



# Summary of Tax Provisions in SFY 1999-2000 Budget

*(Including Multi-Year Revenue Impacts of Tax Actions)*

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# Overview of Fiscal Year 1999-00 Budget Tax Actions

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Chapter 407 of the Laws of 1999, enacted as part of the 1999-2000 State budget, builds upon tax reductions in prior years by adding several new and expanded reductions for New York individuals and businesses. These tax cuts will continue to benefit New York families and enhance New York's economic development.

Listed below are summaries of the tax provisions contained in the legislation. The next section provides a complete description of all of the tax provisions in the legislation, including effective dates. In addition, Appendix A provides a detailed "road map" of the revenue bill, including section numbers, page numbers, brief descriptions, and effective dates for each tax provision.

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## Earned Income Tax Credit

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

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## Bank Tax Rate Reduction

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

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## Insurance Tax Rate Reduction

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

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## Sales Tax Clothing Exemption

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

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

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## Other Personal Income Tax Reductions

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

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## Other Business Tax Reductions

- Extends the credits for “qualifying emerging technology companies” to remanufacturers of certain commodities that would otherwise enter the solid waste stream (applies also for personal income tax).
- Creates a new credit of \$500 per automated external defibrillator purchased by all business taxpayers (including the personal income tax).
- Reduces the corporation franchise tax alternative minimum tax rate from 3 percent to 2.5 percent.
- Repeals provisions relating to mergers, acquisitions, and consolidations.
- Provides reductions in the subsidiary capital tax base in the corporation franchise tax for bank and insurance subsidiaries, and for gas and electric subsidiaries.
- Expands the CAPCO program to provide an additional \$30 million to be invested in certified capital companies.

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- Doubles economic development zone and zone equivalent area (ZEA) wage credits, and for ZEAs, increases claim period from two to five years.
  - Expands alternative fuel tax credits to certain vehicles leased to government entities, provided the company produces the vehicles in New York and creates at least 25 full-time jobs in manufacturing the vehicles.
  - Permits air freight forwarders to file combined returns with their affiliated airlines, and to allocate their income by the specialized airline industry allocation factors.
  - Reduces the corporate tax on airlines by changing the formula used to apportion income to New York.
  - Ensures that natural gas used to produce electricity for ultimate consumption is not subject to the gas import tax.
  - Eliminates the excess dividends tax for telecommunications companies which provide local telephone service with fewer than one million access lines.

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## Other Sales Tax Reductions

- Expands exemptions for farming activities.
- Provides an exemption for machinery, equipment and apparatus used to upgrade cable television systems to provide telecommunications services for sale. Also exempts machinery and equipment purchased by telecommunications companies for transmission of Internet access services.
- Extends exemption for hardware used in designing and developing computer software to include hardware used in Internet web site design and development.
- Exempts certain theatrical property and services from tax.
- Exempts repair and maintenance services to manufacturing equipment from non-New York City local sales tax.
- Reduces use tax on self-manufactured items which manufacturers use in their businesses.

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- Extends the exemption for hot drinks and certain food items sold from vending machines to include vending machines which accept credit and debit cards.
  - Extends special record keeping and on-site inspection provisions applicable to parking garages located in Manhattan.

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## Other Tax Reductions

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



# Multi-Year Revenue Impacts of Tax Actions

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

	1999-00	2000-01	2001-02	2002-03	2003-04
Personal Income Tax	\$405.0	\$413.0	\$442.0	\$484.0	\$510.0
User Taxes and Fees	170.0	175.0	180.0	182.0	185.0
Sales and Use Tax	25.0	26.0	27.0	28.0	31.0
Motor Fuel Tax	0.0	0.0	0.0	0.0	0.0
Alcoholic Beverage Tax	1.0	1.0	1.0	1.0	1.0
Hotel/Motel Taxes	111.0	114.0	117.0	117.0	117.0
Container Taxes	0.0	0.0	0.0	0.0	0.0
Highway Use Tax	33.0	34.0	35.0	36.0	36.0
Business Taxes	1,080.0	1,064.0	1,069.0	1,084.0	1,107.0
Corporation Franchise Tax	479.0	450.0	445.0	447.0	460.0
Corporation & Utilities Tax	231.0	235.0	238.0	244.0	250.0
Insurance Tax	93.0	97.0	100.0	104.0	107.0
Bank Tax	97.0	102.0	103.0	106.0	107.0
Petroleum Business Taxes	180.0	180.0	183.0	183.0	183.0
Other Taxes	38.0	39.0	39.0	39.0	39.0
Estate and Gift Taxes	16.0	16.0	16.0	16.0	16.0
Real Property Gains Tax	18.0	19.0	19.0	19.0	19.0
Real Estate Transfer Tax	0.0	0.0	0.0	0.0	0.0
Pari-Mutuel Tax	4.0	4.0	4.0	4.0	4.0
<b>Taxes Subtotal</b>	<b>\$1,693.0</b>	<b>\$1,691.0</b>	<b>\$1,730.0</b>	<b>\$1,789.0</b>	<b>\$1,841.0</b>

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

	1999-00	2000-01	2001-02	2002-03	2003-04
Personal Income Tax	\$4,532.0	\$4,714.0	\$4,874.0	\$5,125.0	\$5,433.0
User Taxes and Fees	63.0	63.0	63.0	64.0	65.0
Sales and Use Tax	4.0	4.0	4.0	5.0	5.0
Motor Fuel Tax	16.0	16.0	16.0	16.0	17.0
Alcoholic Beverage Tax	15.0	15.0	15.0	15.0	15.0
Hotel/Motel Taxes	0.0	0.0	0.0	0.0	0.0
Container Taxes	26.0	26.0	26.0	26.0	26.0
Highway Use Tax	2.0	2.0	2.0	2.0	2.0
Business Taxes	19.0	19.0	19.0	19.0	19.0
Corporation Franchise Tax	0.0	0.0	0.0	0.0	0.0
Corporation & Utilities Tax	0.0	0.0	0.0	0.0	0.0
Insurance Tax	0.0	0.0	0.0	0.0	0.0
Bank Tax	0.0	0.0	0.0	0.0	0.0
Petroleum Business Taxes	19.0	19.0	19.0	19.0	19.0
Other Taxes	74.0	74.0	75.0	76.0	76.0
Estate and Gift Taxes	68.0	69.0	70.0	71.0	71.0
Real Property Gains Tax	0.0	0.0	0.0	0.0	0.0
Real Estate Transfer Tax	0.0	0.0	0.0	0.0	0.0
Pari-Mutuel Tax	6.0	5.0	5.0	5.0	5.0
Taxes Subtotal	\$4,688.0	\$4,870.0	\$5,031.0	\$5,284.0	\$5,593.0

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

	1999-00	2000-01	2001-02	2002-03	2003-04
Personal Income Tax	\$25.0	\$28.0	\$28.0	\$28.0	\$28.0
User Taxes and Fees	29.0	30.0	32.0	33.0	35.0
Sales and Use Tax	29.0	30.0	32.0	33.0	35.0
Motor Fuel Tax	0.0	0.0	0.0	0.0	0.0
Alcoholic Beverage Tax	0.0	0.0	0.0	0.0	0.0
Hotel/Motel Taxes	0.0	0.0	0.0	0.0	0.0
Container Taxes	0.0	0.0	0.0	0.0	0.0
Highway Use Tax	0.0	0.0	0.0	0.0	0.0
Business Taxes	50.0	51.0	52.0	52.0	52.0
Corporation Franchise Tax	0.0	0.0	0.0	0.0	0.0
Corporation & Utilities Tax	12.0	12.0	13.0	13.0	13.0
Insurance Tax	0.0	0.0	0.0	0.0	0.0
Bank Tax	0.0	0.0	0.0	0.0	0.0
Petroleum Business Taxes	38.0	39.0	39.0	39.0	39.0
Other Taxes	151.0	123.0	128.0	137.0	137.0
Estate and Gift Taxes	0.0	0.0	0.0	0.0	0.0
Real Property Gains Tax	150.0	123.0	128.0	137.0	137.0
Real Estate Transfer Tax	1.0	0.0	0.0	0.0	0.0
Pari-Mutuel Tax	0.0	0.0	0.0	0.0	0.0
Taxes Subtotal	\$255.0	\$232.0	\$240.0	\$250.0	\$252.0

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

	1999-00	2000-01	2001-02	2002-03	2003-04
Personal Income Tax	\$40.0	\$48.0	\$54.0	\$59.0	\$59.0
User Taxes and Fees	228.0	552.0	568.0	595.0	624.0
Sales and Use Tax	202.0	526.0	542.0	569.0	598.0
Motor Fuel Tax	0.0	0.0	0.0	0.0	0.0
Alcoholic Beverage Tax	0.0	0.0	0.0	0.0	0.0
Hotel/Motel Taxes	0.0	0.0	0.0	0.0	0.0
Container Taxes	26.0	26.0	26.0	26.0	26.0
Highway Use Tax	0.0	0.0	0.0	0.0	0.0
Business Taxes	235.0	559.0	502.0	449.0	465.0
Corporation Franchise Tax	20.0	24.0	24.0	24.0	24.0
Corporation & Utilities Tax	199.0	531.0	471.0	413.0	422.0
Insurance Tax	15.0	3.0	6.0	5.0	5.0
Bank Tax	1.0	1.0	1.0	7.0	14.0
Petroleum Business Taxes	0.0	0.0	0.0	0.0	0.0
STAR*	915.0	1,847.0	2,789.0	2,787.0	2,787.0
Other Taxes	86.0	213.0	507.0	539.0	560.0
Estate and Gift Taxes	86.0	213.0	507.0	539.0	560.0
Real Property Gains Tax	0.0	0.0	0.0	0.0	0.0
Real Estate Transfer Tax	0.0	0.0	0.0	0.0	0.0
Pari-Mutuel Tax	0.0	0.0	0.0	0.0	0.0
<b>Taxes Subtotal</b>	<b>\$1,504.0</b>	<b>\$3,219.0</b>	<b>\$4,420.0</b>	<b>\$4,429.0</b>	<b>\$4,495.0</b>

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

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

	1999-00	2000-01	2001-02	2002-03	2003-04
Personal Income Tax	\$20.0	\$50.0	\$50.0	\$50.0	\$50.0
User Taxes and Fees	129.0	211.0	212.0	221.0	231.0
Sales and Use Tax	85.0	167.0	166.0	174.0	183.0
Motor Fuel Tax	0.0	0.0	0.0	0.0	0.0
Alcoholic Beverage Tax	8.0	7.0	7.0	7.0	7.0
Hotel/Motel Taxes	0.0	0.0	0.0	0.0	0.0
Container Taxes	0.0	0.0	0.0	0.0	0.0
Highway Use Tax	36.0	37.0	39.0	40.0	41.0
Business Taxes	186.0	274.0	376.0	488.0	488.0
Corporation Franchise Tax	176.0	263.0	365.0	477.0	477.0
Corporation & Utilities Tax	0.0	0.0	0.0	0.0	0.0
Insurance Tax	0.0	0.0	0.0	0.0	0.0
Bank Tax	10.0	11.0	11.0	11.0	11.0
Petroleum Business Taxes	0.0	0.0	0.0	0.0	0.0
STAR	328.0	190.0	8.0	10.0	10.0
Other Taxes	7.0	7.0	7.0	6.0	6.0
Estate and Gift Taxes	4.0	4.0	4.0	4.0	4.0
Real Property Gains Tax	0.0	0.0	0.0	0.0	0.0
Real Estate Transfer Tax	0.0	0.0	0.0	0.0	0.0
Pari-Mutuel Tax	3.0	3.0	3.0	2.0	2.0
<b>Taxes Subtotal</b>	<b>\$670.0</b>	<b>\$732.0</b>	<b>\$653.0</b>	<b>\$775.0</b>	<b>\$785.0</b>

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

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

	1999-00	2000-01	2001-02	2002-03	2003-04
Personal Income Tax	\$0.0	\$14.0	\$78.0	\$133.0	\$133.0
User Taxes and Fees	0.0	0.0	15.0	15.0	15.0
Sales and Use Tax*	0.0	0.0	11.0	11.0	11.0
Motor Fuel Tax	0.0	0.0	0.0	0.0	0.0
Alcoholic Beverage Tax	0.0	0.0	4.0	4.0	4.0
Hotel/Motel Taxes	0.0	0.0	0.0	0.0	0.0
Container Taxes	0.0	0.0	0.0	0.0	0.0
Highway Use Tax	0.0	0.0	0.0	0.0	0.0
Business Taxes	0.0	16.0	131.0	171.0	211.0
Corporation Franchise Tax	0.0	13.0	46.0	46.0	46.0
Corporation & Utilities Tax	0.0	1.0	7.0	7.0	7.0
Insurance Tax	0.0	0.0	28.0	38.0	53.0
Bank Tax	0.0	2.0	45.0	75.0	100.0
Petroleum Business Taxes	0.0	0.0	5.0	5.0	5.0
STAR	0.0	0.0	0.0	0.0	0.0
Other Taxes	4.0	7.0	18.0	17.0	16.0
Estate and Gift Taxes	1.0	1.0	8.0	8.0	8.0
Real Property Gains Tax	0.0	0.0	0.0	0.0	0.0
Real Estate Transfer Tax	1.0	2.0	2.0	1.0	0.0
Pari-Mutuel Tax	2.0	4.0	8.0	8.0	8.0
<b>Taxes Subtotal</b>	<b>\$4.0</b>	<b>\$37.0</b>	<b>\$242.0</b>	<b>\$336.0</b>	<b>\$375.0</b>

\* The permanent sales tax clothing exemption was delayed from December 1, 1999 to March 1, 2000. This delay does not affect the permanent tax reduction, but reduces its 1999-00 impact by \$100 million.

Table 7: Impact of Total Tax Reduction Program (\$ in Millions)

	1999-00	2000-01	2001-02	2002-03	2003-04
Personal Income Tax	\$5,022.0	\$5,267.0	\$5,526.0	\$5,879.0	\$6,213.0
User Taxes and Fees	619.0	1,032.0	1,071.0	1,110.0	1,155.0
Sales and Use Tax	345.0	753.0	782.0	820.0	863.0
Motor Fuel Tax	16.0	16.0	16.0	16.0	17.0
Alcoholic Beverage Tax	24.0	24.0	28.0	27.0	27.0
Hotel/Motel Taxes	111.0	114.0	117.0	117.0	117.0
Container Taxes	52.0	52.0	52.0	52.0	52.0
Highway Use Tax	71.0	73.0	76.0	78.0	79.0
Business Taxes	1,570.0	1,983.0	2,149.0	2,263.0	2,343.0
Corporation Franchise Tax	675.0	750.0	880.0	994.0	1,007.0
Corporation & Utilities Tax	442.0	779.0	729.0	677.0	692.0
Insurance Tax	108.0	100.0	134.0	147.0	166.0
Bank Tax	108.0	116.0	160.0	199.0	232.0
Petroleum Business Taxes	237.0	238.0	246.0	246.0	246.0
STAR	1,243.0	2,037.0	2,797.0	2,797.0	2,797.0
Other Taxes	360.0	463.0	774.0	814.0	835.0
Estate and Gift Taxes	175.0	303.0	605.0	638.0	660.0
Real Property Gains Tax	168.0	142.0	147.0	156.0	156.0
Real Estate Transfer Tax	2.0	2.0	2.0	1.0	0.0
Pari-Mutuel Tax	15.0	16.0	20.0	19.0	19.0
<b>Taxes Total</b>	<b>\$8,814.0</b>	<b>\$10,782.0</b>	<b>\$12,317.0</b>	<b>\$12,863.0</b>	<b>\$13,343.0</b>

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# Highlights of Prior-Year Budget Tax Legislation

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

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## Fiscal Year 1995-96

- Enacted a three-year personal income tax reduction program totaling over \$4 billion per year when fully effective in 1997. Major provisions included reducing the top rate from 7.875 to 6.85 percent, and increasing standard deduction amounts from \$9,500 to \$13,000 for married couples, \$6,000 to \$7,500 for individuals.
- Enacted a new estate tax deduction equal to a maximum of \$250,000 equity in decedents' principal residences.
- Reduced the beer tax from 21 to 16 cents per gallon, the diesel motor fuel tax from 10 to 8 cents per gallon, and the container tax from 2 to 1 cents per container.
- Reduced certain petroleum business tax and pari-mutuel tax rates.

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## Fiscal Year 1996-97

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

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railroad companies the option of being taxed under the general corporate franchise tax.

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## Fiscal Year 1997-98

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

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## Fiscal Year 1998-99

- Accelerated the STAR program enacted with the 1997-98 budget. This included providing the higher exemption and New York City resident income tax credit amounts to elderly residents, previously scheduled to be phased in by the 2001-02 school year, and 2001 tax year, in the 1998-99 school year and 1998 tax year, respectively.
- Reduced tax rates, including the alternative minimum tax rate and the fixed dollar minimum tax, under the corporate franchise tax.
- Created an investment tax credit for brokers/dealers in the financial services sector.

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- Expanded the permanent sales tax exemption for clothing to include footwear, and raised the threshold amount from \$100 to \$110.
  - Enacted a sales tax exemption for textbooks purchased by college students.
  - Enriched the child care credit under the personal income tax.
  - Conformed to federal tax relief for family owned businesses under the estate tax.
  - Reduced the truck mileage tax by 25 percent.





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# Summary of 1999-00 Tax Provisions

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## Major Provisions:

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### Increased Earned Income Tax Credit

The legislation increases the earned income tax credit (EITC) from 20 percent of the federal credit to 22.5 percent in tax year 2000, and to 25 percent in tax years beginning after 2000. However, the rate will revert to 20 percent if the federal government reduces New York's allocation of temporary assistance for needy families (TANF) grants, or does not permit spending on the EITC to apply toward the TANF maintenance of effort requirement.

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### Bank Tax Rate Reduction

This provision phases in a reduced entire net income tax rate for banks over a three-year period. The rate will drop to:

- 8.5 percent for taxable years beginning after June 30, 2000 and before July 1, 2001
- 8.0 percent for taxable years beginning after June 30, 2001 and before July 1, 2002
- 7.5 percent on or after July 1, 2002.

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### Insurance Tax Rate Reduction

This provision phases in a reduced entire net income tax rate for insurance companies over a three-year period. The rate will drop to:

- 8.5 percent for taxable years beginning after June 30, 2000 and before July 1, 2001
- 8.0 percent for taxable years beginning after June 30, 2001 and before July 1, 2002
- 7.5 percent for taxable years beginning on or after July 1, 2002.

The provision also phases in a reduced limitation on tax liability for non-life insurers over a three-year period. The limitation will drop to:

- 2.4 percent for taxable years beginning after June 30, 2000 and before July 1, 2001
- 2.2 percent for taxable years beginning after June 30, 2001 and before July 1, 2002
- 2.0 percent for taxable years beginning on or after July 1, 2002.

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## Sales Tax Clothing Exemption

The bill provides that the permanent exemption for sales tax on clothing and footwear costing less than \$110, scheduled to take effect on December 1, 1999, is postponed until March 1, 2000. The legislation also adds additional tax-free weeks for clothing and footwear costing less than \$500. The temporary exemptions will take place from September 1, 1999 through September 7, 1999 and from January 15, 2000 through January 21, 2000. In addition, a new “opt-in, opt-out” provision has been added to allow localities the flexibility to opt-in or out of the local exemption effective March 1, of any year.

## Other Provisions:

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### Personal Income Tax

#### Enhanced Farmer School Tax Credit

The budget legislation enhances the existing farmer school tax credit, available under the personal income and corporate franchise taxes. It expands the definition of qualified agricultural property to include land set aside or retired under a federal supply management or soil conservation program. The legislation also increases “base acreage” by acreage enrolled or participating in a federal environmental conservation acreage reserve program. The provisions are effective for tax years beginning after December 31, 2000.

#### Qualified Emerging Technology Credits

Last year’s SFY 1998-99 Budget provided tax credits under the corporate franchise tax (Article 9-A) for emerging technology companies that invest in research and development in New York State. This year’s budget extends these credits to the personal income tax so that the credits will now be available to individual investors, including partners in partnerships and shareholders of subchapter S corporations.

A qualified emerging technology company (QETC) is defined as a company located within New York State whose primary products or services are classified as emerging technologies. Emerging technologies

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include, for example, computer-integrated manufacturing, robotics and automated equipment, microprocessors, optical fibers, and medical and scientific instruments. Another provision in this year's legislation expands the list of emerging technologies to include certain remanufacturing technologies (see page 17). QETCs must also have research and development activities within New York State and have a ratio of research and development funds to net sales of at least the average ratio for "all surveyed companies as determined by the National Science Foundation" in its most recent survey. The total annual product sales of the company must be \$10 million or less to qualify.

The provisions include an employment tax credit equal to \$1,000 for each individual employed full time over a base year level. The credit is allowed only in the first taxable year in which it is claimed and in each of the next two taxable years. Unused credit may be carried forward indefinitely. A taxpayer operating a new business for no more than six taxable years prior to the taxable year which it first became eligible for the credit, may elect to treat the carry forward of the credit as an overpayment and opt for a refund. If the taxpayer has been involved in U.S. Food and Drug Administration trials, a new business is defined as one that has not been subject to tax for more than eight taxable years prior to the taxable year which it first became eligible for the credit.

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

The provisions of the qualified emerging technology credits that have been extended to personal income taxpayers become effective for taxable years beginning on or after January 1, 2000.

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## Innocent Spouse Relief

The legislation furthers the purposes of Chapter 567 of the Laws of 1998 by conforming the New York State personal income tax to certain Internal Revenue Code (IRC) provisions concerning relief from joint and several liability on joint returns and innocent spouse relief. These benefits also apply to the City of New York and City of Yonkers income taxes. In addition, the legislation requires that the Tax Department notify married taxpayers of their joint and several liability when filing joint income tax returns, in publications and instructions.

Federal provisions incorporated by reference into New York State Tax Law provide relaxed rules for qualifying for “innocent spouse” relief, and they also provide for partial relief on a proportionate basis. General relief from liability is available for a joint filer if a return was filed for a taxable year and there was an understatement of tax attributable to an erroneous item of one spouse. The taxpayer must not have known, or had no reason to know, of the understatement. Moreover, taking into account all facts and circumstances, it must be inequitable to hold the taxpayer liable for the deficiency in tax. The taxpayer must also elect to limit his or her liability to his or her separate and proportional liability.

A taxpayer may elect, for up to two years after collection activities begin, to limit liability for a deficiency to his or her separate and proportional liability. Relief is limited to claimants who, at the time of election, are no longer married to the other taxpayer; are separated from the taxpayer; or have not been a member of the same household for the 12 month period prior to the election. Further “equitable relief” is available if, taking into account all facts and circumstances, it is inequitable to hold the individual liable for any unpaid tax or any deficiency (or any portion of either) and relief is not otherwise available under other provisions of the law.

The legislation also provides that if an individual is relieved of a federal income tax liability, under the appropriate section of the IRC, then a rebuttable presumption is created that the individual is entitled to equivalent relief from liability under New York’s personal income tax. These provisions are effective for tax years beginning on or after January 1, 1999.

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## Corporation Franchise Tax

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Expansion of Qualified Emerging Technologies Credit to the Remanufacturing of Certain Commodities

The legislation broadens the existing definition of qualified emerging technologies for purposes of the employment tax credit and capital investment tax credits available under the 1998 “New York State Emerging Industry Jobs Act.” The new definition includes companies that use remanufacturing processes to restore eligible commodities. Remanufacturing processes restore eligible commodities to their original performance standards, thereby removing such materials from the solid waste stream. Eligible commodities include, for example, ink jet cartridges, magnetic ink character recognition cartridges, printer cartridges, and disposable cameras. The technology processes must also retain the majority of components that have been through at least one life cycle and replace consumable portions to enable the equipment to be restored to its original function. As with the original legislation enacted in 1998, the new provisions apply to qualified emerging technology companies with total annual product sales of \$10 million or less. The companies must also meet other requirements relating to research and development. The expanded definition provisions take effect for taxable years beginning on or after January 1, 2001.

Automated External Defibrillator Tax Credit

The legislation creates a new tax credit for corporations, personal income taxpayers (including S corporation shareholders), banks and insurance companies purchasing an automated external defibrillator. Taxpayers may claim a tax credit of \$500 for each unit purchased. The legislation takes effect for taxable years beginning on or after January 1, 2001.

Alternative Minimum Tax Rate Reduction

The alternative minimum tax rate for Article 9-A corporation franchise taxpayers drops from 3 percent to 2.5 percent for taxable years beginning after June 30, 2000.

Merger and Acquisition Provisions

The budget legislation repeals provisions relating to mergers, acquisitions and consolidations, and as a result prevents the elimination of investment tax credits for these companies. The provisions take effect for taxable years beginning on or after January 1, 2000.

Subsidiary Capital Tax Exclusion for Banks and Insurance Subsidiaries

This provision amends the subsidiary capital tax under Article 9-A of the Tax Law. It allows a corporate parent to exclude from its subsidiary capital tax base capital attributable to subsidiaries taxable under Article 32 (bank) or 33 (insurance) taxes. This provision is effective for taxable years beginning after December 31, 1999.

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Subsidiary Capital Tax  
Exclusion for Gas and  
Electric Subsidiaries

This provision amends the Article 9-A subsidiary capital tax. With the required restructuring of gas and electric utilities, the corporate structure is no longer one integrated company, but instead, characterized by an Article 9-A parent company, with gas and electric subsidiaries. This provision excludes from the subsidiary capital tax base of the Article 9-A parent, the subsidiary capital of all the gas and electric subsidiaries taxable under Section 186 of the Tax Law. This provision was phased into law by allowing a 30 percent exclusion of this subsidiary capital for taxable years beginning on or after January 1, 2000, and a 100 percent exclusion for taxable years beginning on or after January 1, 2001.

Economic Development  
Zone, Zone Equivalent  
Area Wage Tax Credit  
Expansion

The budget legislation doubles the existing wage tax credit for wages paid in economic development zones (EDZs) and Zone Equivalent Areas (ZEAs). The credit increases from \$1,500 to \$3,000 for targeted employees and from \$750 to \$1,500 for other individuals. In addition, the legislation increases, from two to five years, the period in which taxpayers may claim the ZEA wage credit. The provisions take effect for taxable years beginning on or after January 1, 2001, and also apply for the personal income, bank, and insurance taxes.

Alternative Fuels Tax  
Credit Expansion

The legislation expands the availability of existing alternative fuels tax credits for electric vehicles and clean fuel vehicle property under Article 9-A. It allows the credits to apply to such vehicles sold or leased to governmental entities. The manufacturing and processing activities relating to the vehicles must create at least 25 full time jobs in New York. The provisions apply to taxable years beginning on or after January 1, 2000. The credit is capped at \$2.5 million for the total amount allowed, and sunsets on December 31, 2001.

Freight Forwarders  
Allocation Formula

The budget legislation changes the Article 9-A allocation formula used by an air freight forwarder affiliated with an airline (and filing a combined return) from the standard formula to the allocation method used by airlines. The standard business allocation formula is based on property, payroll and receipts. The airline formula is based on takeoffs and landings, revenue tons and originating revenue. These provisions take effect for tax years beginning on or after January 1, 2001.

Airline Income  
Apportionment Reduction

The budget reduces the tax on aviation corporations by reducing the measure of taxable activity within the State. Corporations principally involved with aviation determine the portion of income taxable by the State through the application of a three-factor allocation formula. The three factors are based upon arrivals and departures, revenue tons, and

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originating revenue. The business allocation percentage is calculated as the average of the ratio of each New York factor to the value of each factor everywhere. The budget changes the formula to reduce the business allocation factor by 40 percent. This change takes effect for tax years beginning on or after January 1, 2001.

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## Corporation Tax

### Amendments to the Gas Import Tax

These changes ensure that the newly deregulated generation plants importing gas for the production of electricity will not become subject to the Section 189, gas import tax. In addition, those co-generation facilities producing electricity from gas, and selling electricity to consumers, will also be exempt from the tax. These changes were necessary as a response to the deregulation of the gas and electric industry, and are effective for taxable months beginning on or after January 1, 2001.

### Excess Dividends Tax for Certain Telecommunications Companies

This provision eliminates the excess dividends base under Section 183, the franchise tax on transportation and transmission for certain telecommunications companies. It applies only to those local telecommunications companies with fewer than one million access lines, and is effective for taxable years beginning on or after January 1, 2002.

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## Insurance Tax

### State Insurance Fund

The legislation conforms the State Insurance Fund tax treatment to the regular insurance tax. This provision is effective for taxable years beginning on or after January 1, 2001.

### Certified Capital Company (CAPCO) Credit

The budget establishes a second CAPCO program under which insurance taxpayers can claim a credit for 100 percent of the amount invested in CAPCOs. This program includes a Statewide cap of \$30 million on the total amount of investments for which taxpayers may claim credits. Further, in total, insurance companies may not claim credits of more than \$3 million in any taxable year. Taxpayers may earn the credits immediately, but may claim the credits effective for tax years beginning on or after January 1, 2001.

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## Sales and Use Tax

### Farm Exemption

The legislation provides a sales tax exemption for the purchase of certain building materials incorporated into farm buildings as well as for the purchase of farm fencing. The legislation also exempts services performed with respect to those building materials and fencing. The legislation also allows motor vehicles used predominantly (more than 50 percent) in the production phase of farming to be purchased tax-exempt at the time of sale. Currently, farmers must apply for a refund or credit for sales tax paid on such vehicles. These changes take effect on March 1, 2001.

### Telecommunications Equipment

The budget provides an exemption for machinery, equipment and apparatus used to upgrade cable television systems to provide telecommunications services for sale. Some of this equipment does not currently qualify for sales tax exemption because it is not "central office" equipment. This legislation also provides an exemption for communications equipment used by telecommunications companies in the transmission of Internet access services. These changes are effective March 1, 2001.

### Computer System Hardware

This provision extends the exemption for the computer system hardware used in designing and developing computer software to include computer system hardware used in designing and developing Internet web sites for sale. This change is effective March 1, 2001.



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Theater Property and Services	The legislation exempts certain theatrical tangible personal property and related services from the State sales and use tax and local sales and use taxes outside of New York City (theatrical tangible personal property and services are currently exempt in New York City). This change takes effect on March 1, 2001.
Servicing of Manufacturing Equipment	This provision eliminates the local sales and use tax on repair and maintenance services to manufacturing equipment, thereby conforming the treatment of these services to that of the State and New York City. This change is effective on March 1, 2000.
Use Tax on Self-Manufactured Property	The budget modifies the base for calculating the use tax on self-produced items which a manufacturer uses in its business. The change provides that the use tax is to be calculated based on the manufacturer's cost of materials. Current law imposes use tax on self-produced items based on the manufacturer's normal selling price. This change takes effect on March 1, 2001.
Vending Machine Sales	The legislation extends the sales tax exemption for hot drinks and certain food items sold from vending machines to include vending machines which accept credit cards or debit cards. The effective date of this change is December 1, 1999.
Manhattan Parking	This provision extends the sales tax's special record keeping and onsite inspection requirements on Manhattan parking garages until November 30, 2004. This change is effective immediately. Originally enacted in 1992, these special requirements were enacted to improve compliance with the New York State and City of New York sales taxes on parking services.

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## Other Tax Reductions

### Petroleum Business Tax – Rate Reduction for Non- Residential Heating Gallonage

The legislation provides for a 20 percent petroleum business tax (PBT) rate reduction for both diesel motor fuel and residual oil used for non-residential heating purposes. The change is effective April 1, 2001. Based on current PBT rates, the non-automotive diesel motor fuel tax rate will decline by 1.5 cents per gallon and the residual oil tax rate will decline by 1.2 cents per gallon on gallonage used for the above purposes. The new non-residential heating tax rate will continue to be indexed annually with the other PBT rates. A reimbursement is also provided for the differential where purchasers of diesel motor fuel absorb the PBT at a higher rate than the new non-residential heating tax rate and then use such fuel for the above purposes.

### Petroleum Business Tax – Exemption for Mining Gallonage

The legislation provides a full reimbursement of the PBT paid on diesel motor fuel and residual oil used in mining and/or extracting processes. The change is effective April 1, 2001. Based on current PBT rates, this reimbursement provides a 7.6 cent per gallon tax reduction to users of non-automotive diesel motor fuel and a 6 cent per gallon tax rate reduction for users of residual oil for the above purposes.

### Beer Tax – Rate Reduction

The alcoholic beverage tax (ABT), imposed on the sale of beer by distributors, is reduced from 13.5 cents to 12.5 cents per gallon. The change is effective April 1, 2001.

### Beer Tax – Small Brewers Exemption

The legislation expands the small brewer's exemption from the ABT imposed on beer. The exemption is increased from the first 100,000 barrels brewed and sold in the State (in a calendar year), by a brewer whose principal executive office is located in the State, to the first 200,000 barrels. The change is effective March 1, 2001. (Note: For purposes of the ABT, there are 31 gallons in a barrel of beer.)

### Additional Holocaust Tax Exemption

The legislation exempts from State and local taxation qualified settlement funds or qualified grantor trusts which are established for the benefit of victims or targets of Nazi persecution in settlement of claims relating to the Holocaust, World War II, transactions with or actions by the Nazi regime, or treatment of refugees fleeing Nazi persecution, by or in the Swiss Confederation. Amounts received by victims or targets of Nazi persecution from a qualified settlement fund or a qualified grantor trust

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	<p>established for the benefit of such victims or targets are also exempt from State and local taxation. These provisions are effective immediately.</p>
Estate and Gift Tax Federal Conformity	<p>The budget legislation updates the conformity of the estate and gift tax to the Internal Revenue Code, from August 5, 1997 to July 22, 1998. The most notable federal provision to which the conformity applies is the family owned business deduction, which was enhanced by 1998 federal legislation. The federal conformity legislation generally applies to estates of decedents dying after 1997.</p> <p>The conformity legislation also helps ensure that when the State's pickup tax takes effect on February 1, 2000, it will not apply to estates which are not subject to federal tax.</p>
REITs Extension	<p>The budget legislation extends for three years the lower New York State real estate transfer tax and New York City real property transfer tax rates for qualifying transfers to existing real estate investment trusts (REITs). Tax rates are reduced by 50 percent for qualifying transfers to existing REITs. These provisions were previously scheduled to expire on September 1, 1999 and are now extended through September 1, 2002.</p>
Pari-Mutuel Taxes	<p>The budget legislation reduces tax on "on-track" wagering at New York Racing Association (NYRA) racetracks from an effective rate of 3.7 percent to 2.6 percent on September 10, 1999 and then to 1.6 percent on April 1, 2001. The rate reductions expire on December 31, 2007. The provisions also direct more money to NYRA purses and the New York State Thoroughbred Breeding and Development Fund.</p>
Boxing and Wrestling Tax	<p>This provision changes the imposition of the tax from 5.5 percent on gross receipts to 3 percent on boxing and wrestling ticket sales and 3 percent on broadcasting rights. Each of the taxes is capped at \$50,000 per match or exhibition resulting in a combined maximum imposition of \$100,000. The effective date of this change is October 1, 1999.</p>
Taxpayers' Bill of Rights	<p>The budget legislation extends the application of the Taxpayers' Bill of Rights to private businesses which the Tax Department contracts to provide collection services. It also contains an unconsolidated provision which provides that the Tax Department cannot reduce permanent tax compliance staffing levels when it contracts with private collection services. Finally, the Tax Department is required to prepare an annual report to the Legislature on its use of private collection services, with the</p>

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first report due prior to March 1, 2000. These provisions take effect immediately.

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# Appendix A: Summary of FY 1999-00 Tax Provisions

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Summary of Tax Provisions in SFY 1999-00 Budget — Chapter 407 of the Laws of 1999

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Section(s)	Page(s)	Subject	Description	Effective Date
Part A sections 1-28	4-11	Estate Tax Conformity	Conforms estate and gift tax to IRC through 7/22/98. The change generally takes effect for estates of decedents dying after 1997, though certain estates may elect to compute tax under prior law.	1/1/98
Part B sections 1-2	12	Manhattan Parking	Extends the sales tax's special record keeping and onsite inspections on parking garages in borough of Manhattan until 11/30/04.	Immediately
Part C sections 1-5	12-13	Sales Tax Exemption for Theatrical Productions	Exempts certain theatrical tangible personal property and related services from the State sales and use tax, and local sales and use taxes outside of NYC. (Theatrical tangible personal property and services are currently exempt in NYC.)	3/1/01
Part D sections 1-5	13-17	Sales Tax on Tools and Parts (Local Tax Only)	Eliminates the non-NYC local sales and use tax on repair and maintenance services to manufacturing equipment, thereby conforming the treatment of these services to that of the State and NYC.	3/1/00
Part E sections 1-2	17	Manufacturer's Self-use	Reduces the use tax on self-manufactured items which the manufacturer uses in its business to the cost of materials.	3/1/01
Part F sections 1-4	17-18	Boxing/Wrestling Tax Cap	Changes the imposition of the tax from 5.5% on gross receipts to 3% on boxing and wrestling ticket sales and 3% on broadcasting rights. Caps the taxes on ticket sales and broadcasting rights at \$50,000 each per match or exhibition resulting in a combined maximum imposition of \$100,000.	10/1/99
Part G sections 1-4	18-19	REITs Extension	Extends lower NYS and NYC transfer tax rates for qualifying transfers to existing REITs from 9/1/99 through 9/1/02.	Immediately
Part H sections 1-7	19-26	PBT – Non-residential Heating Fuels/Mining	Provides for a 20% rate reduction for diesel and residual oils used for non-residential heating purposes. Provides for full reimbursement of PBT paid on the above fuels used in mining or extracting processes.	4/1/01
Part I sections 1-2	27-31	QETC	Extends the current Qualified Emerging Technology Company employment and capital credits to the personal income tax.	TYBOA 1/1/00

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Summary of Tax Provisions in SFY 1999-00 Budget — Chapter 407 of the Laws of 1999

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Section(s)	Page(s)	Subject	Description	Effective Date
Part I sections 3-4	31-32	Re-manufacturing QETC	Extends the Qualified Emerging Technology Company employment and capital credits to certain remanufacturers of commodities that would otherwise enter the solid waste stream. Examples of eligible commodities include ink cartridges for computer printers and disposable cameras.	TYBOA 1/1/01
Part J sections 1-6	33-35	Defibrillator Credit	Grants a new credit of \$500 per automated external defibrillator for defibrillators purchased by corporations, banks, insurance companies, and personal income taxpayers (including Subchapter S shareholders).	TYBOA 1/1/01
Part K sections 1-2	35-36	Holocaust Exemption	Exempts from all taxes qualified settlement funds or grantor trusts established for the benefit of victims or targets of Nazi persecution. Also exempts amounts received by these victims from such funds or trusts.	Immediately
Part L sections 1-2	36-37	AMT Reduction	Reduces the AMT from 3% to 2.5%.	TYBA 6/30/00
Part M sections 1-20	37-41	Mergers and Acquisitions	Repeals the provisions relating to mergers, acquisitions and consolidations.	TYBA 1/1/00
Part N sections 1-3	41-42	PIT – Farmers Credit Expansion	Expands the definition of qualified agricultural property to include land set aside or retired under a Federal supply management or soil conservation program. Also increases "base acreage" by acreage participating in a federal environmental conservation acreage reserve program.	TYBA 12/31/00
Part O sections 1-7	42-45	Bank/Insurance Rate Cut ENI rate: 6/30/00 – 8.5% 6/30/01 – 8% 6/30/02 – 7.5%  Cap rate: 6/30/00 – 2.4% 6/30/01 – 2.2% 6/30/02 – 2.0%  SIF Alternative Base	Phases in an ENI rate reduction for banks and insurance companies.  Phases in a cap reduction for non-life insurance companies.  Conforms the tax treatment of the State Insurance Fund to that of the regular insurance tax.	TYBA 6/30/00          TYBOA 1/1/01

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Summary of Tax Provisions in SFY 1999-00 Budget — Chapter 407 of the Laws of 1999

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Section(s)	Page(s)	Subject	Description	Effective Date
Part P sections 1-2	45-46	Subsidiary Capital – Financial Services	Provides for a reduction in the amount of taxable subcapital to a (9-A) parent equal to the value of the investment in bank or insurance corporation subsidiaries.	TYBA 12/31/99
Part P sections 1-2	45-46	Subsidiary Capital – Power Utilities	Excludes the subsidiary capital attributable to gas and electric utility subsidiaries from the computation of subsidiary capital of the Article 9-A holding company.	TYBOA 1/1/00
Part Q sections 1-18	46-51	Innocent Spouse	Restores joint and several liability for married taxpayers filing jointly. Incorporates by reference Federal provisions that allow a taxpayer who is divorced or separated to elect separate and proportional liability for up to 2 years after collection activity begins.	TYBOA 1/1/99
Part R sections 1-2	51-53	Alternative Fuels	Expands the alternative fuel tax credits to electric and clean fuel vehicles sold or leased to governmental entities, provided the companies manufacture the vehicles in New York and create at least 25 full time jobs.	TYBOA 1/1/00
Part S sections 1-3	53-63	CAPCOs	Expands the CAPCO program to provide an additional \$30 million to be invested in certified capital companies.	TYBOA 1/1/01
Part T sections 1-3	63-65	Freight Forwarders	Permits air freight forwarders to file combined returns with their affiliated airlines and to allocate their income by the specialized airline industry factors. (See "Airline Apportionment" for new allocation formula.)	TYBOA 1/1/01
Part U sections 1-3	65-66	Study – Local Taxes on Telecommunications	By 12/1/00, T&F and ORPS shall prepare a report on local taxes and fees levied on telecommunications and cable television companies.	Immediately
Part V sections 1-2	66	Telecommunications – Excess Dividends	Eliminates the excess dividends tax (Section 183) for telecommunications companies principally engaged in local telephone with fewer than one million access lines.	TYBOA 1/1/02

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Summary of Tax Provisions in SFY 1999-00 Budget — Chapter 407 of the Laws of 1999

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Section(s)	Page(s)	Subject	Description	Effective Date
Part W sections 1-3	67	Gas Import Tax	Ensures that the newly de-regulated or sold generation plants will be exempt from Section 189, the gas import tax. In addition, those co-generators no longer selling electricity to a public utility, will become exempt from the tax on the gas used to generate the electricity.	TMBOA 1/1/01
Part X sections 1-3	67-68	Small Brewers Exemption	Increases the NYS brewer's exemption from the beer excise tax from first 100,000 barrels brewed and sold in State in a calendar year to the first 200,000 barrels.	3/1/01
Part Y sections 1-7	68-72	Sales Tax Exemption for Farmers	Provides a sales tax exemption for the purchase of certain building materials incorporated into farm buildings as well as for the purchase of farm fencing. Exempts services associated with those building materials and farm fencing. Allows motor vehicles used predominantly in the production phase of farming to be purchased tax-exempt at the time of sale.	3/1/01
Part Z sections 1-3	72-73	Racing (Purse Enhancements)	Reduces tax on "on-track" wagering at NYRA racetracks from an effective rate of 3.7% to 2.6% on 9/10/99 and then to 1.6% on 4/1/01. The rate reductions expire on 12/31/07. The provisions direct more money to NYRA purses and the New York State Thoroughbred Breeding and Development Fund.	9/10/99 and 4/1/01
Part AA sections 1-2	73	Beer Excise Tax Rate Cut	Reduces beer excise tax from 13.5 cents to 12.5 cents per gallon.	4/1/01
Part BB sections 1-9	74-77	EDZ/ZEA Wage Credits	Doubles the existing Economic Development Zone (EDZ) and Zone Equivalent Area (ZEA) wage tax credits. The credits increase from \$1,500 to \$3,000 for targeted employees and from \$750 to \$1,500 for other employees. Extends ZEA credit claim period from 2 to 5 years.	TYBOA 1/1/01
Part CC sections 1-11	77-80	Provider Assessments	Delays acceleration of phase-out of provider assessment from 3/31/99 to 12/31/99 (the assessment is not a tax – falls under Miscellaneous Receipts).	Immediately

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Summary of Tax Provisions in SFY 1999-00 Budget — Chapter 407 of the Laws of 1999

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Section(s)	Page(s)	Subject	Description	Effective Date
Part DD sections 1-2	80-81	Sales Tax – Vending Machines–Credit Card	Extends the sales tax exemption for hot drinks and certain food items sold from vending machines to include vending machines which accept credit cards or debit cards.	12/1/99
Part EE sections 1-7	81-90	Earned Income Tax Credit Expansion	Increases the EITC from 20% of the federal credit to 22.5% in 2000, and to 25% after tax year 2000. The credit rate will revert to 20% if the federal government does not allow the additional EITC to apply towards State maintenance of effort under TANF.	TYBOA 1/1/00
Part FF sections 1-3	90	Sales Tax Exemption for Telecommunications	Provides an exemption for machinery, equipment and apparatus used to upgrade cable television systems to provide telecommunications services for sale. Also exempts machinery and equipment purchased by telecommunications companies for transmission of Internet access services.	3/1/01
Part GG sections 1-2	90-91	Airline Apportionment	Reduces the percentage of income apportioned to New York by 40% by changing the allocation formula to multiply the New York factor in the numerator of each component in the formula by 6/10.	TYBOA 1/1/01
Part HH sections 1-2	91	Sales Tax Exemption for Hardware used in Web Site Development	Exempts computer system hardware used in designing and developing Internet web sites for sale.	3/1/01
Part II sections 1-4	91-92	Private Collection Agencies	Extends Bill of Rights provisions to private collection agencies contracted by the Department, prohibits the Department from reducing staff due to its use of these services, and requires an annual report to the Legislature on the use of private collection services.	Immediately
Part JJ sections 1-14	91-108	Insurance Law	Makes miscellaneous amendments to the Insurance Law.	Various

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Summary of Tax Provisions in SFY 1999-00 Budget — Chapter 407 of the Laws of 1999

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Section(s)	Page(s)	Subject	Description	Effective Date
Part KK sections 1-9	108-116	Sales Tax On Clothing	Provides that the permanent exemption for sales tax on clothing and footwear costing less than \$110, scheduled to take effect on December 1, 1999, is postponed until March 1, 2000. Adds additional tax-free weeks for clothing and footwear costing less than \$500. The temporary exemptions will take place from September 1, 1999 through September 7, 1999 and from January 15, 2000 through January 21, 2000. In addition, a new opt-in, opt-out provision has been added to allow localities the flexibility to opt-in or out of the local exemption effective March 1, of any year.	Various
Part LL sections 1-14	116-133	Nassau County Real Estate Transfer Tax	Authorizes Nassau County to impose a real estate transfer tax and extends its authority to impose an additional sales and use tax rate.	Various

TYBA – Taxable years beginning after.

TYBOA – Taxable years beginning on or after.

TMBOA – Taxable months beginning on or after.

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# Appendix B: Summary of FY 1995-96, 1996-97, 1997-98 and 1998-99 Tax Actions

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## Fiscal Year 1995-96 Tax Actions

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

## Personal Income Tax

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

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

## Further Tax Reductions

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

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

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

Extenders

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

Other Significant Provisions

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

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

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Fiscal Year 1996-97  
Tax Actions

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

Real Property Gains Tax

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

Personal Income Tax

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

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

Sales and Use Tax  
Reductions

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

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

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Petroleum Business Tax Relief

- Expanding the exemption for commercial vessels and aircraft.

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

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

Further Tax Reductions

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

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

Other Significant Provisions

- Establishing a tax amnesty program for the personal income tax, the Article 9-A corporate franchise tax, certain taxes imposed under Article 9, and the sales and use tax during the period November 1, 1996 to January 31, 1997;
- Extending the time period to claim a fuel use tax or carrier tax refund for fuel purchased within the State but consumed outside the State, and

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to claim a refund for erroneous payments under the highway use tax from two to four years;

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

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## Fiscal Year 1997-98 Tax Actions

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

### STAR

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

As part of the property tax relief program, the budget also provided residents of New York City with reductions in the resident City personal



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income tax. Similar to the property tax relief program, the State will reimburse New York City for its reduced personal income tax revenues.

#### Estate & Gift Tax

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

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

#### Personal Income Tax

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

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

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

## Sales Tax

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

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

## Corporate Tax Provisions

The budget contained many provisions to provide relief under taxes imposed on corporations. These included:

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- Creating a new tax credit, through the Power for Jobs Program, against the tax on furnishing of utility services imposed under the corporation and utility tax.
  - Reducing corporation and utility tax rates for electricity, gas and telephone services.
  - Extending the investment tax credit carryforward period from 10 to 15 years under the corporation franchise tax.
  - Allowing credits for electric vehicles, clean fuel vehicles using natural gas, methanol and other alternative fuels, and clean fuel refueling facility property.
  - Creating a new tax credit for employers who employ individuals with disabilities.
  - Reducing the premiums tax rate and limitation on tax liability for life insurers subject to the corporation franchise tax on insurance companies.
  - Allowing insurers subject to the corporation franchise tax on insurance companies to claim a credit for investments in certified capital companies.
  - Allowing the formation of captive insurance companies and providing these insurers with preferential tax treatment under the corporation franchise tax on insurance companies.
  - Providing a prospective net operating loss deduction for banking corporations for losses incurred on or after January 1, 2001.
  - Conforming the treatment of New York S corporations to the treatment of federal Subchapter S corporations and allowing certain banks to elect New York S corporation status.
  - Extending, for four years through 2000, certain provisions of the bank tax that apply to commercial banks.
  - Extending, for four years through 2000, the 17 percent Metropolitan Transportation Business Tax Surcharge for taxpayers conducting business in the Metropolitan Commuter Transportation District.

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Other Significant Provisions

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

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Fiscal Year 1998-99 Tax Actions

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

STAR

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

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

Corporation Franchise Tax

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

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

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

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

## Sales Tax Changes

The budget also included several sales and use tax changes:

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

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

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

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

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Personal Income Tax

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

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

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Other Provisions

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