINANCE LIABILITY =
a + b1 (NYSE Member-Firm Profits)
+ b2 (Gross Domestic Product)

An annual linear regression is also used to forecast liability in the non-finance sector. The explanatory variables are gross city product (GCP), before-tax national corporate profits/GDP, and employment in professional services. GCP measures local economic activity and the national corporate profits/GDP measures the change in national corporate profits relative to GDP and captures the non-finance sector's connection to the national economy. The other variable, employment, explains changes in liability due to changes in employment for the finance and professional services sectors.

The non-finance sector equation is as follows:

NON-FINANCE LIABILITY =
a + b1 (Gross City Product)
+ b2 (Before-Tax Corporate Profits/GDP)
+ b3 (Employment in Professional Services)

The separate liability forecasts are combined, yielding a forecast of total general corporation tax liability which is then converted to a fiscal year forecast. The diagram [prior page] details the complexity of the fiscal year forecast for the general corporation tax. In any given fiscal year there are payments on at least three different liability years. For example, in fiscal year 2005, calendar year corporations file final returns on extension for tax year 2003. Firms which file an extension in March instead of a final return are granted a six month extension and generally file the final return in September.

Historically, the final returns on extension for the prior year liability represent 21 percent of the fiscal year total. Calendar year filers also make estimated payments in September and December for tax year 2004. Any residual amount owed on tax year 2004 is paid in March along with the mandated 25 percent prepayment towards tax year 2005.

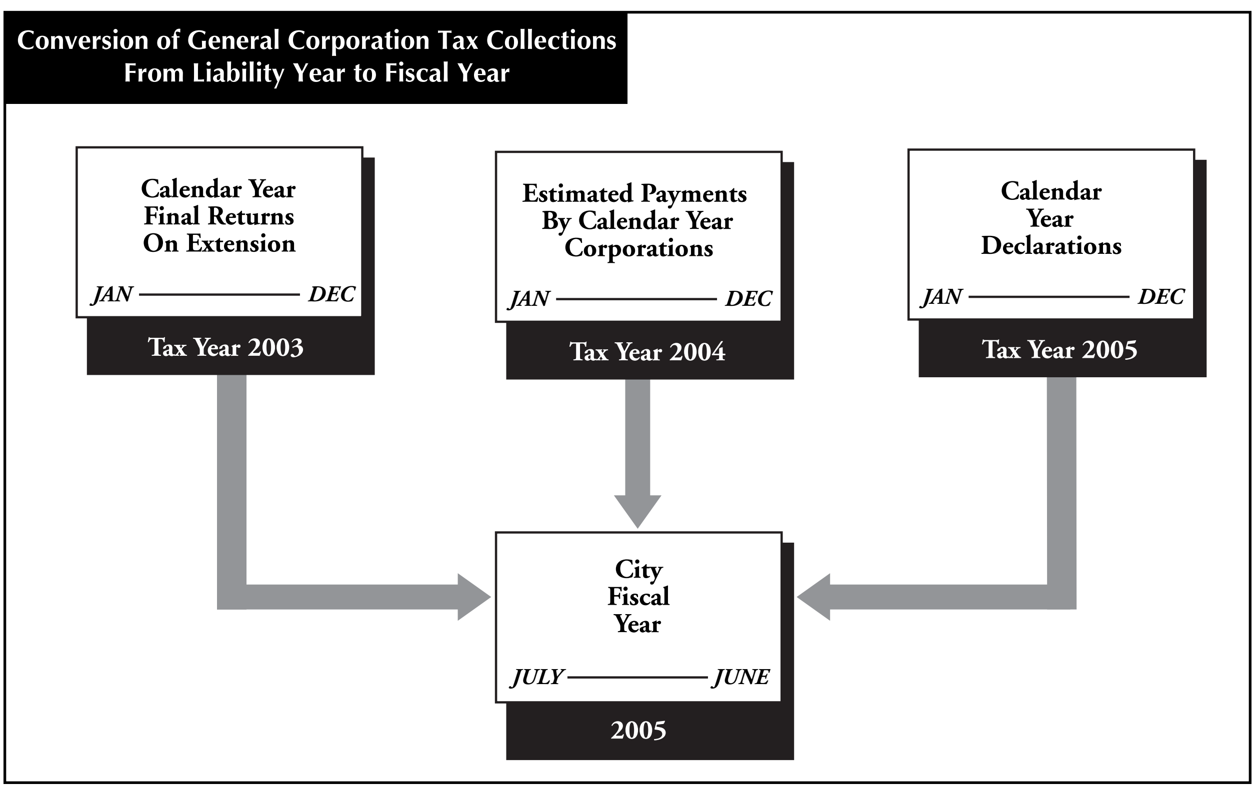
These payments make up the majority of the fiscal year revenue accounting for 64 percent of the total. Finally, in June, calendar year corporations make the first estimated payment on tax year 2004. This payment represents 15 percent of the fiscal year total. Since calendar year corporations represent 65 to 70 percent of the total tax liability, most of the tax is collected in September, December, March and June. Fiscal year filers (firms whose fiscal year begins on a date other than January 1) account for 30 to 35 percent of the total tax liability. These firms are required to make the same four types of payments at the same intervals, but their payment schedule is shifted according to their fiscal period.

The final step in the process is to determine the net fiscal year revenue after refunds have been taken into account. General corporation tax refunds are forecast using the historical percentage of refunds to prior year gross revenue. Any extraordinary items are recognized but are usually not incorporated into the projection of future refund levels.

Cash Flow Model:

Once revenue is forecast, a monthly cash plan, which reflects the seasonality of the collections and the complexity of the fiscal year cash flow, is derived using a historical average of monthly collection patterns from prior years. The monthly cash plan takes into consideration payment expectations for both calendar year and fiscal year filers. The initial plan is then adjusted to reflect current or expected trends resulting from legislative or identifiable behavioral changes. Growth rates over prior year collections are closely monitored and analyzed in order to determine if collections are consistent with overall plan assumptions.

Beginning in 1994, City taxpayer assessed taxes are recognized on an accrual basis as required by GASB (Governmental Accounting Standards Board) Statement No. 22 and beginning in 2001, as required by GASB Statement No. 33 (GASB Statement No. 33 is assumed to equal GASB Statement No. 22). Gross collections, audits and refunds are recognized with a 60-day accrual.



Appendix I
Real Property Tax

Table of Contents

1.
Estimated Value of Real Property Tax Exemptions and Abatements

Estimated Value of Real Property Tax Exemptions and Abatements 1994-2004

($ in Millions)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Economic Development Exemptions											
I.C.I.B/I.C.I.P	$119.7	$107.1	$105.7	$99.3	$111.9	$132.5	$144.6	$177.7	$193.4	$249.2	$315.4
Battery Park City Authority*	124.5	113.7	94.2	87.2	81.6	79.5	71.2	79.8	72.8	89.3	31.9
Industrial Development Agency*	37.3	52.6	48.5	47.2	47.8	61.5	84.5	66.0	66.6	62.8	82.2
Urban Development Corp. (U.D.C.)*	77.9	78.3	77.0	76.9	80.0	84.5	101.0	107.6	113.1	141.1	165.2
Economic Development Corp.*	2.8	4.3	3.7	3.4	4.1	7.4	3.8	3.9	7.1	11.5	12.8
World Trade Center*	95.8	80.7	79.8	64.0	54.7	61.5	60.5	59.0	5.4	n.a.	n.a
Teleport, Port Authority*	1.2	0.9	2.2	1.1	1.3	1.5	6.7	6.7	6.9	6.9	7.2
Madison Square Garden	9.1	9.0	8.8	8.7	8.6	8.7	8.5	8.3	8.8	10.6	11.1
Commercial Revitalization and Expansion Programs	n.a.	n.a.	n.a.	1.3	3.6	7.0	14.1	18.1	19.3	15.4	12.6
Subtotal	$468.3	$446.6	$419.9	$389.1	$393.6	$444.1	$494.9	$527.1	$493.4	$586.8	$638.4
Residential Exemptions											
Public Housing											
Housing Authority*	$312.2	$295.2	$281.7	$264.0	$255.3	$241.2	$239.5	$244.0	$254.1	$297.5	$328.9
Private Housing											
J-51 (exemption)	88.4	70.8	67.9	59.5	54.6	54.9	55.9	60.8	65.9	78.0	91.5
J-51 (abatement)	112.7	113.8	108.7	105.4	104.6	105.7	106.9	99.5	96.5	97.8	97.6
421-a - New Multiple Dwellings	142.2	117.2	103.4	96.5	87.9	78.9	104.8	111.3	130.0	181.6	251.8
421-b - New Private Housing	12.0	10.9	10.3	9.9	9.5	9.8	10.5	11.7	14.6	13.9	23.8
Senior Citizen Homeowner Exemption	13.8	15.1	17.2	18.2	19.8	21.1	25.6	26.7	28.4	27.8	34.2
Senior Citizen Rent Increase Exemption (abatement)	60.7	59.8	91.9	54.1	61.0	62.5	63.5	63.5	80.2	66.5	80.2
HPD Division of Alternative Management	3.1	3.9	3.7	4.0	4.3	4.6	5.4	5.8	6.7	8.5	9.8
Veteran's Exemption	9.8	10.1	9.1	10.0	11.0	16.1	18.0	18.5	19.0	16.1	19.8
Co-op/Condo Abatement	n.a.	n.a.	n.a.	9.0	91.8	152.7	157.8	170.2	181.3	215.0	250.6
Lower Manhattan Conversion	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	19.9	22.7	31.1
Other**	242.0	287.4	270.3	257.7	252.1	234.2	235.8	236.7	248.2	298.1	324.9
Subtotal	$996.9	$984.2	$964.2	$888.3	$951.9	$981.7	$1,023.7	$1,048.7	$1,144.8	$1,323.5	$1,544.2
Other Exemptions											
Utility											
NY Power Authority	$30.8	$31.8	$34.5	$35.5	$38.5	$41.3	$44.7	$49.4	$50.3	$80.1	$86.3
Jamaica Water Supply	6.6	6.8	7.2	7.4	7.8	8.2	8.6	9.5	9.5	10.4	11.2
Trust for Cultural Resources	5.0	5.1	4.8	4.8	5.7	5.7	5.7	5.8	5.7	6.1	6.8
Subtotal	$42.4	$43.7	$46.5	$47.7	$52.0	$55.2	$59.0	$64.7	$65.5	$96.6	$104.3
TOTAL	**$1,507.6**	**$1,474.5**	**$1,430.6**	**$1,325.1**	**$1,397.5**	**$1,481.0**	**$1,577.6**	**$1,640.5**	**$1,703.7**	**$2,006.9**	**$2,286.9**

Source: Department of Finance

**Net of Payments in Lieu of Taxes (PILOTs) and other miscellaneous payments.*

***"Other" includes miscellaneous State-assisted housing, housing development fund companies, limited dividend housing companies, redevelopment companies, limited profit housing companies, the Urban Development Action Area Program, net of payments in lieu of taxes (PILOTs) and persons with disabilities and low incomes.*

Notes:

- *The revenue estimates of assessed value exemptions and abatements are calculated by multiplying the exempted (or abated) assessed value by the applicable statutory tax rate for each fiscal year.*
- *U.D.C., J-51, 421-a and "Other" Residential include commercial and residential properties.*
- *Totals may not add due to rounding.*

2.
Description of Tax ExpenditurePrograms

Appendix I

Description of Tax Expenditure Programs

A. ECONOMIC DEVELOPMENT

Industrial and Commercial Incentive Program (ICIP) (New York State Real Property Tax Law, Sections 489-aaaa to 489-llll):

The ICIP, created in 1984, is designed to stimulate economic development by encouraging new construction and the modernization of existing industrial and commercial structures by providing exemptions, deferrals and abatements from real property taxes. An additional "inflation protection" benefit allows tax increases due to market value increases to be exempted as well. These incentives are granted "as-of-right" based on geographic location, i.e. projects are automatically eligible for ICIP benefits if they meet specific eligibility requirements and complete the appropriate legal and administrative requirements. This program has been modified periodically to address the needs arising from New York City's ever-changing economic climate. Benefits are granted for periods ranging from eight to 25 years.

Eligibility for benefits under the ICIP is based on the following five criteria:

- The property must be for commercial, industrial or mixed-use. For projects begun after July 1, 2000 there is no longer a waiting period to convert industrial properties to commercial use. Prior to July 1, 2000, the waiting period for conversions of industrial properties to commercial use was five years if the property was located in Manhattan below 96th street, and four years for properties in Long Island City. In all other areas it had been two years.
- The property must not be located in an exclusion zone. Exclusion zones comprise the area in Manhattan between 59th and 96th Streets for commercial projects, and south of 59th Street for new construction projects (unless the project is a "smart building"). (See explanation on page I-18)
- The developer's costs must meet certain minimum thresholds (generally a percentage of the property's initial assessed value) specified in the program. Eligible construction must result in a permanent capital improvement. Routine repairs and replacements and cosmetic alterations do not qualify a property for benefits.
- Applicants must meet minimum requirements regarding the timetable for the expenditure of funds and the total time allowed for completion of construction or renovation. For all projects (except "smart buildings," explained on page I-18), 50 percent of the minimum required expenditure must be expended within 30 months, and the entire amount must be spent within 60 months of the issuance of a building permit.
- Applicants with construction contracts of $1 million or more and subcontractors of $750,000 or more must file employment reports with the Bureau of Labor Services.

For a building to be eligible under the "industrial" category, at least 75 percent of the total square footage must be used for manufacturing activities. Industrial projects in which less than 75 percent of the property is used for manufacturing can qualify for prorated benefits, provided at least 25 percent of the square footage is devoted to manufacturing. To be eligible under the "commercial" category the building must be used for commercial activities (including retailing and hotel services).

ICIP benefits are contingent upon the continued use of the property for the purpose stated in the project application. The sunset date for ICIP is currently June 30, 2007. The ICIP is administered by the City's Department of Finance (DOF). The existing ICIP can be classified under the following seven categories:

1. *Industrial Buildings:* All industrial projects throughout the City, regardless of location, enjoy a total of 25 years (increased from 22 years) of benefits which include 16 years of full exemption on the increased assessed value due to physical changes, and an additional nine years of declining exemption phased out at 10 percent each year.

   The minimum required expenditure is 10 percent of the initial assessed value (reduced from 20 percent). In addition to the tax exemption on the 25 percent or more increase in assessed value due to improvement, taxpayers are eligible for an additional tax abatement as a percentage of the pre-existing real estate taxes for 12 years, with a 50 percent abatement for the first four years, phased out at 10 percent for every other year for the remaining eight year period. Additionally these buildings are eligible for inflation protection.

2. *Commercial Projects (Special Exemption Areas):* Commercial projects in designated special exemption areas enjoy benefits identical to those for industrial projects, with 16 years of full tax exemption on the increased assessed value due to physical changes, followed by nine years of declining exemption phased out at 10 percent each year.

   Additionally these buildings are eligible for inflation protection. A Boundary Commission established under the aegis of the ICIP program has the authority to designate economically distressed areas as Special Exemption Areas.

3. *Commercial Projects (Regular Exemption Areas):* Commercial projects in regular exemption areas, which include areas in Manhattan north of the centerline of 96th Street, and in the Bronx, Brooklyn, Queens and Staten Island, enjoy tax benefits for a period of 15 years (increased from 12 years).

   They receive a full exemption on the increased assessed value due to physical changes for the first 11 years, with an additional four years of exemption declining by 20 percent each year. The minimum required expenditure is 10 percent of the initial assessed value (reduced from 20 percent). In 2001, restrictions regarding the availability of benefits for these buildings were eased.

4. *Commercial Projects (Excluded Areas):* The Midtown area from 59th to 96th Street east of the center line of 6th Avenue for commercial renovation projects, and most of the downtown area south of 96th Street (except “smart buildings”), are designated as excluded areas for new construction projects. No benefits are available for commercial projects in this area.

5. *Commercial Projects (Deferral Areas):* Commercial projects located in Manhattan south of 96th Street but not in the excluded area get a 100 percent exemption on the increased assessed value due to physical changes for the first three years, followed by four years of declining exemption at 20 percent each year, then three years of payment of full taxes, followed by a 10 year repayment period in which full taxes are paid, together with 10 percent of the total taxes previously deferred.

   The minimum required expenditure is 20 percent of the initial assessed value. There is no deferral area program as of July 1, 1995.

6. *Commercial Projects (Renovation Exemption):* Commercial projects get a 100 percent renovation benefit for the first eight years with an additional four years of exemption declining by 20 percent each year. The minimum required expenditure is 20 percent of the initial assessed value and is restricted to the renovation of existing buildings only.

   Currently buildings located in Manhattan south of 59th Street are eligible for renovation benefit. This program is scheduled to expire on June 30, 2007.

7. *Commercial Projects (New Construction Incentive for “Smart Buildings”):* This program grants an eight-year tax exemption for eligible projects, with full exemption for the first four years followed by a phaseout of benefits in 20 percent increments during the last four years.

   In order to qualify, these “smart buildings” must meet certain construction standards (specified in the program guidelines) to accommodate advanced computer and telecommunications equipment and have enhanced electrical capacity and emergency back-up power (see table on page I-18 for a detailed list of criteria for a building to be defined as a “smart building”).

   In lower Manhattan the applicant must complete all foundation work within 24 months and complete construction of the approved project within 42 months of the effective date of the certificate of eligibility. There is no minimum required expenditure to qualify under this program. This program is scheduled to expire on June 30, 2007.

8. *Revitalization Areas:* Within regular or special exemption areas, an area may be designated as a Revitalization Area. It may be any

area of the City, except in Manhattan south of 96th street that is zoned C4, C5, C6, M1, M2 or M3.

The revitalization area designation eliminates the two or four year waiting period for eligibility where commercial projects had more than 15 percent of the total net square footage used for manufacturing. It allows a pro rata abatement for the industrial portion of a mixed-use project (commercial and industrial) in which less than 75 percent but at least 25 percent of the total square footage of the building or structure is used for manufacturing or is immediately available for manufacturing use.

Outside revitalization areas, an abatement is available only if at least 75 percent of the structure is used for manufacturing or immediately available for manufacturing use.

The table on page I-18 details the various ICIP benefits by type of project.

Commercial Revitalization Program (NYSRPTL, Sections 499-a to 499-h):

The Commercial Revitalization Program was devised to address the problems of high vacancy and obsolescence, primarily in the downtown Manhattan area. Prior to 1997 amendments, the program was to expire March 31, 1998. The amendments extended the program to March 31, 2001. Currently, this program sunsets on March 31, 2007.

In 1997, this program was also modified to provide enhanced benefits to small (fewer than 125 employees) tenants by lowering the minimum expenditure and the minimum lease period requirements for leases commencing on or after April 1, 1997.

This program offers a number of tax incentives intended to spur economic activity by encouraging the conversion and/or renovation of obsolete commercial buildings to viable residential housing or mixed-use commercial and residential properties. Properties located in the abatement zone (the area bounded by Murray Street and Frankfort Street on the north, South Street on the east, Battery Place on the south and West Street on the west) are expected to realize significant benefits as a result of a reduction in their occupancy costs resulting from targeted reductions in their property, commercial rent, and energy taxes.

This program also extends real property tax reductions to qualifying properties in boroughs other than Manhattan. This program is administered by DOF and includes the following tax incentives which are detailed on page I-19.

1. *Real Property Tax Abatement:* Property tax abatements are available for pre-1975 buildings located in the abatement zone, in which leases for commercial office space or retail space have been executed between April 1, 1995 and March 31, 2007. The qualifying conditions for properties outside of Lower Manhattan are more liberal (see page I-19 for details).
2. *Commercial Rent Tax Special Reduction:* This benefit takes the form of a "special reduction" that is subtracted from the amount of rent otherwise subject to the commercial rent tax for pre-1975 buildings (including government-owned buildings) in lower Manhattan in which leases for commercial office space or retail space have been executed between April 1, 1995 and March 31, 2007.

   Prior to the program changes enacted in 1997, a lease term of at least ten years was required of tenants with more than 50 employees. The program modifications reduced the minimum lease term requirement for tenants with fewer than 125 employees to five years for leases commencing on or after July 1, 1996, and to three years for leases commencing on or after April 1, 1997.
3. *Rebates of Charges for Electricity:* Newly constructed or renovated buildings located in "eligible revitalization area" in lower Manhattan receive a reduction in their electricity costs. Eligibility for the benefit depends on several factors, including investment in the building (minimum of 20 percent of all existing building's assessed value), occupancy of premises in the building by eligible users (generally commercial tenants) and compliance with certain submetering and notice requirements.

   The reduction in energy charges is provided as a rebate in the form of reduced energy bill from the utility to the building's landlord; who in turn, is required to pass along the benefit to eligible tenants. The rebate is equal to 30 percent of eligible charges for the first eight years, 24 percent for the ninth year, 18 percent for the tenth year, and 12 percent for the eleventh and twelfth year. Buildings designated as landmark are entitled to an extra year at the 30 percent rate.

4. *Mixed-Use Construction Tax Exemption:* Many of the large older buildings in lower Manhattan have street level floors which are unsuitable for uses other than commercial or retail due to their size and configuration, while having towers that are suitable for residential use. This program, with an application period from July 1, 1995 to July 31, 1999, provided an incentive to convert these buildings to mixed-use.

   Eligible buildings receive a tax exemption for 12 years on the increase in assessed values due to eligible construction work, starting with 100 percent for the first eight years (nine years for designated landmark buildings) phased out at 20 percent for each year thereafter. In order to be eligible for this program, an owner's investment in the building had to equal at least 20 percent of the initial assessed value of the building. As with the residential conversion program, dwelling units in buildings receiving benefits under this program are subject to rent stabilization during the benefit period.

5. *Residential Conversion Tax Exemption (421-g):* This program encourages owners of commercial office buildings in lower Manhattan that can no longer meet the needs of commercial tenants to convert their properties to residential use. The program offers property tax exemptions for 12 years on the increased assessed values due to physical improvements (a 100 percent exemption for the first eight years, phased out at 20 percent per year thereafter) and a 14 year tax abatement on the existing real estate taxes relating to the pre-construction assessment value (a 100 percent exemption for the first 10 years, phased out at 20 percent per year thereafter). Buildings designated as landmarks receive an additional year of both abatement and exemption benefits at the 100 percent level. In 1997, the program modifications allowed an exemption of the increase in assessed value during the first year of construction.

Commercial Expansion Program (NYRPTL, Sections 499-aa to 499-hh):

Modeled on the success of the Commercial Revitalization Program, this new program encourages businesses to locate in areas of the City outside of Manhattan's core business districts: in Manhattan above 96th Street, the Bronx, Brooklyn, Queens and Staten Island. The following is the brief description of benefits offered under this program.

Real Estate Tax Abatement for Commercial and Industrial Leases: This program provides real estate tax abatements for new, renewal or expansion leases for commercial office or industrial space, excluding space used for retail, hotel or residential purposes. The full value of the savings by the landlord is to be passed on to the tenants as a rent reduction.

The following conditions must be met to qualify for this abatement: (a) leases must commence between July 1, 2000 and June 30, 2007; (b) the premises must be in a non-residential or mixed-use building that was built before January 1, 1999 and has an aggregate floor area of 25,000 square feet or more; and (c) meet minimum required expenses which vary depending upon the length of the lease and the number of employees that will be located at the premises. Qualifying leases with a term of five years or more are eligible for a five-year tax abatement.

The tax abatement in the first three years is equal to the lesser of the actual real estate tax per square foot or $2.50 per square foot. The abatement in years four and five is equal to two-thirds and one-third, respectively, of the initial tax abatement. Qualifying leases with a minimum term of three years but less than five years are eligible for a three year tax abatement.

In the first year, the benefit is equal to the lesser of the actual real estate tax per square foot or $2.50 per square foot. In years two and three the benefit is equal to two-thirds and one-third, respectively of the initial tax abatement.

Public Agency Exemptions:

Property owned by the following organizations is exempt by State law from taxation: New York City Industrial Development Agency, New York State

Urban Development Corporation, New York City Public Development Corporation, Port Authority of New York and New Jersey and Battery Park City Authority. Most of these organizations make payments in lieu of taxes (PILOTs) to the City.

B. HOUSING DEVELOPMENT

Residential Alterations and Rehabilitation Exemptions and Abatement

J-51 Program (NYSRPTL, Section 489):

The J-51 program promotes rehabilitation of existing multiple dwellings or conversion of non-residential buildings to Class A residential multiple dwellings by providing a 14 year exemption on the increased assessed value resulting from the improvements, alterations or rehabilitations (certain government assisted rehabilitations of vacant City-owned buildings are eligible for a 34 year exemption) and an abatement on the existing taxes, which is based on the lesser of the owner's claimed cost or Certified Reasonable Cost (CRC) of the improvement.

The amount and duration of benefits granted are determined by the type of "renovation category" into which the project falls. All conversions, alterations, and improvements must be completed prior to December 31, 2007 to qualify for benefits under this program. In 2001, the program was extended to cooperatives, condominiums and housing development fund companies to cover eligible expenses for converting a direct metering system to a sub-metering system. This program is administered jointly by HPD and DOF.

In 2003, the program was expanded to allow exemption (but not abatement) benefits for projects that result in an expansion of the gross cubic content of the building, provided the floor area of the existing building that was converted, altered or improved comprises at least 50 percent of the completed structure. For projects in Manhattan between 110th Street and Chambers Street, such a project can qualify for exemption benefits only if it is aided by a grant, loan or subsidy from a federal, state or local agency.

Eligibility Requirements:

The following list details the conditions for eligibility for J-51 benefits:

- All renovation and rehabilitation must fit into one of the renovation categories described in the table on page I-20.
- All work must be completed in three years, or within five years if government assisted.
- The pre-rehabilitation assessed value cannot exceed $40,000 per dwelling unit for all conversions north of 110th street and the post-rehabilitation assessed value per dwelling unit cannot exceed $38,000 per dwelling unit for conversions in Manhattan south of 110th street.
- At the time benefits are granted all back taxes on the land, building, and water and sewer charges must be current. During the benefit period these taxes cannot be delinquent for more than one year, or else the J-51 benefits will be revoked.
- The tax abatements issued on any property that is located in the Minimum Tax Zone[1] cannot be used to abate or reduce taxes on the land portion of the property.
- An application can be filed for any property located in the Tax Abatement Exclusion Zone[2] for the abatement portion of the benefits only, and for not more than $2,500 per unit.
- Rental units must remain under rent regulation during the benefit period.

Conditions of Ineligibility:

Any one of the following conditions would render a project ineligible for benefits under the J-51 program:

- Any building that receives exemptions or abatements from another program (i.e. the 421-a program) at the time of renovation is ineligible for J-51 benefits. This does not include provisions of the Private Housing Finance Law.
- Any multiple dwelling that results from the renovation of a private dwelling will be ineli-

[1] *The Minimum Tax Zone is generally the area in Manhattan bounded by 86th Street and the East River to Houston Street, and then northward along the Hudson River to 72nd Street on the West Side.*

[2] *The Tax Abatement Exclusion Zone is generally the area in Manhattan bounded by 96th Street and the East River to 34th Street, then northward along Broadway to 59th Street and Central Park West, and then continuing northward along Central Park West to 96th Street on the West Side.*

gible for benefits, unless the project is carried out with substantial government assistance.

- Buildings receiving benefits under section J-51 are not eligible for the following exemptions: School Tax Relief, Senior Citizen Homeowner Exemption and the Veterans' Exemption.
- Any property where the improvement is assessed at $1,000 or less at the start of the renovation process will not qualify for the program, unless the project is carried out with substantial government assistance.
- Single Room Occupancy (SRO) conversions cannot receive J-51 exemption or abatement benefits if the project is not carried out with substantial government assistance.

J-51 exemption (but not abatement) benefits are available for projects that result in an expansion of the gross cubic content of the building, provided the floor area of the existing building that was converted, altered or improved comprises at least 50 percent of the completed structure.

In Manhattan between 110th Street and Chambers Street, such projects can qualify for exemption benefits only if they are aided by a grant, loan or subsidy from a Federal, State or local agency.

The renovation categories and corresponding exemption and abatement schedules are shown in the table on page I-20.

New Multiple Dwelling Exemption, 421-a Program (NYSRPTL, Section 421-a):

The 421-a program is an incentive program to promote the construction of new multiple-family residential buildings with at least three dwelling units. This program provides a declining scale of exemptions on the new assessed value created by a project during construction, and thereafter for a period of 10 to 25 years.

The length of the exemption period depends on the location of the property and the qualifying conditions met. The property owner must continue to pay taxes on the full, pre-construction assessment. All projects are eligible for a full exemption during the construction period for a maximum of three years; lesser benefits are provided if the construction period exceeds three years. If the building is to contain commercial space that represents more than 12 percent of the aggregate floor area, the tax exemption will be decreased by the amount in excess of 12 percent. Rental projects are subject to the provisions of the Rent Stabilization Act during their exemption period.

Buildings receiving benefits under Section 421-a are not eligible for the following abatement/exemptions: Co-op/Condo Property Tax Abatement, School Tax Relief, Senior Citizen Homeowner Exemption and Veterans' Exemption. This program is administered jointly by HPD and DOF. See page I-21 for details of the 421-a program.

New Private One and Two Family Housing Exemption, 421-b Program (NYSRPTL, Section 421-b):

The 421-b program is an incentive program for the construction of new owner occupied one and two-family homes. This program offers a declining eight-year tax exemption applicable to the assessed value of the new construction. The property owner must continue to pay taxes on the full, pre-construction assessment. Starting from 2005, these benefits are extended to newly constructed, reconstructed or converted owner-occupied multiple dwellings with not more than four dwelling units. To qualify, these multiple dwelling units must be developed in a governmentally assisted project located on property acquired by the federal government through foreclosure of a federally insured mortgage and conveyed to an approved owner for rehabilitation persuant to an agreement with the federal government. Benefits under the 421-b program are not restricted by geographic location; however, the construction period is not to exceed two years. An existing one- to three-family dwelling may qualify for an exemption if it has been improved to the extent of 40 percent of its pre-improvement assessed value.

421-b Exemption Schedule

Number of Years New Value is Exempt	
During Construction (up to 2 years)	100.0%
8-Year Exemption (Post Construction):	
Year 1-2	100.0%
Year 3	75.0%
Year 4	62.5%
Year 5	50.0%
Year 6	37.5%
Year 7	25.0%
Year 8	12.5%

To be eligible for the exemption, construction must begin on or after July 1, 2002 and before July 1, 2006 and be completed no later than July 1, 2008. Buildings receiving benefits under Section 421-(b) are not eligible for the following abatement/exemptions: Co-op/Condo Property Tax Abatement, School Tax Relief, Senior Citizen Homeowner Exemption and Veterans' Exemption. This program is administered jointly by HPD and DOF.

488-a Program Single Room Occupancy (NYSRPTL, Section 488-a):

This program provides owners of Single Room Occupancy (SRO) buildings with tax exemptions and abatements for improving and rehabilitating their properties. The exemption is effective for 32 years and is based on any increase in assessed value due to eligible improvements.

In addition, the property will also be eligible for an abatement of real property taxes equal to 12.5 percent of either 150 percent of the certified reasonable cost of eligible improvements or the actual costs, whichever is less. The tax abatement cannot exceed a period of 20 years.

During the period of tax exemption and abatement the dwelling units are subject to rent regulation. This program was set to expire on December 31, 2002 but was extended until December 31, 2007.

Non-Profit Housing Development Companies Providing Low Income Housing Accomodation (NYSRPTL, Section 420-c):

The 420-c tax incentive program provides a complete exemption from the real estate taxes for the term of the regulatory agreement, up to 30 years. Eligible projects are owned or controlled by a not-for-profit Housing Development Fund company, subject to HPD regulatory agreement which requires use as low-income housing and are financed in part with a loan from the City or State in conjuction with Federal low-income housing tax credits.

C. INDIVIDUAL ASSISTANCE

School Tax Relief (STAR) (NYSRPTL, Section 425):

In 1997 the State enacted the School Tax Relief Program (STAR) legislation. A property tax exemption was phased in over four years beginning in the 1998-99 school year. During the first year, the exemption was limited to properties owned by senior citizens who met income eligibility.

All other homeowners became eligible in the 1999-00 school year. The program provides property tax relief to one-, two- and three-family homes, cooperatives and condominiums where the property serves as the primary residence of the owner. An enhanced exemption is available for senior citizens with less than $64,650 in household income.

Calculation of NYC STAR Exemption

Tax Exemption Amount = Market Value Exemption * Ratio of NYC Median Home Price to Statewide Median Home Price * Class Equalization Rate * Class Tax Rate * 50 percent

The market value exemption for senior citizens with income less than $64,650 was $50,000 in 1999 and remains $50,000 in 2004. For other taxpayers, the exemption was $10,000 beginning in 2000, $20,000 in 2001 and remaining $30,000 in 2004. Based on this formula, single-family Class 1 taxpayers' estimated tax saving is shown in the following table:

Fiscal Year	2000	2001	2002	2003	2004	2005-08
Senior Citizens	$339	$326	$326	$347	$383	$376
Others	$68	$130	$195	$209	$229	$226

The exemption is based on a fixed market value exemption adjusted for differences between local and statewide median home prices, levels of assessment and the portion of the real estate tax that represents the school tax. Beginning in 2003, a modified STAR benefit is available for Mitchell-Lama co-op apartments equal to one-third of the exemption amount for both basic and enhanced STAR.

Senior Citizen Homeowner Exemption (SCHE) (NYSRPTL, Section 467):

The SCHE program provides a sliding scale tax exemption of assessed value to homeowners who are 65 years of age or older and who have a total household income of no more than $32,400 per year (see table on next page).

The program was expanded in 1995 to include cooperative apartments and raise the threshold to grant a five percent partial exemption. The maximum qualifying income has been changed periodically. It was $21,300 in 1992 and 1993; $25,000 in 1994; $25,900 in 1995; $26,900 in 1996; $27,900 in 1999; $28,900 in 2002; and $29,900 in 2003. In

2004, the maximum qualifying income threshold was raised to $32,400.

Senior Citizen Homeowner Exemption Schedule

Household Income	Exempt Share of Assessed Value
Less than $24,000	50%
$24,000 - $24,999	45%
$25,000 - $25,999	40%
$26,000 - $26,999	35%
$27,000 - $27,899	30%
$27,900 - $28,799	25%
$28,800 - $29,699	20%
$29,700 - $30,599	15%
$30,600 - $31,499	10%
$31,500 - $32,399	5%
$32,400 and greater	0%

In determining income eligibility under the senior citizen homeowner exemption program, a deduction from income is allowed for unreimbursed medical and prescription drug expenses, beginning with the assessment roll for fiscal year 1999.

Beginning in 2000, a veteran's disability compensation is excluded from the definition of income for purposes of determining eligibility and the level of exemption benefits. Effective January 1, 2002, localities are authorized to provide school tax exemption in a case where a child residing at a property that is granted SCHE benefits attends a public elementary or secondary school.

Senior Citizen Rent Increase Exemption (SCRIE)(NYSRPTL, Section 467-b):

The Senior Citizen Rent Increase Exemption program provides an exemption from future increases to tenants who are 62 years of age or older, residing in a rent controlled, rent stabilized or Mitchell-Lama unit and paying one-third of their household income in rent.

In order to qualify for the program, senior citizens must have a combined household income of no more than $24,000 a year and pay more than one-third of the combined household income for rent. In 1988 this income ceiling was increased from $12,025 to $15,000; to $16,500 in 1992; to $20,000 in 1995; and to $24,000 in 2004.

Payments made to individuals because of their status as victims of Nazi persecution are excluded from the definition of income. Also, since 1988 Social Security increases have been excluded from the household income once the senior citizen has qualified for the program.

Landlords are compensated by an abatement of their real property taxes equal to the amount of rent forgiven. If the total rent increase exemption applicable to a property exceeds the taxes due, a real estate tax refund is granted.

The administration of this program was transferred from the Department of Housing Preservation and Development (HPD) to the Department for the Aging (DFTA) on June 17, 1992.

Disabled Homeowners Exemption (DHE) 459-c Program (NYSRPTL, Section 459-c):

The 459-c program establishes a new partial tax exemption for property owners, whose incomes are limited due to disability.

459-c
Homeowners with Disability Exemption Schedule

Household Income	Exempt Share of Assessed Value
Less than $24,000	50%
$24,001 - $24,999	45%
$25,000 - $25,999	40%
$26,000 - $26,999	35%
$27,000 - $27,999	30%
$28,800 - $29,699	25%
$28,800 - $29,699	20%
$29,700 - $30,599	15%
$30,600 - $31,499	10%
$31,500 - $32,399	5%
$32,400 and greater	0%

This program provides a maximum exemption of 50 percent to residential property owners with incomes less than $24,000. For disabled property owners with income between $24,001 and $32,399, the program allows an exemption as shown in the table on the preceding page.

The program commenced in 2000 with the income eligibility for a 50 percent exemption of $18,501 and the maximum income eligibility for the program of $26,900. The eligible population was extended to include persons certified to receive a United States Postal Disability Pension effective in 2000.

Further, the maximum household income for a 50 percent exemption was raised to $20,500 effective 2001 and to $21,500 effective 2002 and again to $24,000 effective in 2004.

Veterans' Exemptions (NYSRPTL, Sections 458 to 458-a):

Qualified veterans are eligible to receive partial tax exemptions of assessed value under two programs. The first program, originally enacted in 1958 under Section 458 of the Real Property Tax Law, grants tax exemptions to veterans who purchased real property using a bonus, pension, insurance or compensation received as a prisoner of war.

The exemption equals the amount of eligible funds used for the purchase, up to $5,000, but the property is fully subject to tax for educational purposes. An additional exemption of up to $10,000 is provided for handicapped designed housing required as the result of the disability. New applications for Section 458 benefits are no longer accepted, but alternative veterans' exemptions are granted under Section 458-a (enacted in 1984).

Generally, the Section 458-a program provides veterans who served during a period of war with an exemption of 15 percent of assessed value and an additional 10 percent granted to those who served in a combat zone.

A disabled veteran is entitled to an additional exemption of up to 50 percent of the assessed value, based upon the veteran's disability rating. These exemptions do not apply to school taxes, and are subject to caps specified in the governing legislation.

In 1995, the programs were expanded to include those civilians who, during World War II, were employed by the American Field Service or Pan American Airways, and who served overseas under specific arrangements with military groups.

Exemptions were also extended to properties held in trust for the benefit of qualified veterans who do not hold legal title to the property, but who are otherwise eligible for the exemptions. The programs were expanded further in 1997 to include cooperative apartments.

Effective January 2001, the exemptions were extended to a "Gold Star Parent" who is the parent of a child who died while serving in the armed forces during a period of war.

The property must be the primary residence of the parent and is eligible for exemptions based on "period of war" and "combat zone" but not veteran's disability. This provision was enacted by the State Legislature in 2000 authorizing localities to adopt a local law to enact it, and it was enacted by the City Council in November 2000.

Co-op/Condo Abatemant (NYSRPTL, Section 467-a):

Beginning in 1997, an abatement program was implemented which was designed to reduce the disparity in property tax burden between owners of cooperatives and condominiums (Class 2) and single family homes (Class1). In the case of properties where the average assessment was $15,000 or less per unit, a tax abatement of 2.0 percent, 16.0 percent, and 25.0 percent was granted in 1997, 1998 and 1999, respectively.

For properties where the valuation was greater than $15,000 per unit on average, the tax abatement in 1997, 1998 and 1999 was 1.375 percent, 10.75 percent and 17.5 percent, respectively. The 1999 abatement levels were extended by an additional two years through June 30, 2001, in 2001 by an additional three years through June 30, 2004 and in 2004 by an additional four years through June 30, 2008. The abatement is restricted to owners who own no more than three units held in the condominium or cooperative form of ownership.

Real Property Tax Rebate

For fiscal years 2005, 2006 and 2007, owners of Class 1 properties and Class 2 cooperative and condominium apartments are eligible for an annual real estate tax rebate of $400 or the annual real estate tax on the property, whichever is less. To qualify for the rebate, the dwelling unit must be the owner's primary residence and the deliquent taxes owed must not be more than $25. The deadline for filing the applications was October 15, 2004 for fiscal year 2005 and March 15th for the succeeding fiscal years. No separate application is necessary if the owner is already receiving the STAR benefit.

Schedule of Exemptions and Deferrals Under ICIP

Type of Project	Full Exemption	Declining Exemption	Minimum Required Expenditure	Area Boundaries	Additional Provisions
All Industrial	100% of the exemption base for years 1-16	Phased out at 10% per year for years 17-25 For example: Yr. 17 90% Yr. 18 80% and in Yr. 25 10%	10% of the initial assessed value	Projects throughout the City	No exemption on the pre-existing Real Estate taxes. "Inflation Protection" benefit is available.
All Industrial	100% of the exemption base for years 1-16	Phased out at 10% per year for years 17-25 For example: Yr. 17 90% Yr. 18 80% and in Yr. 25 10%	25% of the initial assessed value	Projects throughout the City	As above, but with an additional tax abatement as a percentage of the pre-existing real estate taxes Yrs. 1 to 4 50% Yrs. 5&6 40% Yrs. 7&8 30% Yrs. 9&10 20% Yrs. 11&12 10%
Commercial • Special Exemption Areas	100% of the exemption base for years 1-16	Phased out at 10% per year for years 17-25 For example: Yr. 17 90% Yr. 18 80% and in Yr. 25 10%	10% of the initial assessed value	Areas designated by the Boundary Commission.	"Inflation Protection" benefit is available.
• Regular Exemption Areas	100% of the exemption base for years 1-11	4 years at 20% per year Yr. 12 80% Yr. 13 60% Yr. 14 40% Yr. 15 20%	10% of the initial assessed value	Projects in Manhattan north of 96th Street and in the Bronx, Brooklyn, Queens and Staten Island	No "Inflation Protection" benefit.
• Renovation	100% of the exemption base for years 1-8	4 years at 20% per year Yr. 9 80% Yr.10 60% Yr. 11 40% Yr. 12 20%	20% of the initial assessed value	Manhattan south of the center line of 59th Street	Renovation only. No new construction benefits. No "Inflation Protection" benefits.
• Deferral Area	100% of the exemption base for years 1-3	4 years at 20% per year Yr. 4 80% Yr. 5 60% Yr. 6 40% Yr. 7 20% No Deferral Area Program after 7/1/95.	20% of the initial assessed value	Manhattan south of 96th Street (excluding the area from 34th to 96th Street east of the center line of 6th Avenue).	From years 11- 20, payments include current year liability + repayment of taxes exempted earlier at 10% per year.
Smart Buildings • New Construction Benefits	100% of the exemption base for years 1-4	4 years at 20% per year Yr. 5 80% Yr. 6 60% Yr. 7 40% Yr. 8 20%	None	Manhattan south of Murray, Frankfort and Dover Streets excluding the area held by the Battery Park City Authority and the World Trade Center site.	"Smart buildings" should meet certain construction standards as detailed below.

Smart Buildings (Definition):

The building should meet requirements 1&2 and any two of the remaining five requirements mentioned below:

1. *The height of at least 50 percent of the floors should not be less than 12 feet, 9 inches.*
2. *The building should be served by fiber-optic telecommunication wiring for each individual tenant on each floor.*
3. *The total square footage of the building should not be less than 500,000 sq.ft.*
4. *A minimum of 200,000 sq.ft., or 25 percent of the building, should be comprised of floors of not less than 40,000 sq. ft . each.*
5. *At least 10 percent of the gross square footage of the building should be comprised of floors that contain no more than eight structural columns.*
6. *The electrical capacity of the building should not be less than six watts per net square foot.*
7. *The building should have emergency backup power sufficient to accommodate a need of six watts per net sq.ft. in at least 200,000 sq.ft. or 25 percent of the building.*

Exemption Base for Smart Buildings (Definition):

Physical increases in the assessed value solely attributable to the Industrial Commercial Incentive Program, within three years of the effective date of eligibility or by 12/31/03 (whichever is earlier).

Exemption Base (Definition):

For the first five taxable years following the effective date of eligibility, physical increases in the assessed value solely attributable to the project.

Inflation Protection (Definition):

Increases in a building's assessed value occurring subsequent to the effective date of eligibility but before the fourteenth taxable status date. For "inflation protection" benefits to be received, there must be a triggering physical increase.

Schedule of Tax Incentives Under the Commercial Revitalization Program

Program	Eligibility Requirement	Tax Benefits	Additional Provisions
Real Property Tax Abatement	• Pre -1975 buildings located in the abatement zone. • Minimum lease periods of three years for small tenants (125 or fewer employees) with leases commencing on or after April 1, 1997; five years for small tenants with leases commencing before April 1, 1997; and ten years for large tenants (more than 125 employees). • Minimum expenditure of $5 per sq. ft. ($2.50 for 4-A) for small tenants with new, renewal or expansion leases commencing on or after April 1, 1997; $10 per sq. ft. ($5 for 4-A) for small tenants with new or expansion leases commencing before April 1, 1997; $35 per sq. ft. ($25 for 4-A) for large tenants with new or expansion leases. • Minimum expenditure of $10 per sq.ft. ($5 for 4-A) for small tenants with renewal leases commencing before April 1, 1997, and for large tenants with renewal leases, when the premises have been previously occupied; for premises not previously occupied, the amounts range between $5 per sq. ft. ($2.50 for 4-A) and $35 per sq. ft. ($25 for 4-A) depending upon the term length and commencement date of the initial lease.	Leases commencing prior to April 1, 1997: Tax abatement for five years. • Yrs. 1 to 3 - 50% of the property tax liability of the initial year (but not exceeding $2.50 per sq. ft.). • Yr. 4 - 2/3 of the initial abatement. • Yr. 5 - 1/3 of the initial abatement. Leases commencing on or after April 1, 1997: For three year leases (tax abatement for three years). • Yr. 1 - The lessor of $2.50 per sq. ft. or 100% of the property tax liability per sq. ft. of the initial year. • Yr. 2 - 2/3 of the initial abatement. • Yr. 3 - 1/3 of the initial abatement. For leases of five or more years (tax abatement for five years). • Yrs. 1 to 3 - The lessor of $2.50 per sq. ft. or 100% of the property tax liability per sq. ft. of the initial year. • Yr. 4 - 2/3 of the initial abatement. • Yr. 5 - 1/3 of the initial abatement.	• Eligibility period: April 1, 1995 to March 31, 2007. • Benefit Period: Up to 60 months from the first day of the month following the rent commencement date and terminating no later than March 31, 2010. • Benefits are not available for tenants who relocate to lower Manhattan from north of 96th Street in Manhattan or from the other boroughs. • Tenants in government owned buildings, including Port Authority buildings, are not eligible. • Application should be filed within 60 days following the lease commencement date for leases commencing before April 1, 1997, and 180 days following the lease commencement date for leases commencing on or after April 1, 1997.
Commercial Rent Tax Special Reduction	• Pre - 1975 buildings located in the Title 4 abatement zone. • Minimum lease periods of three years for small tenants (125 or fewer employees) with leases commencing on or after April 1, 1997; five years for small tenants with leases commencing before April 1, 1997; and ten years for large tenants (more than fifty employees). • Minimum expenditure of $10 per sq. ft. for leases with a required lease term of at least five years and $35 per sq.ft. for leases with a required lease term of at least 10 years for leases with new or expansion tenants. • Minimum expenditure of $10 per sq.ft. for renewal tenants irrespective of the lease period. • No minimum expenditure requirement in government owned buildings.	Special reduction on the taxable base rent for leases of five or more years: • Yr, 1 (Base year) - 100% of the base rent. • Yrs. 2 to 3 - 100% of the lesser of the base rent in these years or the base year amount. • Yr. 4 - 2/3 of the lesser of the base rent during the fourth year or the base year amount. • Yr. 5 - 1/3 of the lesser of the base rent in the fifth year or the base year amount. Special reduction on the taxable base rent for three year leases: • Yr. 1 (Base year) - 100% of the base rent. • Yr. 2 - 2/3 of the lesser of the base rent in the second year or the base year amount. • Yr. 3 - 1/3 of the lesser of the base rent in the third year or the base year amount.	• Eligibility period: April 1, 1995 to March 31, 2007. • Benefit Period: Up to 60 months from the rent commencement date and terminating no later than March 31, 2010. • Benefits are not available for tenants who relocate to lower Manhattan from north of 96th Street in Manhattan or from the other boroughs. • Application for this program is through the Real Property tax abatement program (including for government-owned buildings).
Electricity Rebate	• Buildings located in the Title 4 abatement zone are eligible. • Expenditure on construction or improvement must be at least 20 percent of the assessed value of the building. • Building must be eligible for ICIP or mixed-use.	Discount off delivery portion • Yrs. 1-8 45% • Yr.11 22.5% • Yr. 9 37.5% • Yr. 12 15% • Yr. 10 30 % • Yr. 13 0% Designated landmark buildings get an additional year of rebate at the 45 percent level.	• Eligibility period: July 1, 1995 to April 1, 2007. • Benefits are not available for tenants who relocate to lower Manhattan from north of 96th Street in Manhattan or from the other boroughs.
Residential Conversion 421-g	• Buildings located in the Title 4 abatement zone are eligible. • All class A multiple dwellings, except hotels, are eligible if resulting from conversion of a non-residential building. • The floor area of commercial, community facility and accessory use space can not exceed 25 percent of the aggregate floor area after conversion.	Tax exemption for 12 years on the increased assessed values due to physical improvements • Yrs. 1-8 100% • Yr. 11 40% • Yr. 9 80% • Yr. 12 20% • Yr. 10 60% In addition, a tax abatement on the existing real estate taxes relating to the pre-construction assessment value for 14 years. • Yrs. 1-10 100% • Yr. 13 40% • Yr. 11 80% • Yr. 14 20% • Yr. 12 60% Designated landmarks will receive an additional year of both abatement and exemption at the 100 percent level. The 100 percent exemption also applies to increases in assessed value during the first year of construction, provided that the proposed project is completed by the second year.	• Eligibility period: July 1, 1995 to June 30, 2007. • Dwelling units receiving benefits under this program will be subject to rent stabilization during the benefit period. • For non-residential buildings of less than 100,000 sq.ft. of aggregate floor area, conversion of at least 75 percent of the floor area must take place within three years of commencement of conversion and for buildings of more than 100,000 sq.ft. at least 50 percent of the aggregate floor area should be converted within three years and at least 75 percent converted within five years.
Mixed-Use	• Buildings located in the abatement zone are eligible. • Expenditure on construction or improvement must be at least 20 percent of the initial assessed value of the building. • Must file a preliminary application prior to the receipt of the final building permit. If no permit is required, the preliminary application must be filed prior to commencement of construction.	Tax exemption for 12 years on the increased assessed values due to physical improvements • Yrs. 1-8 100% • Yr. 9 80% • Yr. 10 60% • Yr. 11 40% • Yr. 12 20% Designated landmarks will receive an additional year of exemption at the 100 percent level.	• Eligibility period: July 1, 1995 to July 31, 1999. • At least half of the minimum required expenditure must be made within 18 months, and 100 percent of the minimum required expenditure should be made within 36 months. • Dwelling units receiving benefits under this program will be subject to rent stabilization during the benefit period.

Abatement Zone Definitions:

- **Title 4:** *Area bounded by Murray Street and Frankfort Street on the north, South Street on the east, Battery Place on the south and West Street on the west.*
- **Title 4-A:** *Area in Manhattan north of 96th Street or in the boroughs of the Bronx, Brooklyn, Queens or Staten Island.*

J-51 Exemption & Abatement Program

	Exemption On Increased Value Due To Improvement		Abatement On Existing Taxes			Enriched Benefits
Renovation Categories	**Number of Years Exempt**	**Amount of Improvement Exempt**	**Amount of CRC* Allowed to be Abated**	**Maximum Amount of Tax Liability Allowed to be Abated Annually****	**Maximum Amount of Years for the Abatement**	
Major Capital Improvements (MCI): Improvement to a multiple dwelling properties in Manhattan below 96th Street and above 34th Street can receive an abatement of the taxes on the building, not the land, up to $2,500 per unit. Projects located in the exclusion zone are only eligible for an abatement. *Examples - replacement of heating, plumbing, roofing, windows, insulation, wiring, elevators, etc.*	14 year exemption Years 1-10 Year 11 Year 12 Year 13 Year 14	 100% 80% 60% 40% 20%	90%	8.33% of the total CRC*	20	
Moderate Rehabilitation: Significant improvement to one or more of the building's major systems, while at least 60 percent of the residents remain in the building before, during and after construction. The applicant must notify both the tenants and HPD of the nature of the work and anticipated start date. Minimum cost per dwelling unit = $2,500. *Examples - improvement of heating, electrical or plumbing systems.*	34 year exemption Years 1-30 Year 31 Year 32 Year 33 Year 34	 100% 80% 60% 40% 20%	100%	8.33% of the total CRC*	20	a.) For government assisted moderate rehabs of substantially occupied Class A buildings and b.) Government assisted moderate rehabs of City owned buildings that are not substantially occupied, or are conversions to Class A buildings, up to 150% of the CRC can be abated, with an annual abatement of up to 12.5% of the CRC.
Single Room Occupancy Conversion: Conversion of temporary residences(hotels, class B buildings) to permanent residences (class A buildings) only if the work is carried out with substantial government assistance.	14 year to 34 year exemption depending on the extent of the improvement		50% in Manhattan 90% elsewhere	8.33% of the total CRC* 8.33% of the total CRC*	20 20	
Non-Residential to Residential Conversion: (Manhattan south of 110th Street) Conversion of lofts, warehouses and other commercial space to Class A residential apartments. Post-rehab assessed value must not exceed $38,000 per unit.***	14 year exemption Years 1-10 Year 11 Year 12 Year 13 Year 14	 100% 80% 60% 40% 20%	50%	8.33% of the total CRC*	20	
Non-Residential Conversion to Residential: (North of 110th Street & other boroughs) Conversion of lofts, warehouses and other commercial space to Class A residential apartments.	14 year exemption Years 1-10 Year 11 Year 12 Year 13 Year 14	 100% 80% 60% 40% 20%	90%	8.33% of the total CRC*	20	

* *CRC = Certified reasonable cost of eligible work as determined by HPD.*

** *A tax liability equal to the maximum of 8.33% of the total CRC or the actual taxes due can be abated in any year. 90% of the CRC (150% for government-assisted moderate rehabilitations, and 50% for Single Room Occupancy and Non-Residential to Residential conversions) can be abated over 20 years. Any portion of the CRC which has not been abated after 20 years is lost.*

*** *If the post-rehab value is less than $18,000 a 100 percent exemption is granted: between $18,001 and $22,000, a 75 percent exemption is granted; between $22,001 and $26,000 a 50 percent exemption is granted; between $26,001 and $30,000 a 25 percent exemption is granted; and between $30,001 and $38,000, no exemption is granted. The abatement is available for all conversions as long as the post-rehab value is less than $38,000 per unit.*

Schedule of Exemptions Under 421-a

Qualifying Conditions:

A. Substantial government assistance
B. At least 20% of the units must be reserved for low and moderate income occupants
C. Participation in a lower/moderate income off-site housing production program

Location	Qualifying Conditions To Be Met	Number Of Years New Value Is Exempt		Construction Commencement
Manhattan Exclusion Zone - south of 96th Street north of Houston Street on the West Side, north of 14th Street on the East Side	A, B or C	**10 Year Exemption**		After January 1, 1975 but no later than December 31, 2007
		Years 1-2	100%	
		Year 3	80%	
		Year 4	80%	
		Year 5	60%	
		Year 6	60%	
		Year 7	40%	
		Year 8	40%	
		Year 9	20%	
		Year 10	20%	
Manhattan south of 110th Street and not in the Exclusion Zone	A or B	**20 Year Exemption**		After January 1, 1992 but no later than December 31, 2007
		Years 1-12	100%	
		Year 13	80%	
		Year 14	80%	
		Year 15	60%	
		Year 16	60%	
		Year 17	40%	
		Year 18	40%	
		Year 19	20%	
		Year 20	20%	
Manhattan south of 110th Street and not in the Exclusion Zone	none	**10 Year Exemption**		After January 1, 1975 but no later than December 31, 2007
		Years 1-2	100%	
		Year 3	80%	
		Year 4	80%	
		Year 5	60%	
		Year 6	60%	
		Year 7	40%	
		Year 8	40%	
		Year 9	20%	
		Year 10	20%	
Manhattan south of 110th Street and not in the Exclusion Zone	A or B	**15 Year Exemption**		No longer available from 7/1/92
		Years 1-11	100%	
		Year 12	80%	
		Year 13	60%	
		Year 14	40%	
		Year 15	20%	
Manhattan north of 110th Street or in the other four boroughs	none	**15 Year Exemption**		After January 1, 1975 but no later than December 31, 2007
		Years 1-11	100%	
		Year 12	80%	
		Year 13	60%	
		Year 14	40%	
		Year 15	20%	
Manhattan north of 110th Street or in the other four boroughs	A, or are located in a neighborhood preservation area*, or REMIC**	**25 Year Exemption**		After January 1, 1975 but no later than December 31, 2007
		Years 1-21	100%	
		Year 22	80%	
		Year 23	60%	
		Year 24	40%	
		Year 25	20%	

**Areas within the five boroughs as defined by the NYC Planning Commission.*

***Residential Mortgage Insurance Corporation.*

3.

Real Property Tax Legislative History

Real Property Tax Legistative History:

A number of changes have been made to the taxable base and to assessment practices since the implementation of S.7000A:

1985 Telecommunication utilities (Class 3) were affected by legislation which changed the definition of taxable property to include central office equipment of competitors of New York Telephone (now part of Verizon) and AT&T which had previously been exempt or taxed at lower effective rates.

Telephones and other station equipment were also removed from the taxable base to reflect the increasing volume of privately owned equipment. For Class 2, assessment increases for rental properties of four to six units were restricted to eight percent annually and 30 percent over five years.

1986 The 1985 telecommunication utilities (Class 3) amendments expired. Condominiums of three stories or less were reclassified from Class 2 to Class 1.

1987 The State Court of Appeals unanimously upheld Local Law No. 63 of 1986 which required owners of income-producing properties with actual assessed values in excess of $40,000 to file annual income and expenditure statements.

Most Class 4 properties and Class 2 properties with more than 10 residential units (or six residential units and one retail store) were affected. Affected taxpayers (except those who purchase property on or after August 1) must file annual income and expense statements with the Department of Finance by September 1. Failure to file means denial of a Tax Commission hearing and possible penalty assessment.

Statements need not be filed for condominium or cooperative properties which are completely residential, or for properties which are wholly tax exempt, or completely owner occupied and operated. Co-ops and condos with professional or commercial space must file income and expense statements for that space.

For Class 3, State legislation implemented a four-year phase-out of taxation on central office and telecommunication equipment at 25 percent per year, beginning in 1990. Finally, assessment increases for residential rental properties with seven to 10 units were restricted to eight percent annually and 30 percent over five years.

1990 The four-year phase-out of taxation on central office and telecommunication equipment began.

1991 Vacant land zoned as residential or adjacent to residential property with the same owner was transferred from Class 4 to Class 1 (except in Manhattan below 110th Street).

Class 3 land and buildings were transferred to Class 4, leaving in Class 3 only plant and equipment. Class 2 condominiums with no more than three residential units, provided such property had previously been classified as Class 1, were transferred back from Class 2 to Class 1.

1992 In further reclassification, mixed-use residential/commercial buildings (with "Mom and Pop" stores), formerly in Class 4, were assessed as residential if more than 50 percent of the building was residential.

Such properties were shifted either into Class 1 (if not more than three units) or Class 2 (if more than three units). One-family homes on cooperatively-owned land ("bungalows") were also reclassified from Class 2 to Class 1. Almost 1,500 summer cottages in Queens and the Bronx were affected by this shift.

1994 The assessment percentages for special franchise and REUC properties were equalized at 45 percent. For Class 2, assessment increases for co-ops and condos with two to 10 units were restricted to eight percent annually and 30 percent over five years.

1995 Beginning with the fiscal year 1997 roll, telephone company central office and station equipment (except public telephones) installed in public rights-of-way would be exempted from real property taxation.

1996 An abatement program was enacted which was designed to reduce the disparity in property tax burden between owners of cooperatives and condominiums (Class 2) and single family homes (Class 1).

Abatement was as low as 1.375 percent in 1997 but have risen to 25 percent for properties where the assessment is less than $15,000 and 17.5 percent for properties with valuation greater than $15,000.

Amendments to the administrative code allowed the City to sell real property tax liens for Class 1 and Class 2 property where real property tax component of the tax liens remained unpaid for three years and one year respectively.

1997 The State enacted the School Tax Relief program (STAR) legislation. A property tax exemption was phased in over four years beginning in the 1998-99 school year. The program provides property tax relief to one-, two-, and three- family homes, cooperatives and condominiums where the property serves as the primary residence of the owner. An enhanced exemption is available for senior citizens with less than $62,100 in household income.

1998 Section 459-c of the real property tax law was amended establishing a new tax exemption for homeowners with limited income who are disabled. The program, which offers a 50 percent exemption to residential property owners, commenced in 2000.

Additionally, the Senior Citizen Homeowner Exemption (SCHE) program, which provides a sliding scale tax exemption to homeowners over age 65, was altered in 1999 to: (1) exclude veteran's disability compensation from the definition of income for purposes of determining eligibility and the level of exemption benefits beginning in 2000, and (2) allow a deduction from income for unreimbursed medical and prescription drug expenses in determining eligibility.

2000 Progress assessment is an exemption from taxation for increases in value resulting from new construction that remains incomplete as of the taxable status date (January 5th).

Beginning with the 2001 property tax assessment roll, the progress assessment for commerical structures was extended from one to three years. This amendment applies to commercial structures other than hotels.

2003 As part of the effort to balance the budget for the fiscal year 2003, a local law was adopted to increase the real property tax rates for the second half of fiscal year 2003, covering the period from January 1 to June 30, 2003. The average tax rate was raised to $12.283 from $10.366 per $100 of assessed value.

2004 The legislation authorizing the lien sale expired on October 31, 2003 and it was extended through March 1, 2006 by the City Council on March 24, 2004.

The State passed legislation in 2003 giving the City the authority to levy a 25 percent surcharge on Class 1 non-owner occupied properties effective July 1, 2003, the absentee landlord surcharge. This surcharge was intended to significantly equalize the tax buden between Class 1 income generating properties and small Class 2 properties. Recent local legislation passed by the City Council on April 1, 2004 extended the effective date of the absentee landlord surcharge until July 1, 2006.

2005 The City enacted a three year property tax rebate program to provide owners of Class 1 properties and Class 2 cooperative and condominium apartments with a $400 rebate or the annual real estate tax on the property ,which ever is less. To qualify for this rebate, the dwelling unit must be the owners primary residence and the delinquent taxes owed must not be more than $25.

4.
Statistical Tables

Market Values by Tax Class
FY 1993-2005
($ Millions)

Fiscal Year	Class 1	Class 2	Class 3	Class 4	Total
1993	$137,937.2	$70,226.1	$13,926.0	$100,836.4	$322,925.7
1994	126,787.3	66,511.3	14,037.5	92,947.8	300,283.9
1995	127,179.0	63,731.1	13,642.3	88,456.3	293,008.6
1996	128,230.9	63,835.8	13,675.8	88,327.3	294,069.8
1997	129,215.6	63,668.0	14,190.8	87,305.0	294,379.3
1998	130,899.2	64,914.6	14,584.1	87,959.0	298,357.0
1999	136,194.5	68,070.3	14,498.9	92,604.9	311,368.7
2000	143,143.5	72,470.3	14,730.6	96,577.4	326,921.8
2001	158,939.6	77,994.6	14,064.2	103,350.0	354,348.4
2002	180,721.7	85,930.3	14,536.2	111,159.4	392,347.6
2003	205,031.6	94,015.4	15,213.7	115,549.8	429,810.4
2004	232,904.4	97,425.6	15,622.4	120,725.2	466,677.7
2005	283,559.0	115,880.3	16,657.2	124,288.0	540,384.4

Market values may not add up due to rounding.

Class Tax Rates [1]
FY 1983-2005

	Class 1	Class 2	Class 3	Class 4	Average Tax Rate
1983	$8.950	$8.950	$9.109	$9.294	$9.120
1984	9.100	9.057	9.237	9.323	9.206
1985	9.100	9.150	9.051	9.460	9.255
1986	9.100	9.150	9.051	9.460	9.256
1987	9.330	9.150	9.172	9.460	9.315
1988	9.330	9.150	9.942	9.460	9.434
1989	9.452	9.272	11.289	9.582	9.703
1990	9.452	9.229	12.903	9.539	9.797
1991 [2]	9.840	9.154	15.079	9.924	10.135
1992	10.888	9.885	13.083	10.631	10.591
1993	10.888	9.910	12.794	10.698	10.591
1994	10.900	10.369	7.404	10.724	10.366
1995	10.694	10.552	7.702	10.608	10.366
1996	10.725	10.807	7.922	10.402	10.366
1997	10.785	11.056	7.840	10.252	10.366
1998	10.849	11.046	8.282	10.164	10.366
1999	10.961	10.739	8.800	10.236	10.366
2000	11.167	10.851	9.398	9.989	10.366
2001	11.255	10.847	10.540	9.768	10.366
2002	11.609	10.792	10.541	9.712	10.366
2003 [3]	11.936	10.564	10.607	9.776	10.366
2003 [4]	14.160	12.517	12.565	11.580	12.283
2004	14.550	12.620	12.418	11.431	12.283
2005	15.094	12.216	12.553	11.558	12.283

[1] *Tax Rate per $100 of assessed value.*

[2] *Does not include funding for the "Safe Streets, Safe City" Program, a mid-year tax increase of .08¢ for Class 1, .074¢ for Class 2, .121¢ for Class 3 and .08¢ for Class 4.*

[3] *Effective July 1, 2002 through December 31, 2002.*

[4] *Effective January 1, 2003.*

Actual and Billable Assessed Value by Tax Class
FY1983-2005
($ Millions)

Actual Assessed Value

Fiscal Year	Class 1	Class 2	Class 3	Class 4	Total
1983	$6,217.2	$12,786.8	$8,445.5	$19,744.5	$47,194.0
1984	6,338.7	13,452.2	9,757.2	21,874.4	51,422.5
1985	6,505.3	14,170.0	9,160.1	23,754.4	53,589.8
1986	6,776.9	15,411.4	10,058.0	26,326.6	58,572.9
1987	6,794.0	16,504.2	9,327.6	29,346.8	61,972.6
1988	7,204.5	18,333.4	8,829.7	33,132.3	67,499.9
1989	7,591.9	21,210.3	8,261.2	39,513.8	76,577.2
1990	7,995.1	24,381.1	7,366.6	46,103.8	85,846.6
1991	8,442.0	26,736.7	5,266.5	51,088.9	91,534.1
1992	8,676.8	25,354.4	4,965.5	44,614.3	83,611.0
1993	8,619.1	25,441.3	4,312.4	43,341.8	81,714.6
1994	8,521.3	24,447.9	6,309.8	40,017.5	79,296.5
1995	8,702.2	23,852.8	6,129.3	38,122.8	76,807.1
1996	8,871.5	24,308.9	6,140.2	38,102.9	77,423.6
1997	8,976.8	24,585.4	6,370.8	37,576.3	77,509.3
1998	9,164.4	25,351.0	6,548.9	37,706.0	78,770.3
1999	9,234.8	26,734.9	6,512.5	39,672.5	82,154.7
2000	9,424.7	28,524.5	6,619.5	41,299.3	85,868.0
2001	9,778.9	30,597.6	6,320.5	43,872.8	90,569.7
2002	10,096.6	33,653.8	6,530.8	47,205.2	97,486.4
2003	10,611.6	36,552.1	6,836.1	48,704.9	102,704.7
2004	11,132.5	37,738.2	7,021.6	50,897.1	106,789.5
2005	11,547.1	39,108.8	7,488.7	52,171.8	110,316.4

Billable Assessed Value

Fiscal Year	Class 1	Class 2	Class 3	Class 4	Total
1983	$6,217.2	$11,774.1	$7,927.8	$17,905.7	$43,824.8
1984	6,338.7	12,133.1	8,231.9	19,091.4	45,795.1
1985	6,505.3	12,668.2	8,792.4	20,300.5	48,266.4
1986	6,776.9	13,584.7	9,798.2	22,346.1	52,469.9
1987	6,794.0	14,260.2	9,327.6	24,707.6	55,089.4
1988	7,204.5	15,542.9	8,829.7	27,534.4	59,111.5
1989	7,591.9	17,197.4	8,261.2	31,091.1	64,141.6
1990	7,995.1	19,169.2	7,366.6	35,523.0	70,053.9
1991	8,442.0	21,615.9	5,266.5	41,009.2	76,333.6
1992	8,676.8	23,557.2	4,965.5	41,268.1	78,467.6
1993	8,619.1	24,552.3	4,312.4	41,695.3	79,179.1
1994	8,521.3	24,079.9	6,309.8	39,266.5	78,177.5
1995	8,702.2	23,604.4	6,129.3	37,583.5	76,019.3
1996	8,871.5	23,751.2	6,140.2	37,088.7	75,851.6
1997	8,976.8	23,838.8	6,370.8	36,308.6	75,495.0
1998	9,164.4	24,228.8	6,548.9	36,078.6	76,020.7
1999	9,234.8	24,965.2	6,512.5	36,986.2	77,698.7
2000	9,424.7	26,126.4	6,619.5	37,918.8	80,089.4
2001	9,778.9	27,501.7	6,320.5	39,657.0	83,258.0
2002	10,096.6	29,674.9	6,530.8	41,987.3	88,289.6
2003	10,611.6	31,993.7	6,836.1	43,845.9	93,287.4
2004	11,132.5	34,151.9	7,021.6	46,328.4	98,634.5
2005	11,547.1	35,950.8	7,488.7	47,380.7	102,367.3

Note: The classification system commenced with the tax levy for fiscal year 1983.

Appendix II
Personal Income Tax

Table of Contents

1.
Personal Income Tax Rate Schedules 1966–2006

Appendix II

Personal Income Tax Rate Schedules

Rate Schedule for 1966 Through 1970 for All Filers

If net income is:

Over	But Not Over	Pay	Plus	Of the Amount Over
$0	$1,000	$0	0.4%	$0
1,000	3,000	4	0.6	1,000
3,000	6,000	16	0.8	3,000
6,000	10,000	40	1.0	6,000
10,000	15,000	80	1.2	10,000
15,000	20,000	140	1.4	15,000
20,000	25,000	210	1.6	20,000
25,000	30,000	290	1.8	25,000
30,000		380	2.0	30,000

Rate Schedule for 1971 Through 1975 for All Filers

If net income is:

Over	But Not Over	Pay	Plus	Of the Amount Over
$0	$1,000	$0	0.7%	$0
1,000	3,000	7	1.1	1,000
3,000	6,000	29	1.4	3,000
6,000	10,000	71	1.8	6,000
10,000	15,000	143	2.1	10,000
15,000	20,000	248	2.5	15,000
20,000	25,000	373	2.8	20,000
25,000	30,000	513	3.2	25,000
30,000		673	3.5	30,000

Rate Schedule for 1976 Through 1986 for All Filers

If net income is:

Over	But Not Over	Pay	Plus	Of the Amount Over
$0	$1,000	$0	0.9%	$0
1,000	3,000	9	1.4	1,000
3,000	5,000	37	1.8	3,000
5,000	7,000	73	2.0	5,000
7,000	9,000	113	2.3	7,000
9,000	11,000	159	2.5	9,000
11,000	13,000	209	2.7	11,000
13,000	15,000	263	2.9	13,000
15,000	17,000	321	3.1	15,000
17,000	19,000	383	3.3	17,000
19,000	21,000	449	3.5	19,000
21,000	23,000	519	3.8	21,000
23,000	25,000	595	4.0	23,000
25,000		675	4.3	25,000

1987 Rate Schedule

Rate Schedule for Single Filers

If net income is:

Over	But Not Over	Pay	Plus	Of the Amount Over
$0	$2,500	$0	1.5%	$0
2,500	5,000	38	1.8	2,500
5,000	9,000	83	2.2	5,000
9,000	13,000	171	2.6	9,000
13,000	17,000	275	3.0	13,000
17,000	21,000	395	3.4	17,000
21,000	25,000	531	3.7	21,000
25,000	60,000	679	3.9	25,000
60,000		2,044	4.1	60,000

Rate Schedule for Joint Filers

If net income is:

Over	But Not Over	Pay	Plus	Of the Amount Over
$0	$4,125	$0	1.5%	$0
4,125	8,250	62	1.8	4,125
8,250	14,850	136	2.2	8,250
14,850	21,450	281	2.6	14,850
21,450	28,050	453	3.0	21,450
28,050	34,650	651	3.4	28,050
34,650	41,250	875	3.7	34,650
41,250	99,000	1,119	3.9	41,250
99,000		3,371	4.1	99,000

Rate Schedule for Head of Household Filers

If net income is:

Over	But Not Over	Pay	Plus	Of the Amount Over
$0	$2,750	$0	1.5%	$0
2,750	5,500	41	1.8	2,750
5,500	9,900	91	2.2	5,500
9,900	14,300	188	2.6	9,900
14,300	18,700	302	3.0	14,300
18,700	23,100	434	3.4	18,700
23,100	27,500	584	3.7	23,100
27,500	66,000	747	3.9	27,500
66,000		2,249	4.1	66,000

1988 Rate Schedule

Rate Schedule for Single Filers

If net income is:

Over	But Not Over	Pay	Plus	Of the Amount Over
$0	$2,500	$0	1.5%	$0
2,500	9,000	38	2.2	2,500
9,000	15,000	181	2.7	9,000
15,000	25,000	343	3.2	15,000
25,000	60,000	663	3.4	25,000
60,000		1,853	3.5	60,000

Rate Schedule for Joint Filers

If net income is:

Over	But Not Over	Pay	Plus	Of the Amount Over
$0	$4,500	$0	1.5%	$0
4,500	16,200	68	2.2	4,500
16,200	27,000	325	2.7	16,200
27,000	45,000	617	3.2	27,000
45,000	108,000	1,193	3.4	45,000
108,000		3,335	3.5	108,000

Rate Schedule for Head of Household Filers

If net income is:

Over	But Not Over	Pay	Plus	Of the Amount Over
$0	$2,750	$0	1.5%	$0
2,750	9,900	41	2.2	2,750
9,900	16,500	198	2.7	9,900
16,500	27,500	376	3.2	16,500
27,500	66,000	728	3.4	27,500
66,000		2,037	3.5	66,000

1989 Rate Schedule

Rate Schedule for Single Filers

If net income is:

Over	But Not Over	Pay	Plus	Of the Amount Over
$0	$8,000	$0	2.20%	$0
8,000	15,000	176	2.70	8,000
15,000	25,000	365	3.20	15,000
25,000	60,000	685	3.35	25,000
60,000		1,858	3.40	60,000

Rate Schedule for Joint Filers

If net income is:

Over	But Not Over	Pay	Plus	Of the Amount Over
$0	$14,400	$0	2.20%	$0
14,400	27,000	317	2.70	14,400
27,000	45,000	657	3.20	27,000
45,000	108,000	1,233	3.35	45,000
108,000		3,344	3.40	108,000

Rate Schedule for Head of Household Filers

If net income is:

Over	But Not Over	Pay	Plus	Of the Amount Over
$0	$8,800	$0	2.20%	$0
8,800	16,500	194	2.70	8,800
16,500	27,500	402	3.20	16,500
27,500	66,000	754	3.35	27,500
66,000		2,044	3.40	66,000

1990 Rate Schedule

Rate Schedule for Single Filers
If net income is:

Over	But Not Over	Base Tax Pay	Base Tax Plus	Surcharge Pay	Surcharge Plus	Combined Tax Pay	Combined Tax Plus	Of The Amount Over
$0	$8,000	$0	2.20%	$0	0.00%	$0	2.20%	$0
8,000	9,000	176	2.70	0	0.00	176	2.70	8,000
9,000	15,000	203	2.70	0	0.51	203	3.21	9,000
15,000	25,000	365	3.20	31	0.55	396	3.75	15,000
25,000	60,000	685	3.35	86	0.51	771	3.86	25,000
60,000		1,858	3.40	264	0.51	2,122	3.91	60,000

Rate Schedule for Joint Filers
If net income is:

Over	But Not Over	Base Tax Pay	Base Tax Plus	Surcharge Pay	Surcharge Plus	Combined Tax Pay	Combined Tax Plus	Of The Amount Over
$0	$14,400	$0	2.20%	$0	0.00%	$0	2.20%	$0
14,400	15,500	317	2.70	0	0.00	317	2.70	14,400
15,500	27,000	347	2.70	0	0.51	347	3.21	15,500
27,000	45,000	657	3.20	59	0.55	716	3.75	27,000
45,000	108,000	1,233	3.35	158	0.51	1,391	3.86	45,000
108,000		3,344	3.40	479	0.51	3,823	3.91	108,000

Rate Schedule for Head of Household Filers
If net income is:

Over	But Not Over	Base Tax Pay	Base Tax Plus	Surcharge Pay	Surcharge Plus	Combined Tax Pay	Combined Tax Plus	Of The Amount Over
$0	$8,800	$0	2.20%	$0	0.00%	$0	2.20%	$0
8,800	16,500	194	2.70	0	0.51	194	3.21	8,800
16,500	27,500	402	3.20	39	0.55	441	3.75	16,500
27,500	66,000	754	3.35	100	0.51	854	3.86	27,500
66,000		2,044	3.40	296	0.51	2,340	3.91	66,000

1991-1994 Rate Schedule

Rate Schedule for Single Filers
If net income is:

		Base Tax(1)		Surcharge		Combined Tax		
Over	But Not Over	Pay	Plus	Pay	Plus	Pay	Plus	Of The Amount Over
$0	$8,000	$0	2.51%	$0	0.00%	$0	2.51%	$0
8,000	9,000	201	3.08	0	0.00	201	3.08	8,000
9,000	15,000	232	3.15	0	0.51	232	3.66	9,000
15,000	25,000	421	3.73	31	0.55	452	4.28	15,000
25,000	60,000	794	3.89	86	0.51	880	4.40	25,000
60,000		2,156	3.95	264	0.51	2,420	4.46	60,000

Rate Schedule for Joint Filers
If net income is:

		Base Tax(1)		Surcharge		Combined Tax		
Over	But Not Over	Pay	Plus	Pay	Plus	Pay	Plus	Of The Amount Over
$0	$14,400	$0	2.51%	$0	0.00%	$0	2.51%	$0
14,400	15,500	361	3.08	0	0.00	361	3.08	14,400
15,500	27,000	395	3.15	0	0.51	395	3.66	15,500
27,000	45,000	757	3.73	59	0.55	816	4.28	27,000
45,000	108,000	1,428	3.89	158	0.51	1,586	4.40	45,000
108,000		3,879	3.95	479	0.51	4,358	4.46	108,000

Rate Schedule for Head of Household Filers
If net income is:

		Base Tax(1)		Surcharge		Combined Tax		
Over	But Not Over	Pay	Plus	Pay	Plus	Pay	Plus	Of The Amount Over
$0	$7,800	$0	2.51%	$0	0.00%	$0	2.51%	$0
7,800	8,800	196	2.51	0	0.00	196	2.51	7,800
8,800	16,500	221	3.15	0	0.51	221	3.66	8,800
16,500	27,500	464	3.73	39	0.55	503	4.28	16,500
27,500	66,000	873	3.89	100	0.51	973	4.40	27,500
66,000		2,371	3.95	296	0.51	2,667	4.46	66,000

(1) *Base tax rate includes the base tax and the 14 percent increase on the base tax and on the surcharge.*

1995 Rate Schedule

Rate Schedule for Single Filers
If net income is:

Over	But Not Over	Base Tax(1) Pay	Base Tax(1) Plus	Surcharge Pay	Surcharge Plus	Combined Tax Pay	Combined Tax Plus	Of The Amount Over
$0	$8,000	$0	2.57%	$0	0.00%	$0	2.57%	$0
8,000	8,400	205	3.25	0	0.00	205	3.25	8,000
8,400	15,000	218	3.32	0	0.51	218	3.83	8,400
15,000	25,000	438	3.84	33	0.55	471	4.39	15,000
25,000	60,000	822	3.89	88	0.51	910	4.40	25,000
60,000		2,184	3.95	266	0.51	2,450	4.46	60,000

Rate Schedule for Joint Filers
If net income is:

Over	But Not Over	Base Tax(1) Pay	Base Tax(1) Plus	Surcharge Pay	Surcharge Plus	Combined Tax Pay	Combined Tax Plus	Of The Amount Over
$0	$14,400	$0	2.57%	$0	0.00%	$0	2.57%	$0
14,400	27,000	369	3.32	0	0.51	369	3.83	14,400
27,000	45,000	788	3.84	64	0.55	852	4.39	27,000
45,000	108,000	1,480	3.89	162	0.51	1,642	4.40	45,000
108,000		3,930	3.95	484	0.51	4,414	4.46	108,000

Rate Schedule for Head of Household Filers
If net income is:

Over	But Not Over	Base Tax(1) Pay	Base Tax(1) Plus	Surcharge Pay	Surcharge Plus	Combined Tax Pay	Combined Tax Plus	Of The Amount Over
$0	$7,350	$0	2.57%	$0	0.00%	$0	2.57%	$0
7,350	9,200	189	2.62	0	0.42	189	3.05	7,350
9,200	17,250	238	3.32	7	0.51	245	3.83	9,200
17,250	28,750	505	3.84	48	0.55	553	4.39	17,250
28,750	69,000	947	3.89	111	0.51	1,058	4.40	28,750
69,000		2,512	3.95	317	0.51	2,829	4.46	69,000

(1) *Base tax rate includes the base tax and the 14 percent increase on the base tax and on the surcharge.*

1996 Rate Schedule

Rate Schedule for Single Filers
If net income is:

		Base Tax(1)		Surcharge		Combined Tax		
Over	But Not Over	Pay	Plus	Pay	Plus	Pay	Plus	Of the Amount Over
$0	$8,000	$0	2.96%	$0	0.00%	$0	2.96%	$0
8,000	8,400	237	3.42	0	0.00	237	3.42	8,000
8,400	15,000	251	3.49	0	0.51	251	4.00	8,400
15,000	25,000	482	3.84	33	0.55	515	4.39	15,000
25,000	60,000	866	3.89	88	0.51	954	4.40	25,000
60,000		2,228	3.95	266	0.51	2,494	4.46	60,000

Rate Schedule for Joint Filers
If net income is:

		Base Tax(1)		Surcharge		Combined Tax		
Over	But Not Over	Pay	Plus	Pay	Plus	Pay	Plus	Of the Amount Over
$0	$14,400	$0	2.96%	$0	0.00%	$0	2.96%	$0
14,400	27,000	427	3.49	0	0.51	427	4.00	14,400
27,000	45,000	867	3.84	64	0.55	931	4.39	27,000
45,000	108,000	1,559	3.89	162	0.51	1,721	4.40	45,000
108,000		4,009	3.95	484	0.51	4,493	4.46	108,000

Rate Schedule for Head of Household Filers
If net income is:

		Base Tax(1)		Surcharge		Combined Tax		
Over	But Not Over	Pay	Plus	Pay	Plus	Pay	Plus	Of the Amount Over
$0	$7,350	$0	2.96%	$0	0.00%	$0	2.96%	$0
7,350	9,200	218	3.02	0	0.42	218	3.44	7,350
9,200	9,600	275	3.04	7	0.51	282	3.55	9,200
9,600	17,250	287	3.49	9	0.51	296	4.00	9,600
17,250	18,000	554	3.50	48	0.55	602	4.05	17,250
18,000	28,750	580	3.84	52	0.55	632	4.39	18,000
28,750	30,000	993	3.83	111	0.51	1,104	4.34	28,750
30,000	69,000	1,041	3.89	117	0.51	1,158	4.40	30,000
69,000	72,000	2,557	3.89	317	0.51	2,874	4.40	69,000
72,000		2,673	3.95	333	0.51	3,006	4.46	72,000

(1)*Base tax rate includes the base tax and the 14 percent increase on the base tax and on the surcharge.*

1997-1998 Rate Schedule

Rate Schedule for Single Filers

If net income is:

Over	But Not Over	Base Tax[1] Pay	Base Tax[1] Plus	Surcharge Pay	Surcharge Plus	Combined Tax Pay	Combined Tax Plus	Of the Amount Over
$0	$8,400	$0	3.08%	$0	0.00%	$0	3.08%	$0
8,400	12,000	259	3.15	0	0.51	259	3.66	8,400
12,000	15,000	373	3.83	18	0.51	391	4.34	12,000
15,000	25,000	488	3.84	33	0.55	521	4.39	15,000
25,000	50,000	872	3.89	88	0.51	960	4.40	25,000
50,000	60,000	1,844	3.95	216	0.51	2,060	4.46	50,000
60,000		2,239	3.95	267	0.51	2,506	4.46	60,000

Rate Schedule for Joint Filers

If net income is:

Over	But Not Over	Base Tax[1] Pay	Base Tax[1] Plus	12.5 %Surcharge Pay	12.5 %Surcharge Plus	Combined Tax Pay	Combined Tax Plus	Of the Amount Over
$0	$14,400	$0	3.08%	$0	0.00%	$0	3.08%	$0
14,400	21,600	443	3.15	0	0.51	443	3.66	14,400
21,600	27,000	669	3.83	37	0.51	706	4.34	21,600
27,000	45,000	876	3.84	65	0.55	941	4.39	27,000
45,000	90,000	1,567	3.89	164	0.51	1,731	4.40	45,000
90,000	108,000	3,317	3.95	394	0.51	3,711	4.46	90,000
108,000		4,027	3.95	486	0.51	4,513	4.46	108,000

Rate Schedule for Head of Household Filers

If net income is:

Over	But Not Over	Base Tax[1] Pay	Base Tax[1] Plus	12.5% Surcharge Pay	12.5% Surcharge Plus	Combined Tax Pay	Combined Tax Plus	Of the Amount Over
$0	$7,350	$0	3.08%	$0	0.00%	$0	3.08%	$0
7,350	9,200	226	3.14	0	0.42	226	3.56	7,350
9,200	14,400	284	3.15	8	0.51	292	3.66	9,200
14,400	17,250	447	3.83	35	0.51	482	4.34	14,400
17,250	28,750	556	3.84	50	0.55	606	4.39	17,250
28,750	30,000	998	3.83	113	0.51	1,111	4.34	28,750
30,000	60,000	1,046	3.89	119	0.51	1,165	4.40	30,000
60,000	69,000	2,213	3.95	272	0.51	2,485	4.46	60,000
69,000		2,568	3.95	318	0.51	2,886	4.46	69,000

[1] *Base tax rate includes the base tax and the 14 percent increase on the base tax and on the surcharge.*

1999 Rate Schedule[(1)]

Rate Schedule for Single Filers
If net income is:

		Base Tax			14% Increase		Combined Tax		
Over	But Not Over	Base Amt.	Plus	of Amt. Over	Base Amt.	Incr. Rate	Base Amt.	Comb. Rate	of Amt. Over
$0	$8,400	$0	2.68%	$0	$0	0.38%	$0	3.05%	$0
8,400	12,000	225	2.68	8,400	31	0.38	256	3.05	8,400
12,000	15,000	321	3.26	12,000	45	0.46	366	3.71	12,000
15,000	25,000	419	3.26	15,000	58	0.46	477	3.71	15,000
25,000	50,000	745	3.31	25,000	103	0.46	848	3.77	25,000
50,000		1,572	3.36	50,000	219	0.47	1,791	3.83	50,000

Rate Schedule for Joint Filers
If net income is:

		Base Tax			14% Increase		Combined Tax		
Over	But Not Over	Base Amt.	Plus	of Amt. Over	Base Amt.	Incr. Rate	Base Amt.	Comb. Rate	of Amt. Over
$0	$14,400	$0	2.68%	$0	$0	0.38%	$0	3.05%	$0
14,400	21,600	385	2.68	14,400	54	0.38	439	3.05	14,400
21,600	27,000	578	3.26	21,600	81	0.46	659	3.71	21,600
27,000	45,000	754	3.26	27,000	106	0.46	860	3.71	27,000
45,000	90,000	1,340	3.31	45,000	189	0.46	1,529	3.77	45,000
90,000		2,828	3.36	90,000	398	0.47	3,226	3.83	90,000

Rate Schedule for Head of Household Filers
If net income is:

		Base Tax			14% Increase		Combined Tax		
Over	But Not Over	Base Amt.	Plus	of Amt. Over	Base Amt.	Incr. Rate	Base Amt.	Comb. Rate	of Amt. Over
$0	$7,350	$0	2.68%	$0	$0	0.38%	$0	3.05%	$0
7,350	9,200	197	2.68	7,350	27	0.38	224	3.05	7,350
9,200	14,400	246	2.68	9,200	34	0.38	280	3.05	9,200
14,400	17,250	385	3.26	14,400	54	0.46	439	3.71	14,400
17,250	28,750	478	3.26	17,250	67	0.46	545	3.71	17,250
28,750	30,000	853	3.26	28,750	119	0.46	972	3.71	28,750
30,000	60,000	894	3.31	30,000	124	0.46	1,018	3.77	30,000
60,000		1,886	3.36	60,000	263	0.47	2,149	3.83	60,000

[(1)] *First year of across-the-board STAR rate cut at 1.25 percent.*

2000 Rate Schedule[1]

Rate Schedule for Single Filers

If net income is:

		Base Tax			14% Increase		Combined Tax		
Over	**But Not Over**	**Base Amt.**	**Plus**	**of Amt. Over**	**Base Amt.**	**Incr. Rate**	**Base Amt.**	**Comb. Rate**	**of Amt. Over**
$0	$12,000	$0	2.6500%	$0	$0	0.3710%	$0	3.0210%	$0
12,000	25,000	318	3.2150	12,000	45	0.4500	363	3.6650	12,000
25,000	50,000	736	3.2650	25,000	104	0.4570	840	3.7220	25,000
50,000		1,552	3.3150	50,000	219	0.4640	1,771	3.7790	50,000

Rate Schedule for Joint Filers

If net income is:

		Base Tax			14% Increase		Combined Tax		
Over	**But Not Over**	**Base Amt.**	**Plus**	**of Amt. Over**	**Base Amt.**	**Incr. Rate**	**Base Amt.**	**Comb. Rate**	**of Amt. Over**
$0	$21,600	$0	2.6500%	$0	$0	0.3700%	$0	3.0210%	$0
21,600	45,000	572	3.2150	21,600	81	0.4500	653	3.6650	21,600
45,000	90,000	1,326	3.2650	45,000	185	0.4600	1,511	3.7220	45,000
90,000		2,795	3.3150	90,000	391	0.4600	3,186	3.7790	90,000

Rate Schedule for Head of Household Filers

If net income is:

		Base Tax			14% Increase		Combined Tax		
Over	**But Not Over**	**Base Amt.**	**Plus**	**of Amt. Over**	**Base Amt.**	**Incr. Rate**	**Base Amt.**	**Comb. Rate**	**of Amt. Over**
$0	$14,400	$0	2.6500%	$0	$0	0.3710%	$0	3.0210%	$0
14,400	30,000	383	3.2150	14,400	52	0.4500	435	3.6650	14,400
30,000	60,000	885	3.2650	30,000	121	0.4570	1,006	3.7220	30,000
60,000		1,865	3.3150	60,000	258	0.4640	2,123	3.7790	60,000

[1]*First year of across-the-board STAR rate cut at 2.5 percent.*

2001 Rate Schedule(1), (2)

Rate Schedule for Single Filers

If net income is:

		Base Tax			14% Increase		Combined Tax		
Over	But Not Over	Base Amt.	Plus	of Amt. Over	Base Amt.	Incr. Rate	Base Amt.	Comb. Rate	of Amt. Over
$0	$12,000	$0	2.55%	$0	$0	0.1339%	$0	2.684%	$0
12,000	25,000	306	3.10	12,000	16	0.1628	322	3.263	12,000
25,000	50,000	709	3.15	25,000	37	0.1664	746	3.316	25,000
50,000		1,497	3.20	50,000	79	0.3920	1,576	3.592	50,000

Rate Schedule for Joint Filers

If net income is:

		Base Tax			14% Increase		Combined Tax		
Over	But Not Over	Base Amt.	Plus	of Amt. Over	Base Amt.	Incr. Rate	Base Amt.	Comb. Rate	of Amt. Over
$0	$21,600	$0	2.55%	$0	$0	0.1339%	$0	2.684%	$0
21,600	45,000	551	3.10	21,600	29	0.1628	580	3.263	21,600
45,000	90,000	1,276	3.15	45,000	67	0.1664	1,343	3.316	45,000
90,000		2,694	3.20	90,000	141	0.3920	2,835	3.592	90,000

Rate Schedule for Head of Household Filers

If net income is:

		Base Tax			14% Increase		Combined Tax		
Over	But Not Over	Base Amt.	Plus	of Amt. Over	Base Amt.	Incr. Rate	Base Amt.	Comb. Rate	of Amt. Over
$0	$14,400	$0	2.55%	$0	$0	0.1339%	$0	2.684%	$0
14,400	30,000	367	3.10	14,400	19	0.1628	386	3.263	14,400
30,000	60,000	851	3.15	30,000	44	0.1664	895	3.316	30,000
60,000		1,796	3.20	60,000	94	0.3920	1,890	3.592	60,000

(1)*Full STAR rate cut at 5.87 percent across the board.*

(2)*Rate cut and restructure of the 14 percent additional tax.*

2002 Rate Schedule[1]

Rate Schedule for Single Filers

If net income is:

		Base Tax			14% Increase		Combined Tax		
Over	But Not Over	Base Amt.	Plus	of Amt. Over	Base Amt.	Incr. Rate	Base Amt.	Comb. Rate	of Amt. Over
$0	$12,000	$0	2.55%	$0	$0	0.3570%	$0	2.9070%	$0
12,000	25,000	306	3.10	12,000	43	0.4340	349	3.5340	12,000
25,000	50,000	709	3.15	25,000	99	0.4410	808	3.5910	25,000
50,000		1,497	3.20	50,000	209	0.4480	1,706	3.6480	50,000

Rate Schedule for Joint Filers

If net income is:

		Base Tax			14% Increase		Combined Tax		
Over	But Not Over	Base Amt.	Plus	of Amt. Over	Base Amt.	Incr. Rate	Base Amt.	Comb. Rate	of Amt. Over
$0	$21,600	$0	2.55%	$0	$0	0.3570%	$0	2.9070%	$0
21,600	45,000	551	3.10	21,600	77	0.4340	628	3.5340	21,600
45,000	90,000	1,276	3.15	45,000	179	0.4410	1,455	3.5910	45,000
90,000		2,694	3.20	90,000	377	0.4480	3,071	3.6480	90,000

Rate Schedule for Head of Household Filers

If net income is:

		Base Tax			14% Increase		Combined Tax		
Over	But Not Over	Base Amt.	Plus	of Amt. Over	Base Amt.	Incr. Rate	Base Amt.	Comb. Rate	of Amt. Over
$0	$14,400	$0	2.55%	$0	$0	0.3570%	$0	2.9070%	$0
14,400	30,000	367	3.10	14,400	52	0.4340	419	3.5340	14,400
30,000	60,000	851	3.15	30,000	119	0.4410	970	3.5910	30,000
60,000		1,796	3.20	60,000	251	0.4480	2,047	3.6480	60,000

(1) *Effective January 1, 2002, the full 14 percent additional tax was reinstated.*

2003 Rate Schedule[1]

Rate Schedule for Single Filers
If net income is:

Over	But Not Over	Pay	Plus	of Amt. Over
$0	$12,000	$0	2.907%	$0
12,000	25,000	349	3.534	12,000
25,000	50,000	808	3.591	25,000
50,000	100,000	1,706	3.648	50,000
100,000	500,000	3,530	4.250	100,000
500,000		20,530	4.450	500,000

Rate Schedule for Joint Filers
If net income is:

Over	But Not Over	Pay	Plus	of Amt. Over
$0	$21,600	$0	2.907%	$0
21,600	45,000	628	3.534	21,600
45,000	90,000	1,455	3.591	45,000
90,000	150,000	3,071	3.648	90,000
150,000	500,000	5,260	4.250	150,000
500,000		20,135	4.450	500,000

Rate Schedule for Head of Household Filers
If net income is:

Over	But Not Over	Pay	Plus	of Amt. Over
$0	$14,400	$0	2.907%	$0
14,400	30,000	419	3.534	14,400
30,000	60,000	970	3.591	30,000
60,000	125,000	2,047	3.648	60,000
125,000	500,000	4,418	4.250	125,000
500,000		20,356	4.450	500,000

[1]*Effective January 1, 2003 through December 31, 2005, a temporary personal income tax rate schedule was imposed which superseded the existing base rate schedule and the 14 percent additional tax. This temporary rate schedule combined the base rate with the 14 percent additional tax, at the existing brackets, and added two new upper income brackets and rates.*

2004 Rate Schedule[1]

Rate Schedule for Single Filers
If net income is:

Over	But Not Over	Pay	Plus	of Amt. Over
$0	$12,000	$0	2.907%	$0
12,000	25,000	349	3.534	12,000
25,000	50,000	808	3.591	25,000
50,000	100,000	1,706	3.648	50,000
100,000	500,000	3,530	4.175	100,000
500,000		20,230	4.450	500,000

Rate Schedule for Joint Filers
If net income is:

Over	But Not Over	Pay	Plus	of Amt. Over
$0	$21,600	$0	2.907%	$0
21,600	45,000	628	3.534	21,600
45,000	90,000	1,455	3.591	45,000
90,000	150,000	3,071	3.648	90,000
150,000	500,000	5,260	4.175	150,000
500,000		19,872	4.450	500,000

Rate Schedule for Head of Household Filers
If net income is:

Over	But Not Over	Pay	Plus	of Amt. Over
$0	$14,400	$0	2.907%	$0
14,400	30,000	419	3.534	14,400
30,000	60,000	970	3.591	30,000
60,000	125,000	2,047	3.648	60,000
125,000	500,000	4,418	4.175	125,000
500,000		20,075	4.450	500,000

[1] *Effective January 1, 2003 through December 31, 2005, a temporary personal income tax rate schedule was imposed which superseded the existing base rate schedule and the 14 percent additional tax. This temporary rate schedule combined the base rate with the 14 percent additional tax, at the existing brackets, and added two new upper income brackets and rates.*

2005 Rate Schedule[1]

Rate Schedule for Single Filers

If net income is:

Over	But Not Over	Pay	Plus	of Amt. Over
$0	$12,000	$0	2.907%	$0
12,000	25,000	349	3.534	12,000
25,000	50,000	808	3.591	25,000
50,000	100,000	1,706	3.648	50,000
100,000	500,000	3,530	4.050	100,000
500,000		19,730	4.450	500,000

Rate Schedule for Joint Filers

If net income is:

Over	But Not Over	Pay	Plus	of Amt. Over
$0	$21,600	$0	2.907%	$0
21,600	45,000	628	3.534	21,600
45,000	90,000	1,455	3.591	45,000
90,000	150,000	3,071	3.648	90,000
150,000	500,000	5,260	4.050	150,000
500,000		19,435	4.450	500,000

Rate Schedule for Head of Household Filers

If net income is:

Over	But Not Over	Pay	Plus	of Amt. Over
$0	$14,400	$0	2.907%	$0
14,400	30,000	419	3.534	14,400
30,000	60,000	970	3.591	30,000
60,000	125,000	2,047	3.648	60,000
125,000	500,000	4,418	4.050	125,000
500,000		19,606	4.450	500,000

(1) *Effective January 1, 2003 through December 31, 2005, a temporary personal income tax rate schedule was imposed which superseded the existing base rate schedule and the 14 percent additional tax. This temporary rate schedule combined the base rate with the 14 percent additional tax, at the existing brackets, and added two new upper income brackets and rates.*

2006 Rate Schedule[1]

Rate Schedule for Single Filers

If net income is:

		Base Tax			14% Increase		Combined Tax		
Over	But Not Over	Base Amt.	Plus	of Amt. Over	Base Amt.	Incr. Rate	Base Amt.	Comb. Rate	of Amt. Over
$0	$12,000	$0	2.55%	$0	$0	0.3570%	$0	2.9070%	$0
12,000	25,000	306	3.10	12,000	43	0.4340	349	3.5340	12,000
25,000	50,000	709	3.15	25,000	99	0.4410	808	3.5910	25,000
50,000		1,497	3.20	50,000	209	0.4480	1,706	3.6480	50,000

Rate Schedule for Joint Filers

If net income is:

		Base Tax			14% Increase		Combined Tax		
Over	But Not Over	Base Amt.	Plus	of Amt. Over	Base Amt.	Incr. Rate	Base Amt.	Comb. Rate	of Amt. Over
$0	$21,600	$0	2.55%	$0	$0	0.3570%	$0	2.9070%	$0
21,600	45,000	551	3.10	21,600	77	0.4340	628	3.5340	21,600
45,000	90,000	1,276	3.15	45,000	179	0.4410	1,455	3.5910	45,000
90,000		2,694	3.20	90,000	377	0.4480	3,071	3.6480	90,000

Rate Schedule for Head of Household Filers

If net income is:

		Base Tax			14% Increase		Combined Tax		
Over	But Not Over	Base Amt.	Plus	of Amt. Over	Base Amt.	Incr. Rate	Base Amt.	Comb. Rate	of Amt. Over
$0	$14,400	$0	2.55%	$0	$0	0.3570%	$0	2.9070%	$0
14,400	30,000	367	3.10	14,400	52	0.4340	419	3.5340	14,400
30,000	60,000	851	3.15	30,000	119	0.4410	970	3.5910	30,000
60,000		1,796	3.20	60,000	251	0.4480	2,047	3.6480	60,000

(1)*Effective January 1, 2006, the temporary personal income tax rate schedule expires and the legislated 2002 base rates and 14 percent additional tax are re-imposed.*

2.
New York City Withholding Table Changes 1980–2005

Appendix II

New York City Withholding Table Changes 1980–2005

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

Effective Date	Feature	Change
1/1/05	Rate Schedule	Rates decreased: Second top rate decreased to 4.40% from 4.53%

The January 1, 2005 withholding table change reflects the reduction in the second top rate for 2005.

Effective Date	Feature	Change
1/1/04	Rate Schedule	Rates decreased: Top rate decreased to 4.80% from5.60%

The January 1, 2004 withholding table reflects the addition of two upper income brackets and rates for 2004.

Effective Date	Feature	Change
7/1/03	Rate Schedule	Rates increased: Top rate increased to 5.6% from 4.0%.

The July 1, 2003 withholding table change reflects the enactment of the two upper income brackets and rates for tax year 2003, and reflects the delayed institution of the withholding table which collects all of the 2003 increased withholding liability in six months.

Effective Date	Feature	Change
6/1/02	Rate Schedule	Rates increased: Top rate increased to 4.00% percent from 3.90%

The June 1, 2002 withholding table change reflects the re-institution of the full 14% additional tax.

Effective Date	Feature	Change
10/1/01	Rate Schedule	Rates decreased: Top rate reduced to 3.90% from 4.00%

The October 1, 2001 withholding table change reflects the second reduction of the 14% additional tax.

Effective Date	Feature	Change
1/1/01	Rate Schedule	Rates decreased: Top rate reduced to 4.00% from 4.15%

The January 1, 2001 withholding table change reflects the cut and restructuring of the 14% additional tax and the last installment of the STAR program rate cut.

Effective Date	Feature	Change
1/1/00	Nonresident (Out-of-State) Rate Schedule	Rates decreased: Nonresident rates reduced to 0.25% from 0.45% on wages and to 0.375% from 0.65% on net earnings
7/1/99	Rate Schedule	Rates decreased: Top rate reduced to 4.15% from 4.25%

The July 1, 1999 witholding table change reflects the first rate reduction due to the implementation of the STAR program.

Effective Date	Feature	Change
1/1/99	Rate Schedule	Rates decreased: Top rate reduced to 4.25% from 4.68%

A 14% personal income tax increase is effective for tax years 1991 through 1999. The October 1, 1991 withholding table change reflects the implementation of this increase.

Effective Date	Feature	Change
10/1/91	Rate Schedule	Rates increased: Top rate increased to 4.68% from 4.25%

A personal income tax surcharge is effective for tax years 1990 through 1998. The October 1, 1990 withholding table change reflects the implementation of the surcharge.

Effective Date	Feature	Change
10/1/90	Standard Deduction	Increased to $5,000 for single taxpayers and to $5,500 for married taxpayers
	Rate Schedule	Rates increased; Top rate increased to 4.25% from 3.9%
10/1/89	Rate Schedule	Rates decreased; Top rate reduced to 3.9% from 4.0%
10/1/88	Exemption	$1,000 for dependents only
	Rate Schedule	Rates decreased; Top rate reduced to 4.0% from 4.2%

Two changes were made in 1987. The April change was due to the implementation of the last year of the Three-Year Tax Cut Program for 1985 through 1987, which increased standard deductions and personal exemptions. The October change was incorporated to reflect the New York City Tax Reduction Act of 1987.

Effective Date	Feature	Change
10/1/87	Standard Deduction	Increased to $4,300 for single taxpayers and to $5,300 for married taxpayers
	Exemption	Increased to $1,000 from $900
	Rate Schedule	Rates decreased; Top rate reduced to 4.2% from 4.3%
4/1/87	Standard Deduction	Increased to $2,500 for all taxpayers
	Exemption	Increased to $900 from $850
4/1/86	Standard Deduction	Increased to $2,050 for all taxpayers
7/1/85	Standard Deduction	Increased to $1,850 for all taxpayers
	Exemption	Increased to $850 from $800
1/1/85	Rate Schedule	Surcharge removed
1/1/84	Rate Schedule	Surcharge of 2.5% if gross wages over $15,000 but not over $20,000; 5% if gross wages over $20,000 Reflects surcharge rates for tax year 1984
10/1/82	Rate Schedule	Surcharge of 5% if gross wages over $15,000 but not over $20,000; 10% if gross wages over $20,000 Reflects surcharge rates for tax year 1983
10/1/81	Standard Deduction	17% of gross wages with a minimum of $750 and a maximum of $1,750
	Exemption	Increased to $800 from $750
4/1/80	Exemption	Increased to $750 from $700

3.
Personal Income Tax Liability 2005

Appendix II

2005 Personal Income Tax Liability

Single Filers	NY Adjusted Gross Income	Total Tax[1]
	$15,000	$156
	25,000	481
	40,000	1,015
	50,000	1,374
	75,000	2,282
	100,000	3,194
	125,000	4,176
	500,000	19,946
	525,000	23,029
Married, 2 Dependents		
	$25,00	$119
	40,000	567
	50,000	920
	75,000	1,811
	85,000	2,170
	100,000	2,709
	150,000	4,529
	175,000	5,475
	500,000	19,578
	525,000	22,624
Head of Household, 2 Dependents		
	$25,000	$301
	40,000	819
	50,000	1,177
	75,000	2,076
	85,000	2,441
	100,000	2,988
	125,000	3,900
	150,000	4,862
	500,000	19,744
	525,000	22,806

(1) *Assumes the standard deductions, the non-senior STAR credit and no use of the resident UBT credit and the New York City household credit.*

Appendix III
Sales Tax

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Appendix III

Sales Tax Legislative History

1934 New York City imposes a two percent tax on the sales and use of tangible personal property and services.

1959 The tax rate is increased to three percent for most sales and to five percent for restaurant meals and drinks costing one dollar or more.

1963 The basic rate is increased to four percent and the five percent rate on restaurant meals is extended to include catering services.

1965 New York State introduces its own two percent sales tax and begins to collect, administer, and enforce the sales tax for all localities. New York City lowers its own tax rate to three percent. Sales tax on any motor vehicle purchased by an out-of-state resident is repealed (effective date: August 1, 1965).

1969 The State raises its tax rate to three percent.

1970 The City imposes a six percent tax on motor vehicle parking and garaging services (effective date: September 1, 1970).

1971 The State raises its tax rate to four percent.

1974 The City raises its tax rate to four percent (effective date: July 1, 1974).

1975 A four percent Municipal Assistance sales and use tax is levied in lieu of the City's sales tax. The revenue from this tax is pledged to the Municipal Assistance Corporation (MAC) to meet the interest payments on bonds issued by the corporation. However, revenue resulting from future expansions of the City's sales tax base does not belong to MAC but flows directly to the City (effective date: July 1, 1975). On July 1, 2008, the sales tax imposed by the City will again be in effect. Due to the expiration of certain State legislation, the City-imposed sales tax would take effect at the rate of three percent unless the City's authority to impose an additional one percent sales tax is renewed. Protective and detective services and credit reporting and collection services are added to the City's non-MAC tax base (effective date: September 1, 1975).

1976 Barber and beauty shops and health and weight control salons are added to the City's non-MAC tax base (effective date: March 1, 1976).

1977 Sales and use taxes paid on machinery used in the production of tangible personal property, gas, electricity or refrigeration, and steam for sale can be claimed as a credit against the City's general corporation, unincorporated business or utility taxes (effective date: July 1, 1977). For sales after December 1, 1989, the credit is replaced with an exemption from the sales tax, reducing the City's MAC tax base.

1980 An eight percent tax surcharge on motor vehicle parking and garaging services is imposed in the borough of Manhattan and is added to the City's non-MAC tax base (effective date: September 1, 1980), bringing the total City, State and MTA sales tax on parking in Manhattan to 18.25 percent.

Total Manhattan Parking Tax

NYS	4.00%
NYC	6.00%
Manhattan Surcharge	8.00%
MTCD	0.25%
Total Parking	**18.25%**

1984 Sales tax on electricity or electric service used in the production of tangible personal property for sale by manufacturing, processing or assembling can be claimed as a credit against the unincorporated business or general corporation taxes (effective date: July 1, 1984).

1985 Manhattan residents are exempted from the eight percent parking and garaging surcharge, reducing the City's non-MAC tax base (effective date: September 1, 1985).

1987 Under the Competitive Business Energy Costs Program (CBECP), sales tax on sales of energy to commercial or industrial users is exempted in annual increments of 25 percent per year, reducing the City's MAC tax base (effective date: July 1, 1988).

1988 Implementation of the CBECP is delayed until July 1, 1990, when it is due to resume on the original schedule (i.e. 75 percent).

1989 Interior decorating, contract cleaning and maintenance services are added to the City's non-MAC tax base (effective date: December 1, 1989).

Service charges on floor covering installations are added to the State's tax base, and consequently, the City's MAC tax base (effective date: June 1, 1989).

The State enhances its revenue enforcement capability to improve revenue collections from interstate mail-order sales, prefabricated building materials purchased from out-of-state manufacturers and used in New York, and catalogues printed out of state and mailed by in-state firms (effective date: September 1, 1989).

Excise taxes on cigarettes (effective date: June 1, 1989) and tobacco products (effective date: July 1, 1989) are included in the calculation of the sales tax, and are added to the State's tax base and, consequently, the City's MAC tax base.

The City's credit for sales tax paid on machinery and equipment used in the production of tangible personal property is changed to an exemption, reducing the City's MAC tax base (effective date: December 1, 1989).

1990 Entertainment services provided or delivered by telephone or telegraph through 500, 700, 800 and 900 telephone numbers, as well as such services delivered by private telephone line, cable or channel are added to the State's tax base and, consequently, the City's MAC tax base (effective date: September 1, 1990).

Protective and detective services, and interior decorating, contract cleaning and maintenance services, previously taxed exclusively by the City, are added to the State's tax base (effective date: June 1, 1990).

The State and City sales taxes due on automobile and boat leases of duration greater than one year are due in total at the inception of the lease and are no longer spread over the life of the lease (effective date: June 1, 1990).

The implementation of the CBECP is delayed indefinitely.

1991 Shipping, transportation, postage and similar delivery charges, telephone answering services, and sales of prewritten software are added to the State's tax base and, consequently, the City's MAC tax base (effective date: September 1, 1991).

1992 The additional cost of a new alternative fuel vehicle (AFV) above the sales price of a comparable gasoline or diesel powered vehicle and parts and labor charges related to converting a gasoline or diesel powered vehicle to an AFV, are exempted from the State's tax base and, consequently, the City's MAC tax base. This exemption, set to expire five years after the effective date of September 1, 1992, was subsequently extended through February 29, 2004 and again through Febraury 28, 2005. The exemption amount is fixed at $3,000 effective March 1, 2004.

1995 Interior decorating and design services are exempted from the City tax, reducing the City's non-MAC tax base (effective date: December 1, 1995).

The State requires cigarette stamping agents to prepay State and local sales taxes (at a seven percent blended rate) on sales of cigarettes distributed to licensed wholesalers, chain stores and retailers (effective date: September 1, 1995).

1996 The retail sale of shopping papers to the publishers and related printing services are exempted from State and City's MAC sales tax base (effective date: September 1, 1996).

The State and City repealed their taxes on clothing and footwear purchases under $500 during the week of January 18-24, 1997, reducing the State's tax base and, consequently, the City's MAC tax base.

Printed promotional materials delivered through the mail and associated shipping services are exempted from State and City taxes, reducing the State's tax base and, consequently, the City's MAC tax base (effective date: March 1, 1997).

Vehicles leased by Manhattan residents are exempted from the eight percent parking and garaging surcharge, reducing the City's non-MAC tax base (effective date: December 1, 1996).

Parking charges paid to municipally-owned and operated parking facilities are exempted from State and City sales taxes, other than the eight percent Manhattan parking surcharge (effective date: December 1, 1996).

Certain parts, tools, supplies and services used or consumed in production processes, including film production, are exempted from the City tax, reducing the City's MAC tax base, and bringing City tax law into conformity with the State (effective date: September 1, 1996). This law was amended October 1,1997 to include live theatrical performances.

The services of installing, repairing, maintaining and servicing tangible personal property used to produce a product for sale by manufacturing, processing and assembling are exempt from the City tax, reducing the City's MAC tax base, and bringing City tax law into conformity with the State (effective date: September 1, 1996).

1997 The State and City repealed their taxes on clothing purchases under $100, excluding footwear, during the week of September 1-7, 1997, and repealed their taxes on clothing and footwear purchases under $500 during the weeks of September 1-7 and January 17-23, 1998, reducing the State's tax base, and consequently, the City's MAC tax base.

The State permanently repealed its 4 percent sales tax on clothing and footwear purchases under $110, and gave local governments the option to match the repeal. If a locality within the MCTD opts for repeal, clothing will also be exempt from the 0.25 percent MCTD sales tax. The locality will reimburse the MCTD for one half of the tax forgone and the State will reimburse the MCTD for the other half (effective date: December 1, 1999).

Emissions inspection equipment purchased by an official inspection station are exempt from the State's tax base and, consequently, the City's MAC tax base (effective date: September 1, 1997).

Bus purchases and repairs, coin-operated car washes, coin-operated bulk vending machines and photocopying machines at fifty cents or less, temporary transportation devices sold through coin-operated equipment, food or drink (except hot drinks or sandwiches) sold through coin-operated vending machines, wine or wine product furnished by the official agent of a farm, winery, wholesaler, or importer at a wine tasting, and receipts from admissions to all circuses are exempt from the State's tax base and, consequently, the City's MAC tax base (effective date: December 1, 1997).

Internet access services, defined as the service of providing connection to the internet and including the provision of communication or navigation software, an E-mail address, E-mail software, news, headlines, space for a website and website services are exempt from the State's taxable base and, consequently, the City's MAC tax base (effective date: February 1, 1997).

Exempt from the State tax base and, consequently, the City's MAC tax base, are receipts from the sale of the service of installing alternative fuel refueling property (property used for storing and/or dispensing fuel) and receipts from the retail sale of alternative fuel refueling property (effective date: March 1, 1998 through February 29, 2004).

1998 The State and City repealed their taxes on clothing and footwear purchases under $500 during the week of January 17-24, 1999, reducing the State's tax base and, consequently, the City's MAC tax base.

Textbooks purchased by full or part-time college students for their courses at accredited institutions are exempt from the State's tax base and, consequently, the City's MAC tax base (effective date: June 1, 1998).

Computer system hardware used or consumed directly and predominately in designing and developing computer software for sale is exempt from the State's tax base and, consequently, the City's MAC tax base (effective date: June 1, 1998).

Coin phone calls costing 25 cents or less are exempt from the State's tax base, and consequently, the City's MAC tax base (effective date: September 1, 1998).

The exemption for telephone central office equipment or station apparatus is expanded to include equipment used directly and predominately in receiving, amplifying, processing, and transmitting telephone or telegraph signals, reducing the State's tax base and, consequently, the City's MAC tax base (effective date: September 1, 1998).

Parking charges paid to homeowners' associations (including co-op and condominium housing) by its members, for parking space in a facility owned or operated by the association, are exempted from the 6 percent City sales tax and the 8 percent Manhattan parking tax (effective date: September 14, 1998). Additionally, the 1997 law that exempts parking charges from the State sales tax when the parking facility is operated by a homeowners' association has been amended to include facilities owned by such an association even though operated by a third party.

1999 The State and City repealed their taxes on clothing and footwear purchases under $500 during the weeks of September 1-7, 1999 and January 15-21, 2000, reducing the State's tax base and, consequently, the City's MAC tax base. The State, and consequently all participating localities, delayed the permanent exemption of clothing and footwear purchases under $110 scheduled to become effective December 1, 1999 until March 1, 2000.

The exemption for hot drinks and certain food items sold from vending machines is extended to include vending machines which accept credit or debit cards (effective date: December 1, 1999).

The exemption for computer system hardware used in designing and developing computer software is extended to include computer system hardware used in designing and developing internet websites (effective date: March 1, 2001).

Machinery, equipment or apparatus used or consumed directly and predominately to upgrade cable television systems to allow for the receiving, amplifying, processing, transmitting, re-transmitting, switching or monitoring of telecommunication services for sale and communications equipment used in the transmission of internet access services are exempt from the State's tax base and, consequently, the City's MAC tax base (effective date: March 1, 2001).

Tangible personal property sold to a contractor, subcontractor or repair person for use directly and predominately in the production phase of farming is exempt from the State's tax base and, consequently, the City's MAC tax base (effective date: March 1, 2001).

The base for computing the use tax on self-produced items which a manufacturer used in its business operations is modified from a use tax based on the manufacturer's normal selling price to a use tax based on the manufacturer's cost of materials (effective date: March 1, 2001).

The sales tax special recordkeeping and on-site inspection requirements for Manhattan parking garages is extended until November 30, 2004. These special requirements were originally enacted in 1992 to improve sales tax compliance.

2000 Purchases of gas and electricity from out-of-state suppliers are subject to State and local compensating use taxes (effective date: June 1, 2000).

A sales tax exemption will be phased in, over a four-year period, on purchases of the service of transporting, transmitting or distributing gas or electricity, when such services are bought from a company other than the vendor of the gas or electricity (effective date: September 1, 2000). For the one-year period, beginning September 1, 2000, the tax on such services will be reduced by 25 percent (additional 25 percent reductions will occur in the following three years) and such services will be fully exempt beginning September 1, 2003.

A sales tax exemption will apply to purchases of gas or electricity used in operating a gas pipeline or gas distribution line or an electric transmission or distribution line. These exemptions will reduce the State's tax base and, consequently, City's MAC tax base (effective date: June 1, 2000).

Fuel, gas, electricity, refrigeration or steam used in the production of tangible personal property for sale, previously claimed as a credit against general corporation tax and unincorporated business tax, are exempted from City tax, reducing the City's MAC tax base and bringing City tax law into conformity with the State (effective date: November 1, 2000).

Machinery, equipment, and certain other specified tangible personal property used by an operator of an internet data center that sells internet web site services, as well as, services to the exempt property, and certain other services used in the internet data center, are exempt from the State's tax base and, consequently, the City's MAC tax base (effective date: September 1, 2000).

The existing narrow exemptions for telecommunications equipment is expanded to include tangible personal property used in providing telecommunications services for sale or internet access services for sale. Additionally, machinery, equipment, parts, tools, supplies and certain related services used in upgrading cable television systems to enable them to offer digital cable TV service for sale or internet access service for sale are exempt from the State's tax base and, consequently, the City's MAC tax base (effective date: September 1, 2000; cable TV exemption expires: September 1, 2003).

Machinery, equipment, or other tangible personal property used by a broadcaster in the production of live or recorded programs for broadcast or in the transmission, as well as services to the exempt property are exempt from the State's tax base and, consequently, the City's MAC tax base (effective date: September 1, 2000).

The 1998 exemption for promotional materials is extended to prospectuses, paper, ink, mechanicals, layouts, artwork, photographs, color separations and similar property furnished to a printer for use in producing promotional materials that are then sold to the furnisher of those items (effective date: retroactive to March 1, 1997).

Exempted from the State's tax base and the City's MAC tax base are food and non-alcoholic beverages sold at dining facilities located in senior citizen residences, where use of the dining room is limited to residents and their guests, and where the food and drinks are served only in the dining room or a resident's room (effective date: December 1, 2000).

Purchases of tangible personal property and services used or consumed by qualified enterprises located in Empire Zones are exempt from the State's tax base for the next 10 years. Localities have the option to include this exemption (effective date: March 1, 2001).

Manufacturing and industrial pollution control, prevention, and abatement equipment and machinery are exempt from the State's tax base and, consequently, the City's MAC tax base (effective date: March 1, 2001).

Sales taxes are repealed for candy, soda and certain fruit drinks sold for 75 cents or less through vending machines, reducing the State's tax base and the City's MAC tax base (effective date: September 1, 2000).

The 1965 sales tax exemption on motor vehicle purchases by out-of-state residents is extended to purchases of vessels and trailers sold for use with the vessel, reducing State's tax base and, consequently, the City's MAC tax base. Rules that apply to motor vehicles purchased in one New York sales tax jurisdiction by residents of another New York sales tax jurisdiction, and which subject the purchase to the rules and rates of the resident's tax jurisdiction, are amended to cover purchases of vessels and their trailers (effective date: March 1, 2001).

Tangible personal property and building materials used in farm production, as well as utility services, and services provided to farm real property are exempt from the State's tax base and, consequently, the City's MAC tax base. Additionally, commercial horse boarding operations receive the same exemptions as farms (effective date: September 1, 2000).

2001 As a result of the September 11, 2001 terrorist attack, the filing deadlines for the monthly and quarterly sales tax returns due after September 11, 2001 through December 10, 2001 were extended to December 10, 2001.

2002 A temporary exemption was allowed for tangible personal property, excluding motor vehicles, motor fuel, diesel motor fuel, cigarettes, tobacco products, alcoholic beverages and building materials, under $500 in the Liberty and Resurgence zones of lower Manhattan for three weekends: June 9-11, July 9-11 and August 20-22, 2002. The Liberty Zone is defined as on or south of Canal Street, East Broadway (east of its intersection with Canal Street), or Grand Street (east of its intersection with East Broadway) in the borough of Manhattan. The Resurgence Zone is defined as the area between Canal Street and Houston Street.

2003 The City raised its tax rate to 4.125 percent during the period from June 4, 2003 through May 31, 2005. The higher rate was effective as of September 1, 2003 for the special City sales taxes on credit rating and reporting services, cleaning and maintenance services, protective and detective services and personal services such as beauty, barbering, manicuring and health salon services sold by weight control and gymnasium facilities. The rate will revert to 4.0 percent on June 1, 2005. (The State rate also increased from 4.0 percent to 4.25 percent effective June 1, 2003 through May 31, 2005. The total general sales and use tax rate in the City, including the 0.25 percent MTA rate will be 8.625 percent through May 31, 2005).

The State and City sales tax exemption for clothing and footwear purchases under $110 was suspended from June 1, 2003 through May 31, 2004. During this period the State and City have repealed their taxes on clothing and footwear purchases under $110 during the weeks from August 26 through September 1, 2003 and from January 26 through February 1, 2004. The permanent exemption was to be restored June 1, 2004.

The City excise tax on cigarettes was added to the sales price of cigarettes on which the State and City sales and use taxes are calculated (effective date: September 1, 2003). (The NYS cigarette tax has been included in the sales and use tax base since 1989).

An existing sales tax exemption for coin-operated motor vehicle vacuuming equipment located in car washes has been expanded to cover such equipment located at facilities other than car washes.

2004 The repeal of the clothing and footwear exemption was extended several times: through June 30th; July 31st; and September 30, 2004; and through May 31, 2005. During these periods the State and City have repealed their taxes on clothing and footwear purchases under $110 during the weeks from August 31 through September 6, 2004 and from January 31 through February 6, 2005.

Aircraft charges for storing aircraft while it's being serviced, and tangible personal property purchased and used by the service provider in performing service, where such property becomes a physical component of the property that is being serviced is exempt from state and local sales tax (effective date: December 1, 2004).

A refund is allowed for sales taxes paid by operators of vessels with a seating capacity greater than 20 that are used to transport passengers for hire by water. A refund is allowed for purchases of the vessels, and of parts, equipment, lubricants, diesel fuel, maintenance, servicing or repair services related to operation of the vessels. To qualify for the refund, the vessels must be used to provide local transit service in the State pursuant to a certificate of public convenience and necessity or a franchise agreement with New York City (effective date: December 1, 2004).

An amusement park, whose admission charge entitles patrons to ride at least 75 percent of its rides at no extra cost is exempt from state and local sales tax on 75 percent of the admission charge (effective date: July 28, 2004 through March 30, 2005).

The existing sales tax exemption for the incremental cost of purchasing a hybrid or alternative fuel vehicle has been extended until February 28, 2005 and the exemption amount is fixed at $3,000 (see 1992).

2005 Legislation signed into law April 13, 2005, extended the clothing and footware exemption for purchases under $110 through March 31, 2007 including two tax-free weeks each year. Additionally, the MCTD tax rate is increased 0.125 percent, from 0.25 percent to 0.375 percent effective June 1, 2005. (The total general sales and use tax rate in the City, including the 0.375 percent MCTD tax rate, is 8.375 after May 31, 2005).

Appendix IV
General Corporation Tax

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Appendix IV

1. Annual Distribution of Number of Taxpayers By Type of Business

GCT Industrial Mix – Number of Firms (1987 – 1997)												
Year	Finance		Real Estate		Manufacturing		Services		Trade		Other	
	# of Firms	% Total	# of Firms	% Total	# of Firms	% Total	# of Firms	% Total	# of Firms	% Total	# of Firms	% Total
1987	8,921	4.5%	30,504	15.3%	19,662	9.8%	54,406	27.2%	51,479	25.8%	34,895	17.5%
1988	9,243	4.5%	31,223	15.3%	19,377	9.5%	55,921	27.4%	51,785	25.4%	36,433	17.9%
1989	9,487	4.6%	31,708	15.4%	18,730	9.1%	56,997	27.7%	51,955	25.3%	36,673	17.8%
1990	9,666	4.8%	31,870	15.7%	18,115	8.9%	56,846	28.0%	51,295	25.2%	35,431	17.4%
1991	9,228	4.6%	31,245	15.7%	16,897	8.5%	54,531	27.5%	48,616	24.5%	38,051	19.2%
1992	9,924	4.9%	32,831	16.1%	17,215	8.4%	57,104	27.9%	51,188	25.0%	36,257	17.7%
1993	9,878	4.8%	32,822	15.8%	16,386	7.9%	56,541	27.3%	49,786	24.0%	41,901	20.2%
1994	10,103	4.7%	33,598	15.5%	15,608	7.2%	55,264	25.6%	47,874	22.1%	53,768	24.9%
1995	10,671	4.8%	33,909	15.3%	15,040	6.8%	55,339	25.0%	6,516	21.0%	59,669	27.0%
1996	10,821	4.7%	33,765	14.8%	14,412	6.3%	55,185	24.2%	44,606	19.5%	69,417	30.4%
1997	11,452	4.9%	35,931	15.5%	14,703	6.3%	59,439	25.6%	48,035	20.7%	62,761	27.0%

Please note that the reporting categories were modified beginning in 1998.

GCT Industrial Mix – Number of Firms (1998 – 2001)																
Year	Finance		Real Estate		Manufacturing		Prof/Tech/Mgmt		Other Services		Information		Trade		Other	
	# of Firms	% Total	# of Firms	% Total	# of Firms	% Total	# of Firms	% Total	# of Firms	% Total	# of Firms	% Total	# of Firms	% Total	# of Firms	% Total
1998	10,854	4.5%	42,216	17.5%	13,358	5.6%	28,377	11.8%	50,860	21.1%	7,095	2.9%	50,581	21.0%	37,259	15.5%
1999	11,402	4.6%	42,227	17.1%	12,621	5.1%	30,631	12.4%	49,941	20.2%	7,569	3.1%	50,735	20.5%	42,131	17.0%
2000	11,829	4.7%	43,027	17.0%	12,132	4.8%	32,793	13.0%	51,833	20.5%	7,843	3.1%	52,076	20.6%	41,669	16.5%
2001	11,814	4.6%	44,022	17.1%	11,742	4.6%	33,670	13.1%	54,105	21.0%	7,863	3.1%	54,074	21.0%	39,884	15.5%

Appendix IV

2. Annual Distribution of Taxpayer Liability By Type of Business

GCT Industrial Mix – Liability (1987 – 1997)

Year	Finance		Real Estate		Manufacturing		Services		Trade		Other	
	Liability	% Total	Liability	% Total	Liability	% Total	Liability	% Total	Liability	% Total	Liability	% Total
1987	203,765	19.5%	93,138	8.9%	216,620	20.8%	213,959	20.5%	192,504	18.5%	122,386	11.7%
1988	167,060	15.8%	86,151	8.2%	237,060	22.5%	250,527	23.8%	198,796	18.9%	114,716	10.9%
1989	159,650	15.3%	91,058	8.7%	216,092	20.8%	249,320	24.0%	200,965	19.3%	123,789	11.9%
1990	156,949	16.1%	90,173	9.3%	188,279	19.4%	230,344	23.7%	192,054	19.8%	114,195	11.7%
1991	223,740	23.9%	84,219	9.0%	169,628	18.1%	211,799	22.6%	154,470	16.5%	94,034	10.0%
1992	233,468	23.7%	86,063	8.7%	183,575	18.7%	231,299	23.5%	162,150	16.5%	87,637	8.9%
1993	380,880	32.8%	91,662	7.9%	169,875	14.6%	255,524	22.0%	163,107	14.0%	100,980	8.7%
1994	241,379	21.5%	93,386	8.3%	207,156	18.5%	278,297	24.8%	168,251	15.0%	133,348	11.9%
1995	317,269	26.9%	106,752	9.0%	165,613	14.0%	277,314	23.5%	177,679	15.1%	135,898	11.5%
1996	427,704	30.5%	132,802	9.5%	176,396	12.6%	332,785	23.8%	187,759	13.4%	142,579	10.2%
1997	413,084	27.7%	141,951	9.5%	175,623	11.8%	398,759	26.7%	204,253	13.7%	157,776	10.6%

Please note that the reporting categories were modified beginning in 1998.

GCT Industrial Mix – Liability (1998 – 2001)

Year	Finance		Real Estate		Manufacturing		Prof/Tech/Mgmt		Other Services		Information		Trade		Other	
	Liability	% Total	Liability	% Total	Liability	% Total	Liability	% Total	Liability	% Total	Liability	% Total	Liability	% Total	Liability	% Total
1998	342,830	22.8%	151,874	10.1%	110,450	7.4%	233,864	15.6%	222,562	14.8%	114,192	7.6%	211,895	14.1%	114,882	7.6%
1999	367,784	23.1%	165,220	10.4%	129,188	8.1%	239,200	15.0%	189,933	11.9%	128,571	8.1%	244,976	15.4%	129,181	8.1%
2000	390,261	22.7%	186,058	10.8%	127,333	7.4%	279,793	16.3%	204,215	11.9%	136,613	8.0%	248,931	14.5%	142,717	8.3%
2001	258,271	17.9%	201,821	14.0%	128,123	8.9%	202,822	14.1%	186,373	12.9%	177,017	8.1%	224,409	15.6%	123,081	8.5%

Appendix V
History of Tax Collections

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Appendix V

History of Tax Collections

($ in Millions)

FY	Real Prop.	Comm. Rent	Mort. Rec.	Real Prop. Transfer	Personal Income	General Corp.	Banking Corp.	Uninc. Business	All Sales	Utility	Other	Audits	Total
1971	1,991	140	14	7	199	183	38	17	494	50	324	NA	3,456
1972	2,100	153	26	13	443	240	69	52	520	54	393	NA	4,064
1973	2,347	166	31	20	440	247	62	45	551	63	344	NA	4,315
1974	2,489	177	27	18	455	255	59	36	575	70	333	NA	4,494
1975	2,649	191	21	14	466	268	114	42	791	90	295	NA	4,941
1976	2,966	198	16	15	528	417	202	52	825	93	518	NA	5,831
1977	3,236	203	18	16	626	489	145	76	868	100	532	NA	6,309
1978	3,230	194	24	22	700	467	136	89	931	109	516	NA	6,416
1979	3,130	205	31	28	719	484	114	89	1,005	108	498	NA	6,409
1980	3,196	219	33	36	879	533	190	97	1,142	123	511	NA	6,959
1981	3,298	241	38	42	1,019	637	244	124	1,311	145	609	NA	7,708
1982	3,603	282	71	60	1,159	698	205	123	1,415	174	471	NA	8,261
1983	3,787	334	58	70	1,331	767	107	145	1,515	202	441	NA	8,757
1984	3,957	355	110	106	1,547	798	162	162	1,686	192	394	105	9,574
1985	4,227	404	132	147	1,740	877	140	192	1,828	186	454	256	10,583
1986	4,600	447	179	150	1,816	881	170	216	1,877	179	443	279	11,237
1987	4,976	500	253	240	2,163	1,083	244	286	2,044	169	489	277	12,725
1988	5,382	554	201	211	2,088	1,143	258	294	2,199	144	518	334	13,326
1989	5,943	618	214	202	2,445	1,113	242	334	2,315	162	496	314	14,397
1990	6,543	640	154	210	2,532	954	129	332	2,407	179	536	439	15,056
1991	7,251	670	137	141	2,789	950	205	333	2,306	177	491	444	15,893
1992	7,818	649	120	123	3,223	963	310	341	2,262	183	562	528	17,082
1993	7,886	624	118	125	3,451	978	362	389	2,379	190	588	519	17,609
1994	7,773	629	134	149	3,530	1,193	497	382	2,451	208	624	570	18,139
1995	7,474	624	170	167	3,591	1,079	250	379	2,588	197	594	602	17,713
1996	7,100	531	147	175	3,908	1,209	361	496	2,713	214	629	657	18,140
1997	7,291	374	185	215	4,361	1,478	360	561	2,912	215	695	651	19,298
1998	7,239	358	232	288	5,133	1,552	515	671	3,052	223	704	458	20,409
1999	7,599	333	408	424	5,293	1,423	388	657	3,192	222	814	536	21,289
2000	7,790	344	403	483	5,153	1,779	347	805	3,509	247	982	417	22,259
2001	8,156	377	407	473	5,331	1,735	424	820	3,662	300	1,161	401	23,247
2002	8,648	380	477	425	4,019	1,330	320	791	3,360	258	1,225	485	21,718
2003	9,943	397	526	513	3,923	1,237	213	832	3,535	295	1,375	571	23,360
2004	11,582	426	817	767	5,444	1,540	415	908	4,018	291	1,381	576	28,165