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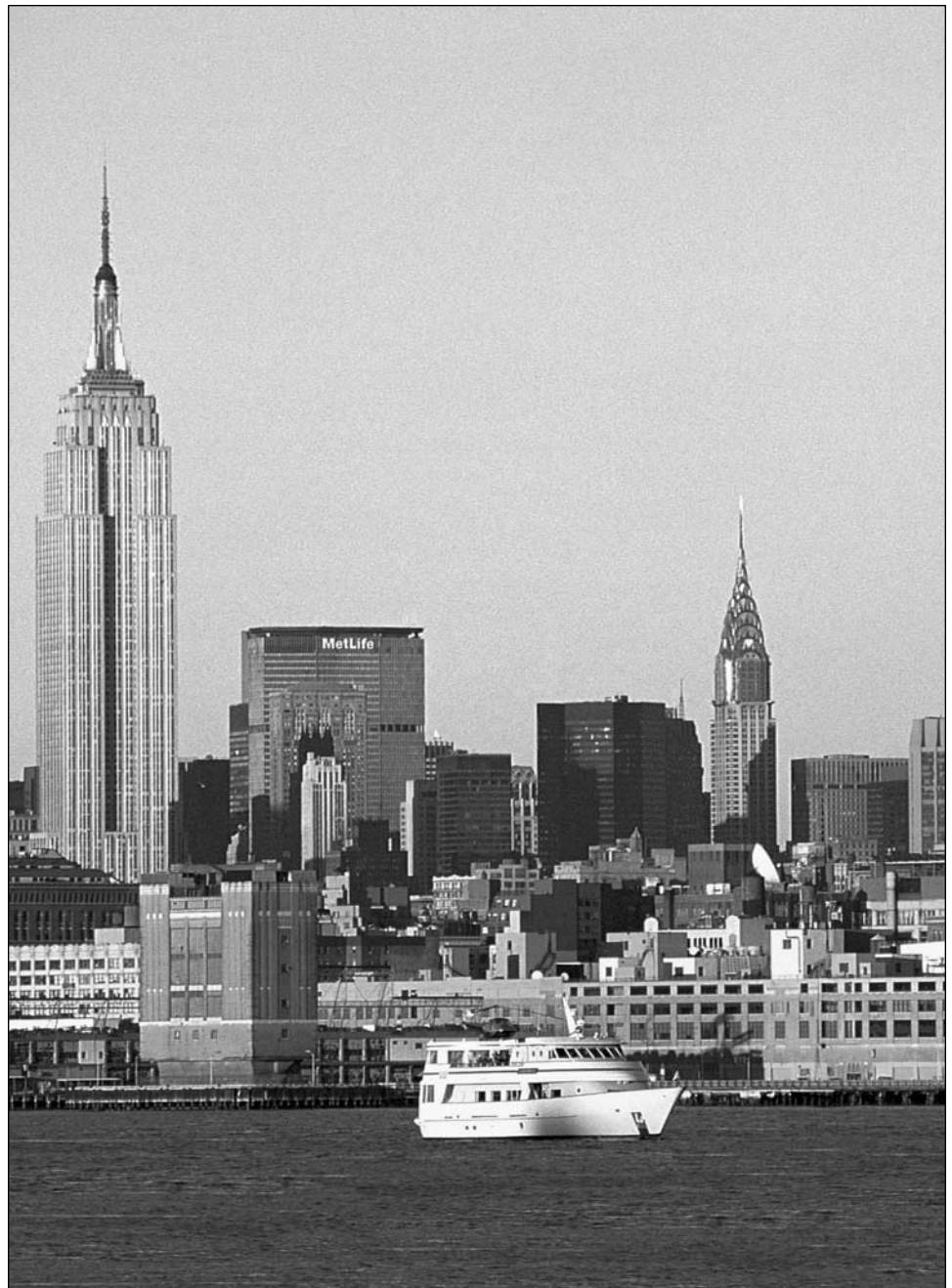
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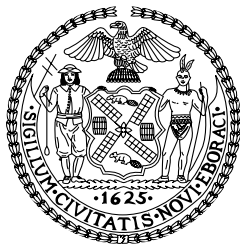
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Tax Revenue Forecasting Documentation

Financial Plan
Fiscal Years 2003–2007





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Mark Page
Director

April 4, 2003

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 revenue for the City's budget and financial plans. This report also includes the latest updates to the tax law including information on the re-imposition of the 14 percent additional personal income tax in tax year 2002, changes in the due dates for vendor sales tax payments, and recent extensions of property tax exemption programs.

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

Sincerely,

Mark Page

Tax Revenue Forecasting Documentation Financial Plan Fiscal Years 2003–2007

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Introduction

As mandated by the 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 28, 2003.

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 2003–2004 (\$ in Millions)

Taxes	2003	Fiscal Year		Share
		Share	2004	
Real Estate-Related Taxes:				
Real Property	\$9,926	43.1%	\$11,167	45.7%
Commercial Rent	398	1.8	413	1.7
Mortgage Recording	448	1.9	388	1.6
Real Property Transfer	464	2.0	422	1.7
Income-Based Taxes:				
Personal Income	3,947	17.1	3,843	15.7
General Corporation	1,173	5.1	1,274	5.2
Banking Corporation	224	1.0	295	1.2
Unincorporated Business	799	3.5	849	3.5
Consumption and Use Taxes:				
Sales and Use	3,509	15.2	3,601	14.7
Utility	282	1.2	271	1.1
All Other	720	3.1	722	3.0
<i>Subtotal*</i>	<i>\$21,890</i>	<i>95.0%</i>	<i>\$21,376</i>	<i>95.1%</i>
Tax Audit Revenue	502	2.2	522	2.1
STAR Aid	659	2.9	658	2.7
<i>Total*</i>	<i>\$23,051</i>	<i>100.0%</i>	<i>\$24,424</i>	<i>100.0%</i>

*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 70-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 (*available monthly and on a timely basis*) for eight major sectors—construction; durable and nondurable manufacturing; finance, insurance and real estate (FIRE); transportation, communications and public utilities; trade; services; and government— and various key subsectors (2 digit SIC) including banking and securities; business, legal, medical, educational and social services.
2. Wage rates in the City by the eight major sectors (*available quarterly but with a six to nine month lag*);
3. Consumer Price Index in the New York area (*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 (*available annually but with at least a one 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 (*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.

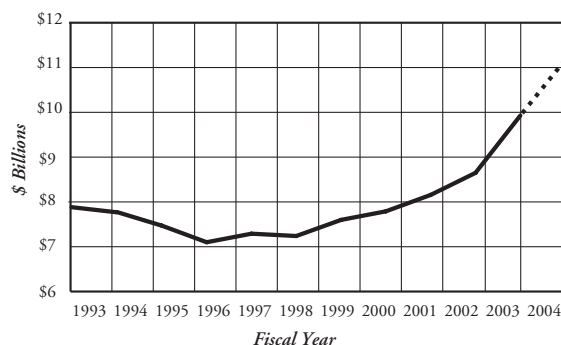
The following sections provide history and background for each tax and describe the general procedures used in forecasting tax revenue. Appendix F on page A37 summarizes the history of City tax collections from 1971 through 2002.

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 one of 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 15. 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.

Real Property Tax 1993-2004



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, but has dropped over time to eight percent currently. 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 of New York Office of Real Property Services (ORPS)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 on, below, or over public

**Market Values by Tax Class
FY 1993-2003
(\$ 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

Market values may not add up due to rounding.

¹Formerly known as the State Board of Equalization and Assessment (SBEA).

Actual and Billable Assessed Value by Tax Class**FY1983-2003**

(\$ 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	9,778.8	30,597.6	6,320.4	43,872.8	90,569.8
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

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

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

property, and also the intangible right to use the public right of way), assessed by ORPS, using the State equalization ratio, 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 and 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 billable or taxable 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.

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 phaseout 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 phaseout 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 from Class 2 back 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** 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 and again in 2001 by an additional three years through June 30, 2004. The abatement is restricted to owners who own no more than three units held in the condominium or cooperative form of ownership. In 1996, amendments to the adminis-

trative code allowed the City to sell real property tax liens. 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 exist. Upon sale, each lien is levied a mandatory five percent surcharge and accrues interest at the rate of 18 percent per annum. The lien sale program which was originally set to expire in 1997, was extended by two years in 1997, in 1999 and again in 2001, when 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. Similiar amendments were made for the sale of subsequent tax liens. Currently the program is scheduled to expire on October 31, 2003.

- 1997** The State enacted the School Tax Relief Program (STAR) legislation. A property tax exemption was phased-in over four years beginning with 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 for 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 \$62,100 in household income. The exemption is based on a fixed market value exemption adjusted for differences between local

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%.

The market value exemption for senior citizens with income less than \$62,100 was \$50,000 in 1999 and remains \$50,000 in 2003. For other taxpayers, the exemption was \$10,000 beginning in 2000, \$20,000 in 2001 and \$30,000 in 2002 and 2003. Based on this formula, single-family Class 1 taxpayers' estimated tax saving is shown in the following table:

Fiscal Year	2000	2001	2002	2003	2004-06
Senior Citizens	\$339	\$326	\$326	\$347	\$370
Others	\$68	\$130	\$195	\$209	\$222

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
<i>City Council's discretion to adjust class shares is no longer applicable beginning in 1992.</i>								
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

*City Council action to reallocate the tax levy among the classes, subject to a five percent difference 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, 1998, 1999 and 2000; and 2.0 percent in 2001, 2002 and 2003.

- 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.
- 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 commercial 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.

Calculation of Adjusted Base Proportions

	Base Year (FY1990)	FY 2003
Given:	ORPS: Class Equalization Rate DOF: Assessed Value by Class (FY90 Roll)	ORPS: 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:		
$\frac{\text{Current \%}}{\text{Base \%}} \times \text{Local Base Proportion (FY91 Share)} = \text{Current Base Proportion}$		

In addition to these legislative changes, the assessment procedure for certain residential property types was altered beginning in 1989 with the phased-in implementation of a Computer Assisted Mass 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 were 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 fixes 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 then fixed 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 ORPS 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 market value changes. Legislation passed in the Spring of 1989 amended S.7000A, changing the mechanics of the market value adjustment and further postponing 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, 1995-2002 and the second half of 2003, State legislation lowered the five percent cap.

Adjusted Base Proportions: The table on the previous page 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. ORPS calculated class equalization rates for this roll based on the 1986 market value survey. The result thus 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 which reflects ORPS's most recent market value

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

*Source: Adopted Budget Tax Fixing Resolution.

Figures for 1999, 2000, 2001 and 2002 reflect the November 1998, September 1999, September 2000, and October 2001 amended resolutions, respectively.

** Reflects levy fixed in June 2002.

*** Reflects levy fixed in November 2002.

Class Tax Rates¹

	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	12.287	10.564	10.541	9.695	10.366
2003 ⁴	14.160	12.517	12.565	11.580	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 8¢ for Class 1, 7.4¢ for Class 2, 12.1¢ for Class 3 and 8¢ for Class 4.

³ Effective July 1, 2002 through December 31, 2002.

⁴ Effective January 1, 2003.

survey 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 calculate the 2004 tax rates, the current percentage will use the fiscal year 2003 assessment roll and the class equalization rates for that roll (ORPS refers to these as the class equalization rates for the 2002 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. For 2003, the growth reflected the changes in the share of market value for the four classes between survey years 1996 and 2001.

Since the current base proportion for any class cannot exceed the class's prior year adjusted base proportion by more than five percent (unless specific State legislation is passed) 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 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 5 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 Class 1 and Class 2's shares increased, while Class 4 saw a decline. This shift continued through 2003, reflecting the relatively greater decline in commercial market values. Class 4's share of the tax levy dropped from 53.0 percent in 1991 to 43.8 percent in 2003, a 17.4 percent decline. Class 1 and Class 2's share grew 27.5 percent and 35.2 percent respectively during the same period from 10.9 percent to 13.9 percent and from 25.8 percent to 34.9 percent respectively in 2003.

In 1999, both residential and commercial properties experienced significant market value growth. For the first time since 1993, Class 4's share increased. Class 1's share continued to increase in 1999, whereas Class 2's share dropped for the first time since 1987. In 2000, 2001 and 2002 Class 1,

and 2's share continued to increase while Class 4's share dropped. In 2003, only Class 1's share increased while the other classes' shares decreased, especially Class 4.

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. ORPS estimates full value as of January 1 for each of the five years of the average. The 2001 market value survey, which reflected the fourth year of increase in real estate market values since 1989, was incorporated into the calculation of 2003's operating limit.

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

Tax Rates: The table on page 7 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's discretion to adjust class shares was no longer applicable. With the introduction of the market value adjustment mechanism in 1992, Class 1, 2 and 4's tax rates increased significantly, while a commitment was made to freeze the average tax rate at \$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 less. The increase in billable assessed

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

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. Effective January 1, 2003, the average tax rate was increased from \$10.366 to \$12.293 affecting the second half of the year. The blended tax rate for the year was \$11.325.

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. Refunds of current and past year payments due to overpayments and reductions in assessed value, and collections against prior year levies³ and payments from exempt property restored to taxable status are cash outflows and inflows in the reserve, respectively.

The delinquency rate increased 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

**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
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 ⁵	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
1997	7,835.1	7,371.3	94.1	146.8	(279.0)	(179.4)	(284.4)	3.63
1998	7,890.4	7,414.4	94.0	148.2	(345.6)	(199.1)	(277.1)	3.51
1999	8,099.3	7,524.0	92.8	127.7	(175.1)	(303.4)	(276.2)	3.40
2000	8,374.3	7,793.7	92.8	149.2	(200.2)	(345.7)	(260.5)	3.11
2001	8,730.3	8,068.6	92.4	132.3	(256.2)	(410.5)	(250.7)	2.87
2002	9,271.2	8,590.4	92.7	151.7	(138.0)	(374.6)	(306.2) ⁽⁶⁾	3.30 ⁶
2003 ⁷	10,688.8	9,887.3	92.5	132.0	(192.0)	(497.5)	(304.0)	2.84

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 \$7.6 million, \$0.5 million, \$7.9 million, \$11.0 million, \$8.0 million and \$15 million in 1997 through 2002 respectively.

⁴ These figures include taxes due on certain publicly owned property and exclude delinquency on shelter rent and exempt property restored in 1995 and 1996.

⁵ Does not include supplemental levy of \$61.7 million raised in mid-year for the Criminal Justice Fund.

⁶ Includes \$68.1 million delinquency for the World Trade Center. Delinquency rate adjusting for this is 2.6%.

⁷ Forecast.

³ In 1994 and 1995, prior year collections or receivables (along with the accrued penalty and interest) were sold as an asset of the City netting \$200.6 million and \$223.1 million, respectively. Once sold, the collections of prior year levies were turned over to the purchaser until the purchase price (interest and expenses) was satisfied.

**Estimated Value of Real Property Tax
Exemptions and Abatements 1993-2002**
(\$ in Millions)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Economic Development Exemptions										
I.C.I.B/I.C.I.P	\$147.1	\$119.7	\$107.1	\$105.7	\$99.3	\$111.9	\$132.5	\$144.6	\$177.7	\$193.4
Battery Park City Authority*	127.8	124.5	113.7	94.2	87.2	81.6	79.5	71.2	79.8	72.8
Industrial Development Agency*	37.7	37.3	52.6	48.5	47.2	47.8	61.5	84.5	66.0	66.6
Urban Development Corp. (U.D.C.)*	79.8	77.9	78.3	77.0	76.9	80.0	84.5	101.0	107.6	113.1
Economic Development Corp.*	18.5	2.8	4.3	3.7	3.4	4.1	7.4	3.8	3.9	7.1
World Trade Center*	100.2	95.8	80.7	79.8	64.0	54.7	61.5	60.5	59.0	5.4
Teleport, Port Authority*	1.6	1.2	0.9	2.2	1.1	1.3	1.5	6.7	6.7	6.9
Madison Square Garden	8.8	9.1	9.0	8.8	8.7	8.6	8.7	8.5	8.3	8.8
Commercial Revitalization and Expansion Programs	n.a.	n.a.	n.a.	n.a.	1.3	3.6	7.0	14.1	18.1	19.3
Subtotal	\$521.5	\$468.3	\$446.6	\$419.9	\$389.1	\$393.6	\$444.1	\$494.9	\$527.1	\$493.4
Residential Exemptions										
Public Housing										
Housing Authority*	\$294.9	\$312.2	\$295.2	\$281.7	\$264.0	\$255.3	\$241.2	\$239.5	\$244.0	\$254.1
Private Housing										
J-51 (exemption)	109.3	88.4	70.8	67.9	59.5	54.6	54.9	55.9	60.8	65.9
J-51 (abatement)	110.9	112.7	113.8	108.7	105.4	104.6	105.7	106.9	99.5	96.5
421-a - New Multiple Dwellings	171.0	142.2	117.2	103.4	96.5	87.9	78.9	104.8	111.3	130.0
421-b - New Private Housing	13.3	12.0	10.9	10.3	9.9	9.5	9.8	10.5	11.7	14.6
Senior Citizen Homeowner Exemption	12.0	13.8	15.1	17.2	18.2	19.8	21.1	25.6	26.7	28.4
Senior Citizen Rent Increase Exemption (abatement)	60.2	60.7	59.8	91.9	54.1	61.0	62.5	63.5	63.5	80.2
HPD Division of Alternative Management	2.2	3.1	3.9	3.7	4.0	4.3	4.6	5.4	5.8	6.7
Veteran's Exemption	12.6	9.8	10.1	9.1	10.0	11.0	16.1	18.0	18.5	19.0
Co-op/Condo Abatement	n.a.	n.a.	n.a.	n.a.	9.0	91.8	152.7	157.8	170.2	181.3
Lower Manhattan Conversion	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	19.9
Other**	247.9	242.0	287.4	270.3	257.7	252.1	234.2	235.8	236.7	248.2
Subtotal	\$1,034.3	\$996.9	\$984.2	\$964.2	\$888.3	\$951.9	\$981.7	\$1,023.7	\$1,048.7	\$1,144.8
Other Exemptions										
Utility										
NY Power Authority	\$50.9	\$30.8	\$31.8	\$34.5	\$35.5	\$38.5	\$41.3	\$44.7	\$49.4	\$50.3
Jamaica Water Supply	6.2	6.6	6.8	7.2	7.4	7.8	8.2	8.6	9.5	9.5
Trust for Cultural Resources	3.6	5.0	5.1	4.8	4.8	5.7	5.7	5.7	5.8	5.7
Subtotal	\$60.7	\$42.4	\$43.7	\$46.5	\$47.7	\$52.0	\$55.2	\$59.0	\$64.7	\$65.5
TOTAL	\$1,616.5	\$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

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.

economy and the beginning of the lien sale program, delinquency declined to 2.9 percent by 2001.

In 2002, however, the trend of declining delinquency rate ended and delinquency rose to 3.3 percent, in part due to the destruction of the World Trade Center (WTC) in the September 11th terrorist attack. The overall delinquency adjusted for WTC was 2.6 percent.

Remissions in assessed value granted by the City Tax Commission during the summer hearings after the final assessment roll is produced 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 A.

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. Generally, tax expenditures are considered a targeted preference to a specific group or activity, a clear exemption to the tax law, and specific to New York City.

Real property tax exemptions and abatements, which totaled \$1,703.7 million in 2002, can be grouped in three general categories: economic development, residential, and other, which includes utility exemptions. Economic development exemptions are granted under the City's Industrial and Commercial Incentive Program (ICIP), the Commercial Revitalization 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. (Descriptions of these programs can be found in Appendix A.)

The Department of Finance, which administers many of the City's taxes and maintains records of these expenditures, has aided in the estimation of their value (see the "Value of Exemptions and Abatements" table on page 10).

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. The New York State Office of Real Property Services (ORPS) assesses special franchise properties and approves current and adjusted base proportions. Real property 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, and for payments by mortgage escrow 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 on or after July 1, 1998. The higher threshold applies to cooperative buildings if the average assessed value per unit is no higher than \$80,000.

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 annum 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 a 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:

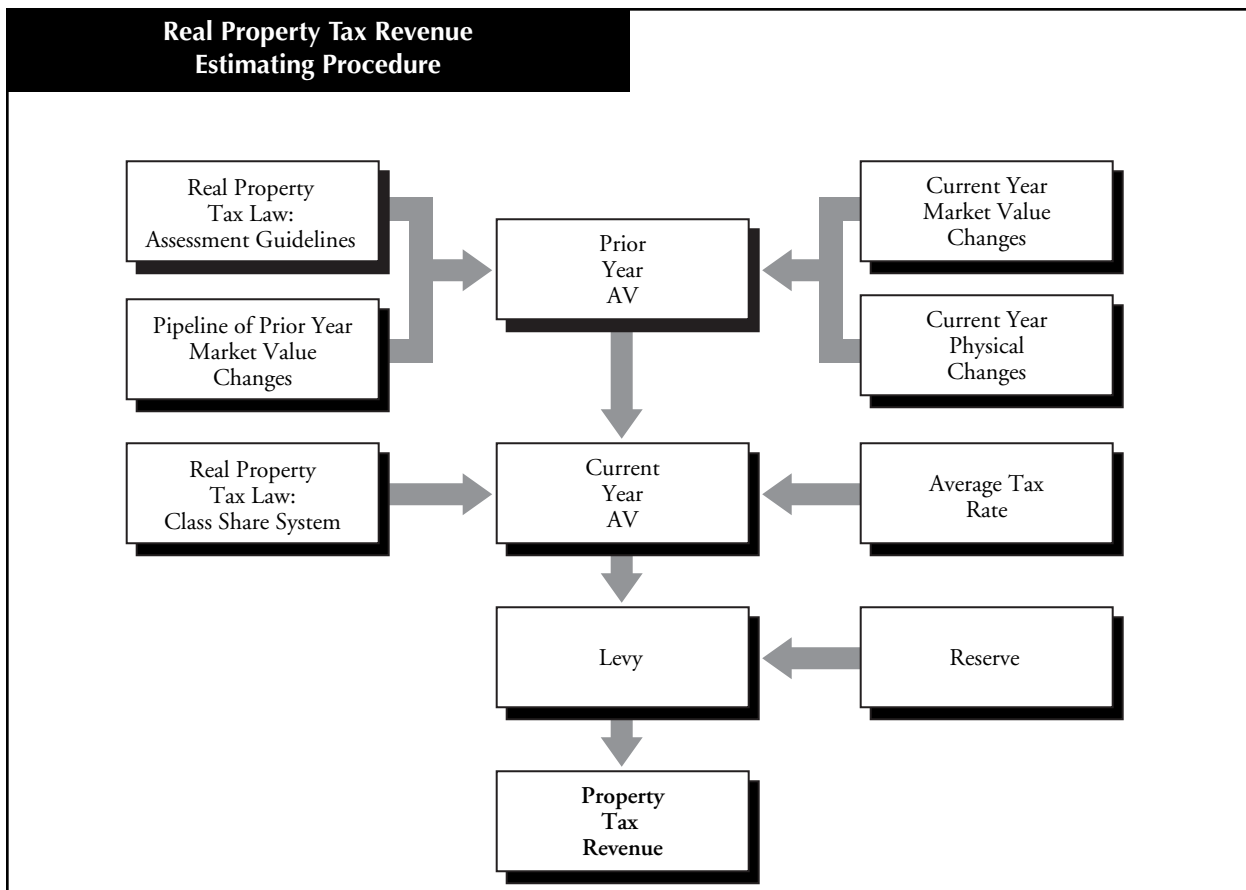
- (1) Estimates of assessed value change due to physical change (construction or demolition, alteration and change in taxable status);
- (2) Change to actual assessments due to market value changes in the current year, and for Class 2 and 4 the phase-in of those changes (equalization); and
- (3) Phase-in of prior year changes to actual assessments, for Class 2 and 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 one percent in each of the last two years. With the recovery of the real estate market since 1996 that accelerated over the past two years, the market value caps will play a major role on the overall growth of the billable assessed value.

Class 2 properties are assessed as income-producing properties, with the assessment of co-ops and condos governed by Section 581 of the Real Property Tax Law which provides that the assessment of a residential cooperative or condominium be based on the value of a comparable rental building, rather than the unit’s sale price. Therefore, the forecast for Class 2 properties is guided by the outlook for 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 90 percent of the class tax base.



In appraising the full value of special franchise properties, ORPS 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 ORPS certified full value by the City’s assessment ratio at which all property in Class 3 is assessed, which is 45 percent.

This procedure of using the City’s assessment ratio was instituted starting November 1, 1994. Prior to this change, ORPS 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 a 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 with tenants who were paying above-market rents, and for owner-occupied properties where income and expenses were estimated.

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 equalization growth 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. As a result, the pipeline was almost exhausted.

Market value remained stable in 1997 and 1998, adding very little to the pipeline, but strong market value increases from 1999 through 2002 resulted in a buildup of a substantial pipeline of assessed value to be phased in.

The September 11th attack which destroyed the World Trade Center complex resulted in physical damage to commercial office space in the immediate vicinity, and the general decline in tourism and travel affected the market values of the hotel sector adversely.

In the latest roll for 2004, the market value growth further weakened in light of increasing vacancy rates. Nevertheless, a substantial pipeline built in the previous five years maintains 2004 billable assessed value growth at a high level.

For the Financial Plan, annual levies were derived by multiplying the forecast of billable assessed value by the average tax rate. With the mid-year tax increase, the 2003 levy is based on the combined rate of old and new tax rates while levies for 2004 through 2007 are based on the new tax rate. Although the average tax rate is unchanged for the 2004-2007 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.

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 flows that remain after the holders of the senior position are repaid. 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 and \$44.5 million in 2002. Revenues in 2003 from real property tax liens are expected to be \$99.0 million.

Following the lien sale, 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 delinquent balances will continue to change in coming years, as the City divests itself of more liens through lien sales.

After determining the 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 collection rate and its outlook based on economic conditions.

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.

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 billing periods, for prior year collections, and for refunds.

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. Starting 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.

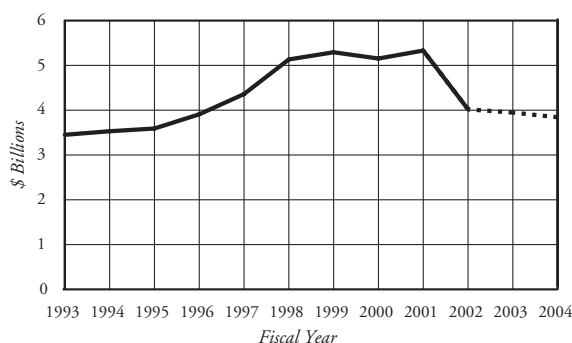
The monthly pattern for prior year collections and refunds is also generated using historical experience as a guide. For prior year collections and refunds, however, July and August receipts are accrued back to the prior fiscal year. Therefore, the current year cash plan is for the months of September 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 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 (Federal 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 separate schedules were introduced in 1987. As seen in the following table, the current top marginal rate is 3.65 percent. In addition to the base tax, taxpayers who make extensive use of tax prefer-

Personal Income Tax 1993–2004



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

ences are liable for a tax of 2.5 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-employment. Nonresidents were taxed only on their New

**New York City Resident
Personal Income Tax Rates¹**

Tax Year	Single Filers		Joint Filers		Head of Household Filers	
	Taxable Income Over	Top Rate	Taxable Income Over	Top Rate	Taxable Income Over	Top Rate
2002 – 3 ^{2,5}	50,000	3.65	90,000	3.65	60,000	3.65%
2001 ^{2,4}	50,000	3.59	90,000	3.59	60,000	3.59
2000 ²	50,000	3.78	90,000	3.78	60,000	3.78
1999 ²	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 ³	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 B.

² Reflects the expiration of the 12.5 percent surcharge and the State sponsored STAR reductions.

³ For 1982 and 1984 taxpayers with AGI from \$15,000–\$20,000 paid a 2.5 percent surcharge. A 5.0 percent surcharge was levied on taxpayers with AGI over \$20,000. For 1983, the surcharge rates were doubled.

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.

York City source income. From 1971 through July 1, 1999 the rates of tax 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 nonresident tax on out-of-state residents, effective July 1, 1999 upon decision by the courts. The final determina-

tion 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. During this period, the rate

New York Dependent or Personal Exemptions and Standard Deductions, 1966-2003

Tax Year	Exemption	Standard Deduction
2003	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	None for taxpayers, \$1,000 for each dependent.	\$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 <i>(Available for taxpayers and each dependent)</i>	\$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

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 prior 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 married couples 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. Because 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, 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 six 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. 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

Income Thresholds

Tax Year	1990	1991-94	1995	1996	1997	1998	1999	2000	2001	2002	2003
Single Taxpayer	\$6,682	\$6,598	\$7,184	\$7,905	\$7,501	\$7,501	\$8,796	\$9,007	\$9,882	\$9,697	\$9,697
Joint Filer with 2 dependents	16,046	15,484	16,691	17,499	15,001	15,001	16,164	17,831	20,079	20,546	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	14,677	14,677

Note: Assumes the standard deduction, and for 1997 through 2003 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

1996-03

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 Head of Household

1987

1988

1989-95

1996-03

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.

introduction of a household credit to replace the low-income exclusion. The credit schedule is shown above. These measures provided relief to low-income taxpayers. The 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 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 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 reinstated, effective January 1, 2002. The additional tax currently expires December 31, 2003.

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 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.

City Personal Income Tax Under STAR Program				
Tax Year	1998	1999	2000	2001-03
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%

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).

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.

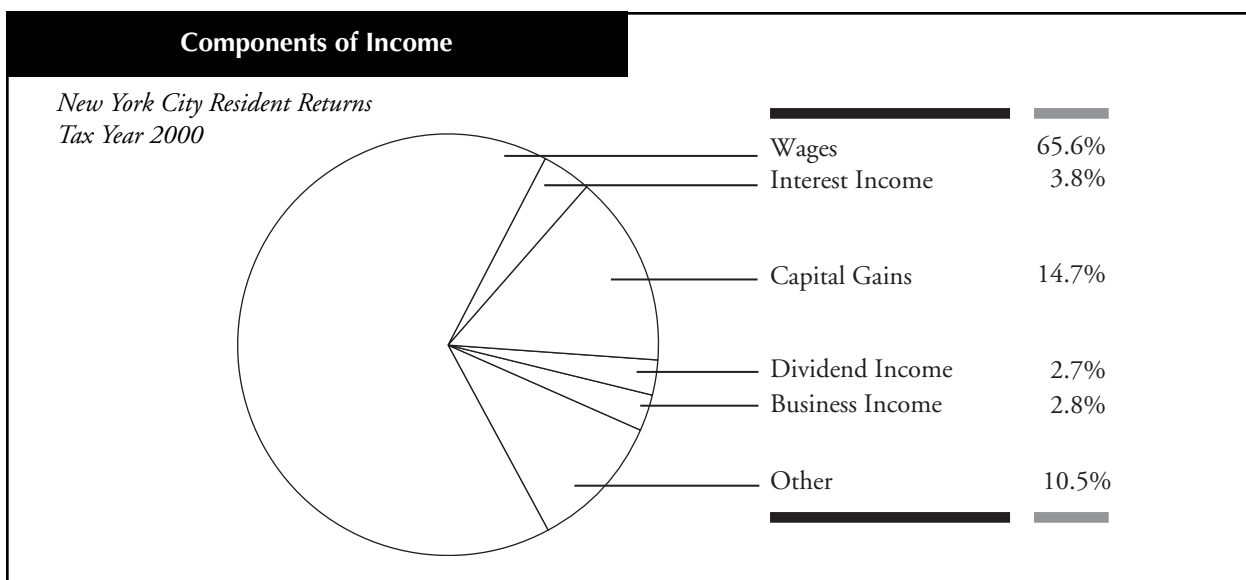
As part of New York State's budget for fiscal year 2000-2001, the State took several actions which reduced both State and City liability. In order to reduce the marriage penalty, the State increased the standard deduction for married families filing jointly from \$13,000 to \$13,400 in tax year 2001, 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 effect the City return) or itemized deduction, (which does) for college tuition expenses paid by resident 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. In addition, 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

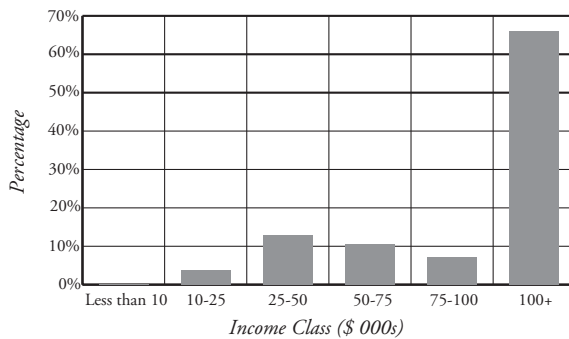
will forgive the New York State, New York City and Yonkers income tax liabilities of decedents who died as a result of the attack. Income tax is forgiven for these decedents whether they were killed in the attack or in rescue or recovery operations. Any forgiven tax liability owed but not paid will not have to be paid. Any forgiven tax liability that has already been paid will be refunded. This tax relief is estimated to reduce revenues by \$7 million in City fiscal year 2003.

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. To implement the temporary surcharge, withholding tables were changed in October 1990. 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



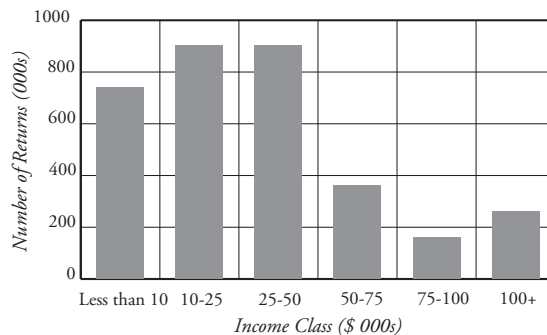
Share of Liability

Tax Year 2000
New York City Resident Returns



Number of Filers

Tax Year 2000
New York City Resident Returns

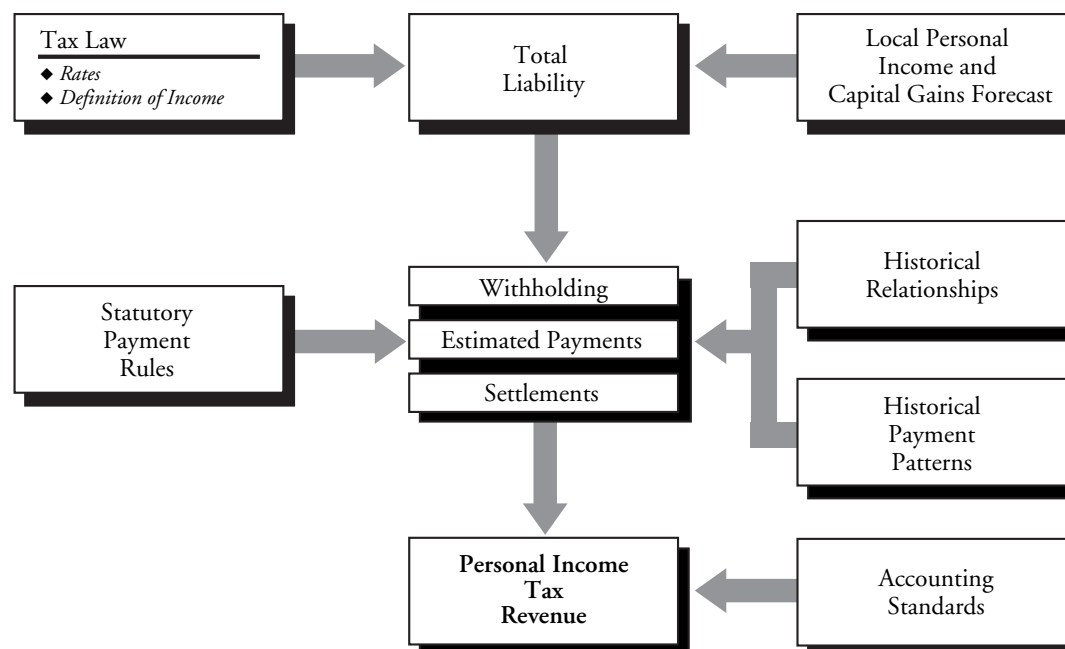


second reduction of the 14 percent additional tax effective for tax year 2001, the withholding tables were changed again, effective October 1, 2001. On June 1, 2002, the withholding tables were changed to reflect the full imposition of the 14 percent additional tax. A history of withholding table changes since 1980 is detailed in Appendix C.

Distribution of Liability: From a sample of 2000 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 24 percent of the taxpayers with income greater than \$50,000 paid 84 percent of the tax. Wage income was 66 percent of total reported income on resident returns. Capital gains realizations and interest income were the second and third largest sources of income, accounting for approximately 15 percent and four percent of total reported income, respectively. 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

Personal Income Tax Forecast Methodology



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 returns and taxpayer services (primarily the telephone line for answering taxpayer questions) which can be attributed to the City. For fiscal year 2002 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). These 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 microsimulation 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 allo-

cated 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:

$$\log(\text{WITHHOLDING}) = a + b_1 \log(\text{wage income} + \text{dividends, interest and rental income}) + b_2 \log(\text{maximum City PIT rate})$$

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

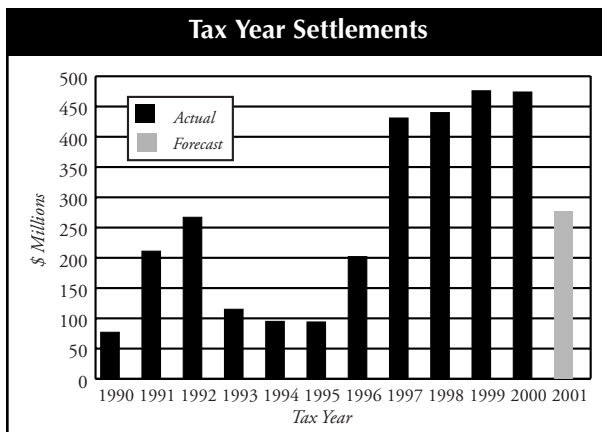
Estimated payments, paid predominantly by taxpayers with nonwage income, are a function of nonwage income in the prior year, capital gains realizations and the maximum City tax rate in that prior year. Nonwage income includes income from interest, dividends, rent, proprietorships, partnerships, subchapter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

$$\text{ESTIMATED PAYMENTS} = a + b_1 (\text{NYC dividends, interest and rent income}) [-1] + b_2 (\text{capital gains income}) + b_3 (\text{maximum City PIT rate}) [-1]$$

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 is high or accelerating, it 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:

$$\text{NET GAINS ON TAXABLE RETURNS} = a + b_1 (\text{three-year change in the value of corporate equity held by U.S. households}) + b_2 (\text{value of large commercial real estate transactions in the City}) - b_3 (\text{maximum Federal PIT rate on capital gains}) + b_4 (\text{dummy for 1986}) - b_5 (\text{dummy for 1987})$$



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 variable 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 final returns. After the first year of each tax program, the majority of each increase was collected through withholding and estimated payments. Therefore, settlement payments were lower in 1992. Other tax law changes that will have an effect on settlement payments are the recently enacted credit for unincorporated business tax liability, the expiration of the surcharge, the repeal of the nonresident earnings tax, the reductions in the 14 percent additional tax for tax year 2001 and the cancellation of these reductions in the 14 percent additional tax.

Historically, total settlements have been positive, and refunds have traditionally been almost a constant 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. In recent years, total settlements have been affected by the withholding table changes stemming from the partial repeal and subsequent re-institution of the 14 percent additional tax. Not only has the tax law been different every year, but these changes have often led to shifts in income from one year to another. In addition, there have been many changes to rules governing both withholding and estimated

payments. The full extent of any one year's changes in the tax law is often not completely identified until the settlement period which crosses fiscal years.

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, offsets, assessments and audits, are recognized with a 60-day accrual.

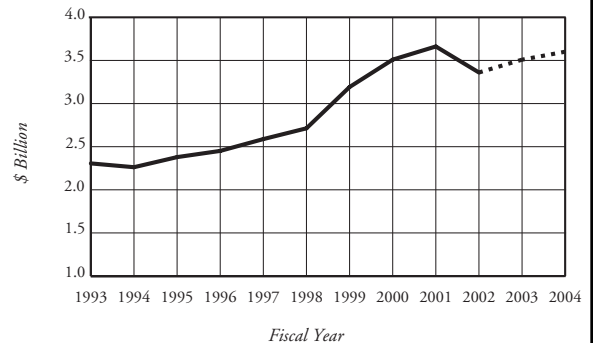
Beginning in 1998, personal income tax cash flow to the City changed with the introduction of the Transitional Finance Authority (TFA). The TFA gives the City an additional financing vehicle to meet capital commitments beyond the constitutional debt limit. The new authority has first claim on personal 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 four 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.

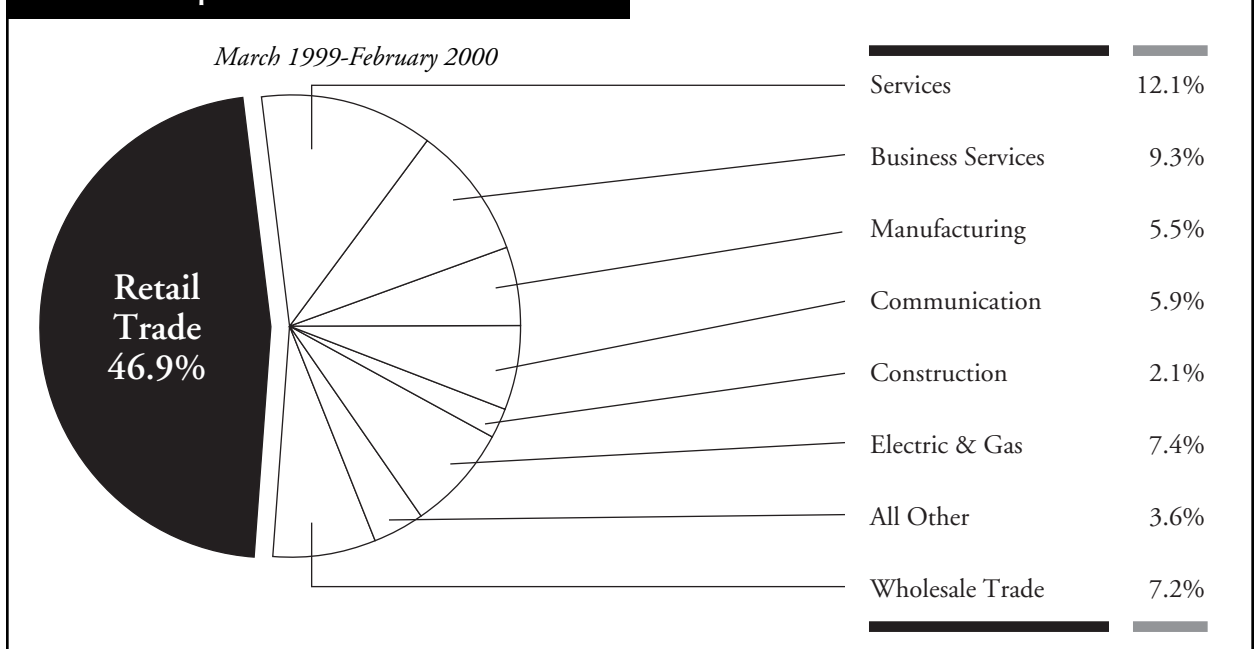
Exemptions include food (except certain drinks, candies and alcoholic beverages), rent, prescription drugs, newspapers and periodicals, textbooks for college students, and public transportation. These exemptions are intended to reduce the degree of regressiveness of the tax. Exemptions are also allowed 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 (to be phased in over four years beginning September 1, 2000), certain promotional materials, internet access services, interstate and international telecommunications services, and clothing and footwear purchases under \$110. With the State sales tax rate of four percent, and a 0.25 percent sales tax in the Metropolitan Commuter Transportation District (MCTD), the aggregate sales tax rate in the City is 8.25 percent.

Sales Tax 1993–2004



The components of the tax base are detailed in the chart below. Retail trade, which includes sales of building materials, general merchandise, restaurant meals and drinks, cars, apparel and furniture, represents almost half of the sales tax base. The business services sector has been the fastest growing sector in the sales tax base, increasing from 3.5 percent in 1979-80 to 9.3 percent in 1999-00. This growth reflects the relative expansion of the service sector in the City. Of the components of retail trade, sales by auto dealers and gas stations (6.0 percent) and furniture sales (5.0 percent) show the most year-to-year variation reflecting the cyclical nature of these consumer goods.

Components of Sales Tax Base



Legislative History: 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 E).

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 594,971 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, the State's electronic funds transfer (EFT) program (Promp Tax Program) was expanded to include large sales tax vendors. 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. In 1994, the threshold for mandatory participation in the EFT program was lowered from \$5 million to \$4 million in liability for taxpayers remitting State and local sales and use taxes. This change in the EFT threshold caused an overlap of sales tax payments in fiscal year 1995 resulting in a one-time boost to City revenue of \$4 million. In December of 1994, the month new participants were required to make their first EFT payment. In 1995, the threshold was lowered to \$1 million in liability causing an overlap of sales tax payments in December 1995, the month of the first required payment, resulting in a one-time boost to City revenue of \$20 million. 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 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 includes the prior month's day-23 through the end of the month's liabilities in addition to the current month's day-1 through day-22 liabilities. These vendors must make their remittances to the State by the 25th (or the third business day following the 22nd) day each month for the first 22 days of sales activity and for the prior month's day-23 through the end of the month's sales activity.

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

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.

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:

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.

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 2002, administrative charges of \$20 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
- Credits claimed against the sales tax
- 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, a quarterly 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, City wage rate, and a dummy variable to account for the seasonality from the Christmas holiday season in sales tax collections in the first quarter of the liability year. The separation of wage rate and employment proved more sensitive than wage income alone. The sales tax revenue equation takes the following form:

$$\text{SALES TAX REVENUE} = a + b_1 (\text{NYC wage rate}) + b_2 (\text{NYC total employment}) + b_3 (\text{dummy})$$

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.

Credits: The forecast for credits 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 Board) Statement No. 22. Late sales tax payments, State assessments and City audits, are recognized with a 60-day accrual.

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 have been made as early in the quarter as possible. For City fiscal years 1999, 2000 and 2001, there have been 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.

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) 0.15 percent of the firm's business and investment capital allocated to the City and (3) 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. 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.

The starting point for determining the net income base, 80.4 percent of corporate liability in tax year 1999, 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 alloca-



tion 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 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 percent of corporate tax liability in tax year 1999. 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 capital accounted for approximately four percent of corporate tax liability in tax year 1999. 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.

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

- A firm that pays a sales and use tax for the purchase of electricity or electrical service used in the production of tangible personal property for sale by manufacturing, processing or assembling can claim a credit equal to the amount of the sales and use tax. The purchases are exempt from the State sales tax but were taxable by the City prior to November 1, 2000. After that date, purchases of fuel, gas, electricity, refrigeration or steam gas used in the production of tangible personal property for sale have been exempted from the City sales tax and therefore this credit has been repealed.
- A firm that pays a sales and use tax for 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, can claim a credit equal to the amount of the sales and use tax. These purchases are exempt from the State sales tax but were taxable by the City prior to September 1, 1996. After that date, purchases of these services have been exempted from the City sales tax and therefore this credit has been repealed.
- 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 again to \$3,000 and is now refundable for the first four years.
- 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 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.
- Taxpayers relocating to the City from outside of New York State who have created at least 100 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.
- 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, the credit mechanism was repealed and all benefits are through the utility vendor.
- 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

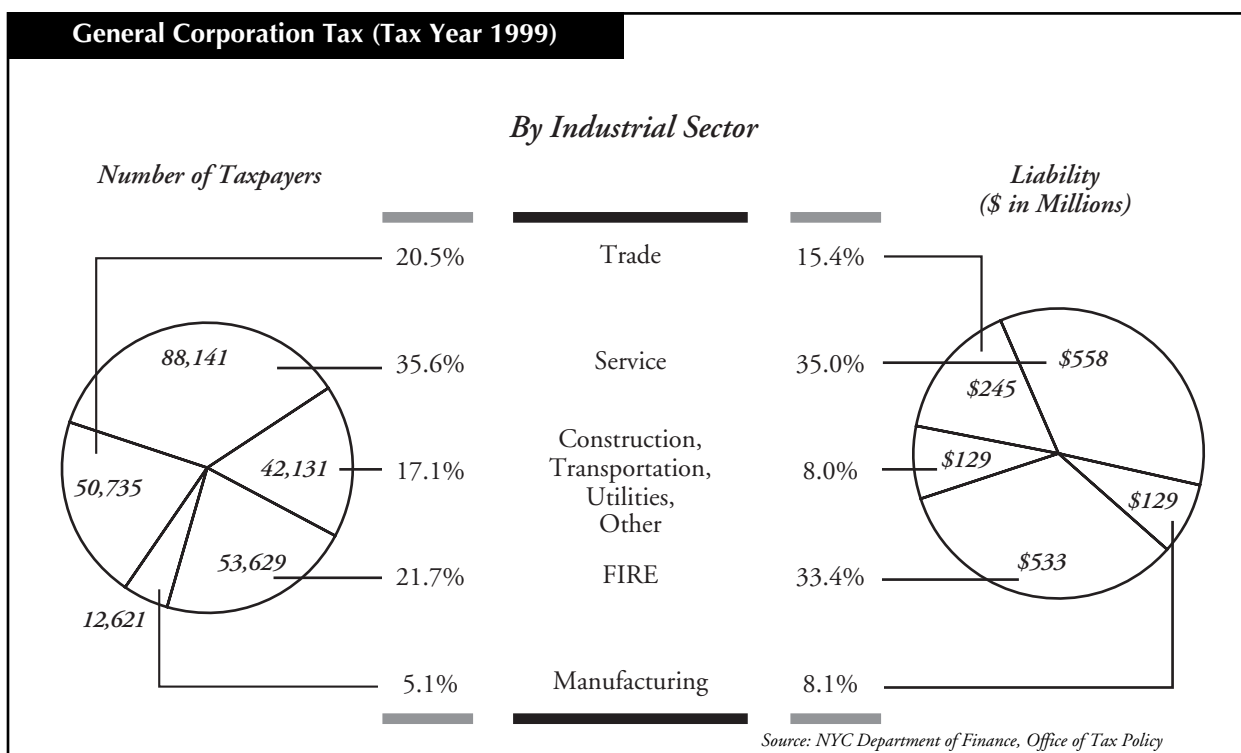
partnership is subject to the GCT. In 1996 the calculation of the credit was modified to allow a carryforward of the credit to be taken against tax liability in any of seven succeeding taxable years.

Industrial Mix of General Corporation Tax Revenue: The chart below is based on a population study of corporate returns for tax year 1999 (the latest year for which such data is available from the Department of Finance) and reflects the distribution of City tax liability and number of filers by industrial sector. The importance of the finance, insurance and real estate (FIRE) and service sectors (information, professional/technical/managerial and other services) to the New York City economy is clear. Together these sectors account for approximately 68.4 percent of total corporate tax collections and 57.3 percent of all filers. The trade sector represents 15.4 percent of corporate liability and 21 percent of filers while manufacturing accounts for eight percent of liability and five percent of filers. The remaining eight percent of corporate liability is generated by construction, transportation, utilities and other firms.¹

From 1987 to 1998 the sectoral distribution of corporate tax liability changed substantially,

with the FIRE sector accounting for much of the volatility. The FIRE sector, which accounted for 29 percent of corporate tax liability in 1987, fell to roughly 25 percent from 1988 through 1990. FIRE sector liability bounced back to a 31 percent share in 1991 and 1992 and jumped to 41 percent in 1993. In 1994, FIRE sector liability dropped to a 30 percent share, or \$342 million from \$473 million in 1993. The portion of general corporate tax liability for this sector increased in 1995 to 36 percent. This volatility is not surprising given the events in that sector for the period 1987 to 1995. Following several years of mixed profits results after the 1987 crash and record losses in 1990, the securities industry reported robust profits in 1991 and 1992 and record profit levels in 1993. In 1994, the bond market collapsed leading to large declines in Wall Street profitability and consequently tax liability. With the recovery of the securities industry in 1995, FIRE sector tax liability bounced back, regaining much of the losses of the previous year.

While FIRE sector liability increased by \$23 million from 1984 to 1992, total liability actually declined by \$58 million over the same period. The deep local recession throughout this period resulted in a decline in the liability of all other sectors by \$81 million. The liability of the manufacturing sec-



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.

tor decreased \$33 million from 1984 to 1992 and the trade sector declined by \$30 million. The remaining drop in total liability, approximately \$35 million, occurred in the communications, construction and all other sectors.

In 1993, with the securities industry recovering and improvement in the local economy following the recession, total liability increased \$166 million from 1992's level. FIRE sector liability increased \$153 million, the trade sector and services sectors increased \$1 million and \$21 million, respectively. The communications, construction and remaining sectors increased \$12 million and manufacturing declined by \$23 million.

With the reversal of the bond market in 1994, total liability declined \$23 million from 1993's level. FIRE sector liability plunged \$131 million, but some of the losses in this sector were offset by liability gains of \$22 million in the service sector, \$5 million in the trade sector, \$46 million in the manufacturing sector and \$37 million in the communication, construction and remaining sectors.

In 1995, with the rebound in securities industry profits, total liability increased by \$53 million from 1994, while FIRE sector liability jumped 24 percent from \$342 million in the previous year. In the manufacturing sector, liability declined \$40 million, while communications, construction and other sector liability increased by less than one million. Liability in the trade and service sectors increased slightly in 1995, by \$10 million and less than \$1 million, respectively.

Record profits in the securities industry in 1996 led to an increase of \$143 million in FIRE sector liability, while total liability also increased by \$226 million. In the service sector, liability increased by \$55 million, while manufacturing sector liability increased by \$11 million. Liability in the trade sector and communications, construction and other sector increased \$10 million and \$7 million, respectively.

In 1997, total liability increased by \$90 million to \$1,497 million led by growth of \$47 million in the service sector. FIRE sector liability also increased by \$41 million or 7.3 percent, followed by an increase of \$25 million in the trade sector. Liability declined in both the manufacturing sector and the communications, construction and others sector by \$4 million and \$20 million, respectively.

The securities industry posted lower profits in 1998 which resulted in a decline in FIRE sector li-

bility. Total corporate liability increased by \$6 million from the prior year, growth of less than one percent. Due to a federal change in the industry coding system,² distributions of liability across industry sectors are not directly comparable to the prior year.

In 1999, the securities industry profits more than doubled from the prior year but FIRE sector liability increased by less than eight percent, or \$38 million. Total corporate liability increased by 6 percent with all sectors recording an increase in liability except the services sector where liability declined by two percent or \$14 million. In the trade sector, liability was up \$33 million and in the manufacturing sector liability increased by \$18 million or 17 percent while liability in construction, transportation and utilities increased by \$14 million or 12 percent.

Within the FIRE sector, securities and commodities firms represented 62 percent of liability followed by real estate with 31 percent. The remaining seven percent of FIRE liability is generated by credit agencies, insurance firms, funds and trusts and other financial firms.

The service sector, which accounts for 35 percent of total liability and 36 percent of corporate taxpayers, is now broken down into three broad classifications. Professional, technical and managerial services comprise 43 percent of service sector liability, and information services, which covers broadcasting, data services, movies and publishing account for 23 percent of the sector's liability. Other services, which include hospitality, education and health care services, make up 34 percent of service sector liability.

In the manufacturing sector, textiles, apparel and leather account for 21 percent of liability and 36 percent of filers. Printing represents eight percent of liability and 13 percent of the number of taxpayers while food and beverages make up 18 percent of liability and seven percent of filers.

The trade sector is comprised of wholesale and retail trade. Wholesale firms represent 59 percent of total trade sector liability and 48 percent of the taxpayers while retail trade makes up 41 percent of liability and 52 percent of filers.

Within the "other" subsector, construction and transportation represented 52 percent and 31 percent, respectively, of total "other" liability. These subsectors accounted for 34 percent and 24 percent, respectively, of the number of filers.

² See Footnote 1.

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

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 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 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.

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 estimated 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.

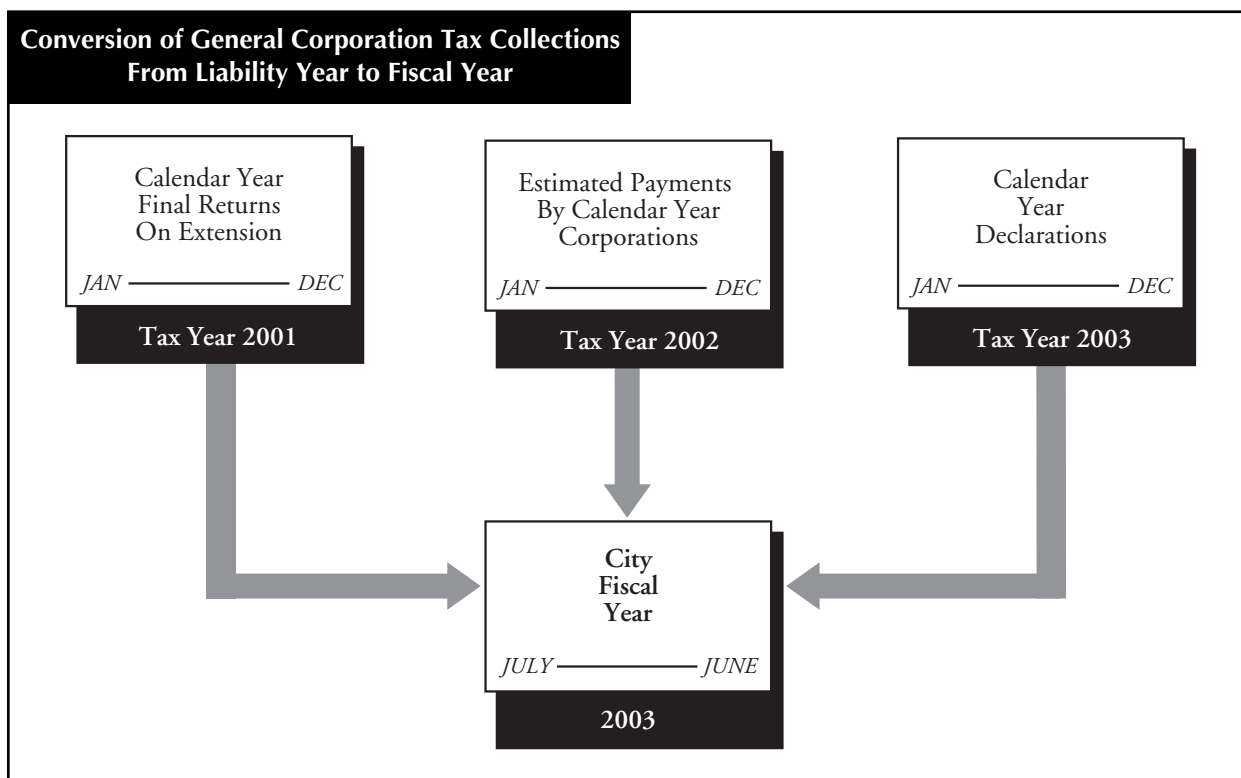
As a result of the September 11, 2001 terrorist attack, the filing deadline for the quarterly estimated tax payment due September 17, 2001, was extended to December 17, 2001.

Forecasting Methodology: The general corporation tax is forecast using a linear regression model.

Annual tax liability is disaggregated into FIRE and non-FIRE 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 the often divergent responses to economic conditions by the FIRE and non-FIRE sectors. The FIRE sector, representing roughly one-third of general corporation tax 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-FIRE sector, accounting for roughly two-thirds of general corporation tax 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 1999. The FIRE and the non-FIRE series were extended back to 1970 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 FIRE sector liability. The explanatory variables are employment in the FIRE sector, the wage rate in the FIRE sector and New York Stock Exchange member-firm profits. Overall, these three



variables serve to capture FIRE sector profits allocated to the City. The employment and wage rate variables are annual series comprised of the four quarters from April through March. This accounts for the timing of the first quarter hiring and bonus payouts that are based on the prior year earnings. The FIRE sector equation is as follows:

$$\text{FIRE LIABILITY} = a + b_1 (\text{FIRE sector employment}) + b_2 (\text{FIRE sector wage rate}) + b_3 (\text{New York Stock Exchange member-firm profits})$$

An annual linear regression model is also used to forecast liability in the non-FIRE sector. The explanatory variables are gross city product, before-tax national corporate profits/gross domestic product, FIRE sector employment, and a dummy variable for the structural changes that occurred in the City during both the fiscal crisis (1972-1977) and during the deep local recession (1990-1992). Gross city product measures local economic activity and FIRE sector employment serves as a proxy for the effect of that sector's profitability on the other sectors of the City's economy. The other variable, national corporate profits/gross domestic product, measures the change in national corporate profits relative to gross domestic product (GDP) and captures the non-FIRE sector's connection to the national economy. The non-FIRE sector equation is as follows:

$$\text{NON-FIRE LIABILITY} = a + b_1 (\text{gross city product}) + b_2 (\text{before-tax corporate profits/GDP}) + b_3 (\text{FIRE sector employment}) - b_4 (\text{dummy})$$

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 on the previous 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 2003, calendar year corporations file final returns on extension for tax year 2001. 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 2002. Any residual amount owed on tax year 2002 is paid in March along with the mandated 25 percent prepayment towards tax year 2003. 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 2003. 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

Appendix A

Tax Expenditures

Industrial and Commercial Incentive Program (ICIP): 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:

1. The property must be for commercial, industrial or mixed-use. For projects begun after July 1, 2000 there no longer is 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 is located in Manhattan below 96th street, and four years for properties in Long Island City. In all other areas it had been two years.
2. 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”).
3. 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.
4. 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 A9), 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.

5. 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, 2003. 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). When the minimum expenditure on new construction/renovation is at least 25 percent of the initial assessed value of the building, 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, 2003.
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 A9 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. For Lower Manhattan, the program which was scheduled to expire on June 30, 1999, was extended for four years until June 30, 2003.
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 ICIP is administered by the City's Department of Finance (DOF). The table on page A9 details the various ICIP benefits by type of project.

Commercial Revitalization Program: 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. 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. In 2001 the program was again extended to March 31, 2004. 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 following 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 A10.

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, 2004. The qualifying conditions for properties outside of Lower Manhattan are more liberal (see page A10 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, 2004. 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% 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% of eligible charges for the first eight years, 24% for the ninth year, 18% for the tenth year, 12% for the eleventh and twelfth year. Buildings designated as landmark are entitled to an extra year at the 30% rate.

4. **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.

5. *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.

Commercial Expansion Program: Relying on the success of the Lower Manhattan 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, 2003; (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.

Senior Citizen Homeowner Exemption (SCHE): 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 \$29,899 per year (see table on the 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 and \$28,900 in 2002. In 2003 the maximum qualifying income threshold was raised to \$29,900. 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

**Senior Citizen Homeowner
Exemption Schedule**

Household Income	Exempt Share of Assessed Value
Less than \$21,501	50%
\$21,501 - \$22,499	45%
\$22,500 - \$23,499	40%
\$23,500 - \$24,499	35%
\$24,500 - \$25,399	30%
\$25,400 - \$26,299	25%
\$26,300 - \$27,199	20%
\$27,200 - \$28,099	15%
\$28,100 - \$28,999	10%
\$29,000 - \$29,899	5%
\$29,900 and greater	0%

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): The Senior Citizen Rent Increase Exemption program provides tenants who are 62 years of age or older and who reside in a rent controlled, rent stabilized or Mitchell-Lama unit with an exemption from increases in rent above one-third of their household income. In order to qualify for the program, senior citizens must have a combined household income of no more than \$20,000 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, and to \$20,000 in 1995. 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 prop-

erty 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.

Veterans' Exemptions: 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 to veterans who served during a period of war, an exemption of 15 percent of assessed value with 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.

J-51 Program: The J-51 program promotes rehabilitation of existing multiple dwellings or conversion of non-residential buildings to Class A 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 is 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.

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 A12.
- 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 Zone¹ 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 Zone² 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 ineligible for benefits, except if 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.

The renovation categories and corresponding exemption and abatement schedules are shown in the table on page A12.

¹The 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.

²The 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.

488-a Program: 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 which was set to expire on December 31, 2002 has been extended till December 31, 2007.

421-a Program: 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: Coop/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 A11 for details of the 421-a program.

421-b Program: 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. 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- or two-family dwelling may qualify for an exemption if it has been improved to the extent of 40 percent of its pre-improvement assessed value.

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: Coop/Condo Property Tax Abatement, School Tax Relief, Senior Citizen Homeowner Exemption and Veterans' Exemption. This program is administered jointly by HPD and DOF.

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%

459-c Homeowners with Disability Exemption Schedule	
Household Income	Exempt Share of Assessed Value
Less than \$21,501	50%
\$21,501 - \$22,499	45%
\$22,500 - \$23,499	40%
\$23,500 - \$24,499	35%
\$24,500 - \$25,399	30%
\$25,400 - \$26,299	25%
\$26,300 - \$27,199	20%
\$27,200 - \$28,099	15%
\$28,100 - \$28,999	10%
\$29,000 - \$29,899	5%
\$29,900 and greater	0%

459-c Program: The 459-c program establishes a new partial tax exemption for property owners, whose incomes are limited due to disability. This program provides a maximum exemption of 50 percent to residential property owners with incomes less than \$21,500. For disabled property owners with income between \$21,501 and \$29,999, 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 again to \$21,500 effective 2002.

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	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.
• Special Exemption Areas					
• 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	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.	"Smart buildings" should meet certain construction standards as detailed below.
• New Construction Benefits					

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 following the effective date of eligibility. 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	<ul style="list-style-type: none">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.	<p>Leases commencing prior to April 1, 1997: Tax abatement for five years.</p> <ul style="list-style-type: none">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. <p>Leases commencing on or after April 1, 1997: For three year leases (tax abatement for three years).</p> <ul style="list-style-type: none">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. <p>For leases of five or more years (tax abatement for five years).</p> <ul style="list-style-type: none">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.	<ul style="list-style-type: none">Eligibility period: April 1, 1995 to March 31, 2004.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	<ul style="list-style-type: none">Pre - 1975 buildings located in the Title 4 abatement zone.Minimum lease periods of three years for small tenants (50 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.	<p>Special reduction on the taxable base rent for leases of five or more years:</p> <ul style="list-style-type: none">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. <p>Special reduction on the taxable base rent for three year leases:</p> <ul style="list-style-type: none">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.	<ul style="list-style-type: none">Eligibility period: April 1, 1995 to March 31, 2004.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	<ul style="list-style-type: none">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.	<p>Discount off delivery portion</p> <table><tr><td>Yrs. 1-8</td><td>45%</td><td>Yr. 11</td><td>22.5%</td></tr><tr><td>Yr. 9</td><td>37.5%</td><td>Yr. 12</td><td>15%</td></tr><tr><td>Yr. 10</td><td>30%</td><td>Yr. 13</td><td>0%</td></tr></table> <p>Designated landmark buildings get an additional year of rebate at the 45 percent level.</p>	Yrs. 1-8	45%	Yr. 11	22.5%	Yr. 9	37.5%	Yr. 12	15%	Yr. 10	30%	Yr. 13	0%	<ul style="list-style-type: none">Eligibility period: July 1, 1995 to April 1, 2004.Benefits are not available for tenants who relocate to lower Manhattan from north of 96th Street in Manhattan or from the other boroughs.												
Yrs. 1-8	45%	Yr. 11	22.5%																								
Yr. 9	37.5%	Yr. 12	15%																								
Yr. 10	30%	Yr. 13	0%																								
Residential Conversion 421-g	<ul style="list-style-type: none">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.	<p>Tax exemption for 12 years on the increased assessed values due to physical improvements</p> <table><tr><td>Yrs. 1-8</td><td>100%</td><td>Yr. 11</td><td>40%</td></tr><tr><td>Yr. 9</td><td>80%</td><td>Yr. 12</td><td>20%</td></tr><tr><td>Yr. 10</td><td>60%</td><td></td><td></td></tr></table> <p>In addition, a tax abatement on the existing real estate taxes relating to the pre-construction assessment value for 14 years.</p> <table><tr><td>Yrs. 1-10</td><td>100%</td><td>Yr. 13</td><td>40%</td></tr><tr><td>Yr. 11</td><td>80%</td><td>Yr. 14</td><td>20%</td></tr><tr><td>Yr. 12</td><td>60%</td><td></td><td></td></tr></table> <p>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.</p>	Yrs. 1-8	100%	Yr. 11	40%	Yr. 9	80%	Yr. 12	20%	Yr. 10	60%			Yrs. 1-10	100%	Yr. 13	40%	Yr. 11	80%	Yr. 14	20%	Yr. 12	60%			<ul style="list-style-type: none">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.
Yrs. 1-8	100%	Yr. 11	40%																								
Yr. 9	80%	Yr. 12	20%																								
Yr. 10	60%																										
Yrs. 1-10	100%	Yr. 13	40%																								
Yr. 11	80%	Yr. 14	20%																								
Yr. 12	60%																										
Mixed-Use	<ul style="list-style-type: none">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.	<p>Tax exemption for 12 years on the increased assessed values due to physical improvements</p> <table><tr><td>Yrs. 1-8</td><td>100%</td></tr><tr><td>Yr. 9</td><td>80%</td></tr><tr><td>Yr. 10</td><td>60%</td></tr><tr><td>Yr. 11</td><td>40%</td></tr><tr><td>Yr. 12</td><td>20%</td></tr></table> <p>Designated landmarks will receive an additional year of exemption at the 100 percent level.</p>	Yrs. 1-8	100%	Yr. 9	80%	Yr. 10	60%	Yr. 11	40%	Yr. 12	20%	<ul style="list-style-type: none">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.														
Yrs. 1-8	100%																										
Yr. 9	80%																										
Yr. 10	60%																										
Yr. 11	40%																										
Yr. 12	20%																										

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.

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.

J-51 Exemption & Abatement Program

Renovation Categories	Exemption On Increased Value Due To Improvement		Abatement On Existing Taxes		Enriched Benefits
	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. <i>Examples - replacement of heating, plumbing, roofing, windows, insulation, wiring, elevators, etc.</i>	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. <i>Examples - improvement of heating, electrical or plumbing systems.</i>	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.

Appendix B

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 Rate		Surcharge Rate		Combined Rate		Of The Amount Over
		Pay	Plus	Pay	Plus	Pay	Plus	
\$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 Rate		Surcharge Rate		Combined Rate		Of The Amount Over
		Pay	Plus	Pay	Plus	Pay	Plus	
\$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 Rate		Surcharge Rate		Combined Rate		Of The Amount Over
		Pay	Plus	Pay	Plus	Pay	Plus	
\$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:

Over	But Not Over	Base Tax Rate ⁽¹⁾		Surcharge Rate		Combined Rate		Of The Amount Over
		Pay	Plus	Pay	Plus	Pay	Plus	
\$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:

Over	But Not Over	Base Tax Rate ⁽¹⁾		Surcharge Rate		Combined Rate		Of The Amount Over
		Pay	Plus	Pay	Plus	Pay	Plus	
\$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:

Over	But Not Over	Base Tax Rate ⁽¹⁾		Surcharge Rate		Combined Rate		Of The Amount Over
		Pay	Plus	Pay	Plus	Pay	Plus	
\$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 Rate ⁽¹⁾		Surcharge Rate		Combined Rate		Of The Amount Over
		Pay	Plus	Pay	Plus	Pay	Plus	
\$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 Rate ⁽¹⁾		Surcharge Rate		Combined Rate		Of The Amount Over
		Pay	Plus	Pay	Plus	Pay	Plus	
\$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 Rate ⁽¹⁾		Surcharge Rate		Combined Rate		Of The Amount Over
		Pay	Plus	Pay	Plus	Pay	Plus	
\$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:

Over	But Not Over	Combined Rate		Of the Amount Over
		Pay	Plus	
\$0	\$8,000	\$0	2.96%	\$0
8,000	8,400	237	3.42	8,000
8,400	15,000	251	4.00	8,400
15,000	25,000	515	4.39	15,000
25,000	60,000	954	4.40	25,000
60,000		2,494	4.46	60,000

Rate Schedule for Joint Filers

If net income is:

Over	But Not Over	Combined Rate		Of the Amount Over
		Pay	Plus	
\$0	\$14,400	\$0	2.96%	\$0
14,400	27,000	427	4.00	14,400
27,000	45,000	931	4.39	27,000
45,000	108,000	1,721	4.40	45,000
108,000		4,493	4.46	108,000

Rate Schedule for Head of Household Filers

If net income is:

Over	But Not Over	Combined Rate		Of the Amount Over
		Pay	Plus	
\$0	\$7,350	\$0	2.96%	\$0
7,350	9,200	218	3.44	7,350
9,200	9,600	282	3.55	9,200
9,600	17,250	296	4.00	9,600
17,250	18,000	602	4.05	17,250
18,000	28,750	632	4.39	18,000
28,750	30,000	1,104	4.34	28,750
30,000	69,000	1,158	4.40	30,000
69,000	72,000	2,874	4.40	69,000
72,000		3,006	4.46	72,000

1997–1998 Rate Schedule

Rate Schedule for Single Filers

If net income is:

Over	But Not Over	Combined Rate		Of the Amount Over
		Pay	Plus	
\$0	\$8,400	\$0	3.08%	\$0
8,400	12,000	259	3.66	8,400
12,000	15,000	391	4.34	12,000
15,000	25,000	521	4.39	15,000
25,000	50,000	960	4.40	25,000
50,000		2,060	4.46	50,000

Rate Schedule for Joint Filers

If net income is:

Over	But Not Over	Combined Rate		Of the Amount Over
		Pay	Plus	
\$0	\$14,400	\$0	3.08%	\$0
14,400	21,600	443	3.66	14,400
21,600	27,000	706	4.34	21,600
27,000	45,000	941	4.39	27,000
45,000	90,000	1,731	4.40	45,000
90,000		3,711	4.46	90,000

Rate Schedule for Head of Household Filers

If net income is:

Over	But Not Over	Combined Rate		Of the Amount Over
		Pay	Plus	
\$0	\$7,350	\$0	3.08%	\$0
7,350	9,200	226	3.56	7,350
9,200	14,400	292	3.66	9,200
14,400	17,250	482	4.34	14,400
17,250	28,750	606	4.39	17,250
28,750	30,000	1,111	4.34	28,750
30,000	60,000	1,165	4.40	30,000
60,000		2,485	4.46	60,000

1999 Rate Schedule

Rate Schedule for Single Filers

If net income is:

Over	But Not Over	Combined Rate		Of the Amount Over
		Pay	Plus	
\$0	\$8,400	\$0	3.05%	\$0
8,400	12,000	256	3.05	8,400
12,000	15,000	366	3.71	12,000
15,000	25,000	477	3.71	15,000
25,000	50,000	848	3.77	25,000
50,000		1,791	3.83	50,000

Rate Schedule for Joint Filers

If net income is:

Over	But Not Over	Combined Rate		Of the Amount Over
		Pay	Plus	
\$0	\$14,400	\$0	3.05%	\$0
14,400	21,600	439	3.05	14,400
21,600	27,000	659	3.71	21,600
27,000	45,000	860	3.71	27,000
45,000	90,000	1,529	3.77	45,000
90,000		3,226	3.83	90,000

Rate Schedule for Head of Household Filers

If net income is:

Over	But Not Over	Combined Rate		Of the Amount Over
		Pay	Plus	
\$0	\$7,350	\$0	3.05%	\$0
7,350	9,200	224	3.05	7,350
9,200	14,400	280	3.05	9,200
14,400	17,250	439	3.71	14,400
17,250	28,750	545	3.71	17,250
28,750	30,000	972	3.71	28,750
30,000	60,000	1,018	3.77	30,000
60,000		2,149	3.83	60,000

2000 Rate Schedule

Rate Schedule for Single Filers

If net income is:

Over	But Not Over	Combined Rate		Of the Amount Over
		Pay	Plus	
\$0	\$8,400	\$0	3.02%	\$0
8,400	12,000	254	3.02	8,400
12,000	15,000	363	3.67	12,000
15,000	25,000	473	3.67	15,000
25,000	50,000	840	3.72	25,000
50,000		1,771	3.78	50,000

Rate Schedule for Joint Filers

If net income is:

Over	But Not Over	Combined Rate		Of the Amount Over
		Pay	Plus	
\$0	\$14,400	\$0	3.02%	\$0
14,400	21,600	435	3.02	14,400
21,600	27,000	653	3.67	21,600
27,000	45,000	851	3.67	27,000
45,000	90,000	1,511	3.72	45,000
90,000		3,186	3.78	90,000

Rate Schedule for Head of Household Filers

If net income is:

Over	But Not Over	Combined Rate		Of the Amount Over
		Pay	Plus	
\$0	\$7,350	\$0	3.02%	\$0
7,350	9,200	222	3.02	7,350
9,200	14,400	278	3.02	9,200
14,400	17,250	435	3.67	14,400
17,250	28,750	539	3.67	17,250
28,750	30,000	960	3.67	28,750
30,000	60,000	1,005	3.72	30,000
60,000		2,123	3.78	60,000

2001 Rate Schedule

Rate Schedule for Single Filers

If net income is:

Over	But Not Over	Combined Rate		Of the Amount Over
		Pay	Plus	
\$0	\$12,000	\$0	2.684%	\$0
12,000	25,000	332	3.263	12,000
25,000	50,000	746	3.315	25,000
50,000		1,575	3.592	50,000

Rate Schedule for Joint Filers

If net income is:

Over	But Not Over	Combined Rate		Of the Amount Over
		Pay	Plus	
\$0	\$21,600	\$0	2.684%	\$0
21,600	45,000	580	3.263	21,600
45,000	90,000	1,343	3.315	45,000
90,000		2,835	3.592	90,000

Rate Schedule for Head of Household Filers

If net income is:

Over	But Not Over	Combined Rate		Of the Amount Over
		Pay	Plus	
\$0	\$14,400	\$0	2.684%	\$0
14,400	30,000	386	3.263	14,400
30,000	60,000	895	3.315	30,000
60,000		1,890	3.592	60,000

2002-2003 Rate Schedule

Rate Schedule for Single Filers

If net income is:

Over	But Not Over	Combined Rate		Of the Amount Over
		Pay	Plus	
\$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		1,706	3.648	50,000

Rate Schedule for Joint Filers

If net income is:

Over	But Not Over	Combined Rate		Of the Amount Over
		Pay	Plus	
\$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		3,071	3.648	90,000

Rate Schedule for Head of Household Filers

If net income is:

Over	But Not Over	Combined Rate		Of the Amount Over
		Pay	Plus	
\$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		2,047	3.648	60,000

Appendix C

New York City Withholding Table Changes 1980–2002

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

Effective Date	Feature	Change
6/1/02	Rate Schedule	Rates increased: Top rate increased to 4.00% percent from 3.90%
<i>The June 1, 2002 withholding table change reflects the re-institution of the full 14% additional tax.</i>		
10/1/01	Rate Schedule	Rates decreased: Top rate reduced to 3.90% from 4.00%
<i>The October 1, 2001 withholding table change reflects the second reduction of the 14% additional tax.</i>		
1/1/01	Rate Schedule	Rates decreased: Top rate reduced to 4.00% from 4.15%
<i>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.</i>		
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%
1/1/99	Rate Schedule	Rates decreased: Top rate reduced to 4.25% from 4.68%
<i>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.</i>		
10/1/91	Rate Schedule	Rates increased: Top rate increased to 4.68% from 4.25%
<i>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.</i>		
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%

New York City Withholding Table Changes 1980–2002 (Continued)

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

Appendix D

2003 Personal Income Tax Liability

NYAGI	Base Tax	14% Additional Tax	Total Tax
<i>Single Filers</i>			
\$15,000	\$129	\$27	\$156*
25,000	414	67	481*
40,000	883	132	1,015
50,000	1,198	176	1,374
75,000	1,994	288	2,282
100,000	2,794	400	3,194
<i>Married, 2 Dependents</i>			
\$25,000	\$89	\$30	\$119*
40,000	482	85	567*
50,000	792	128	920*
75,000	1,573	238	1,811
85,000	1,888	282	2,170
100,000	2,361	348	2,709
<i>Head of Household, 2 Dependents</i>			
\$25,000	\$256	\$45	\$301*
40,000	711	108	819*
50,000	1,025	152	1,177
75,000	1,813	263	2,076
85,000	2,133	307	2,441
100,000	2,613	375	2,988

**It is likely that filers in these income categories do not itemize deductions.*

Appendix E

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.
- 1975 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.
- 1984 Sales tax on electricity or electric service used in the production of tangible personal property 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 (CBCEP), 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 CBCEP 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,

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- 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 CBECF 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 2002.
- 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
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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). Additionally, 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 28, 2003).

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. Additionally, 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 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.

Appendix F

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

*All other includes Hotel Occupancy, PILOTs, Stock Transfer, Auto-related, Waiver, Cigarette, Beer and Liquor, Liquor License, Horse Racing, OTB, Vault, Penalties and Interest and STAR Aid.

**Prior to 1984 audit collections were not tracked separately.

***Restated for implementation of GASB-22.