The Growing Budget Burden of New York's Business Tax Expenditures

A Fiscal Policy Institute Report
www.fiscalpolicy.org

December 7, 2010

Introduction

The term "tax expenditure" was coined by Stanley Surrey, a tax law expert who taught at Harvard Law School for many years. In the 1960s, as Assistant Secretary of the US Treasury for Tax Policy, Surrey and his staff compiled a list of preferences in the tax code that had the nature of expenditure programs.

In the landmark book on the subject co-authored by Surrey and Paul McDaniel in the 1980s, tax expenditures were defined as the special preferences in a tax that "are departures from the normal tax structure and are designed to favor a particular industry, activity, or class or persons." According to Surrey and McDaniel, tax expenditures "take many forms, such as permanent exclusions from income, deductions, deferrals of tax liabilities, credits against tax, or special rates. Whatever their form, these departures from the normative tax structure represent government spending for favored activities or groups, effected through the tax system rather than through direct grants, loans, or other forms of government assistance."[1] In other words, tax expenditures are "back door" spending.

In early 2010,[2] New York State published its twentieth annual *New York State Tax Expenditure Report*. The provisions of the Executive Law which established the requirement for annual tax expenditure reporting in New York State define tax expenditures as "features of the Tax Law that by exemption, exclusion, deduction, allowance, credit, preferential tax rate, deferral, or other statutory device, reduce the amount of taxpayers' liabilities to the State by providing either economic incentives or tax relief to particular classes of persons or entities, to achieve a public purpose."

State law also establishes various tax expenditures in local taxes, primarily but not exclusively in the real property tax. These local tax expenditures are not covered by New York State's annual tax expenditure report.

In New York State's annual tax expenditures report, the business-related tax expenditures are not separately broken out in the report. This FPI report for the first time provides an overall estimate of the cost of New York State's business tax expenditures. It also attempts to estimate the cost of local government tax expenditures that are required or authorized by state law.

At the present time, with New York State facing severe short- and long-term budget challenges, it's clear that all budget options need to be carefully considered. However, the phrase "everything on the table" is usually taken to mean including in budget discussions the possibility of both tax increases and budget cuts. But, a third set of budget-closing options is rarely discussed: the approximately $5 billion that goes each year to New York State business tax expenditures.

[1] Surrey, Stanley S., and Paul R. McDaniel, Tax Expenditures. (Cambridge, MA: Harvard University Press) 1985, page 3.
[2] http://publications.budget.state.ny.us/eBudget1011/fy1011ter/TaxExpenditure10-11.pdf.

New York State business tax expenditures include a wide array of special tax breaks, credits, exemptions and other provisions given to individual corporations or to a class of businesses or business owners to reduce business tax liability to New York State in the name of economic development. These tax breaks permit reductions against state tax liability on six taxes: the Corporate Franchise (Article 9A), Corporation (Article 9), Bank, Insurance, Sales, and Personal Income Taxes. These tax breaks include Brownfields Tax Credits, Empire Zones Tax credits, Film Production Credits, Investment Tax Credits, Retail Enterprise Tax Credits, and many others.

Business tax expenditures are "off budget" but, nonetheless, they are a form of spending and they cost New York State money. The term, after all, is tax "expenditures." The State could choose to directly fund the activities for which businesses claim tax benefits, and if the State did that, these expenditures would be much more transparent and accountable rather than be, in effect, "hidden spending." Alternatively, collecting the foregone taxes represented by business tax expenditures would increase revenues to the state treasury. Not collecting them increases the size of the hole that must be filled by other taxpayers or by cuts in services. In a year when every "front door" spending item in the state budget is under scrutiny, business tax subsidies paid through the "back door" warrant an equally close review.

Increased cost since 2000

The overall state budget cost of business subsidy "back door" spending has grown tremendously since 2000, increasing from $4.044 billion in 2000 to a projected $5.363 billion in 2010. Figure 1 shows the business tax expenditure costs for 2000 and the projected amounts for 2010. Appendix I includes details for each of the 39 business tax expenditure programs covered by this analysis and the affected New York taxes.

Figure 1. New York State Business Tax Expenditures by selected major category
(in millions of dollars)

Category	2000	2006	Forecast 2010
NYS			
Corporation Franchise (Article 9A) Tax	$2,817.3	$3,041.1	$3,027.0
Bank Tax	$202.6	$269.7	$244.0
Insurance Tax	$62.5	$318.1	$332.0
Corporation (Article 9) Tax	$87.5	$29.8	$20.0
	2000	**2007**	**Forecast 2010**
Personal Income Tax	$38.8	$328.2	$734.6
Sales and Use Tax	$835.0	$961.0	$1,005.0
Total, NYS Business Tax Expenditures	**$4,043.7**	**$4,947.9**	**$5,362.6**

Source: New York State Division of the Budget and Department of Taxation and Finance, Annual Report on New York State Tax Expenditure, 2010.

Much of the growth in the cost of business tax expenditures over the past decade—in fact, $1.1 billion of that growth—has been driven by just two programs, the Empire Zones program and the Brownfields Redevelopment program. Tax breaks under the Empire Zones program soared from $40 million in 2000 to $554 million in 2010. The Brownfields redevelopment program was only enacted in 2005, but already the annual cost of that program is projected to total $624 million in 2010.

It should be noted these estimates of business tax expenditures do not include cash grants given to businesses by economic development agencies.[3] Nor does this compilation of tax expenditures reflect business-requested changes in state tax law, ostensibly to promote economic development and jobs in New York. In 2005, e.g., New York adopted the Single Sales Factor method for the apportionment of multi-state corporate income.[4] The fully implemented annual cost to the state of the conversion to Single Sales Factor was estimated in 2005 at $130 million.

Local governments across New York State and local Industrial Development Agencies (IDAs) also provide considerable business tax breaks in the name of economic development. Figure 2 lists, in addition to the projected New York State business tax expenditures for 2010, the total value of local property, local and state sales and local mortgage recording taxes (less payments in lieu of taxes) awarded by local IDAs in 2008 ($645 million, $278 million net of PILOT payments received and state sales tax and NYC IDA tax expenditures), the estimated $206 million value of non-IDA local business property tax exemptions outside of New York City, and the estimated annual value of New York City business tax expenditures ($2.350 billion).[5]

Altogether, New York State and its local governments and local IDAs provide approximately $8.2 billion annually in various business tax expenditures.

[3] For example, New York State agreed to a $1.2 billion subsidy package for Advanced Micro Devices (AMD) in 2006 to build a multi-billion dollar semiconductor fabrication plant in Luther Forest located Malta, north of Albany. The original subsidy package included a capital grant of $500 million. In late 2008, AMD transferred the project to an entity now known as GlobalFoundries which is a joint venture between AMD and an entity called Advanced Technology Investment Company, a government-sponsored investment arm of Abu Dhabi.

[4] This was done despite the conclusion of state tax experts such as Michael Mazerov of the Center on Budget and Policy Priorities that: "states adopting a single sales factor apportionment formula are likely to find it a relatively ineffectual incentive for job creation and investment." Michael Mazerov, *The "Single Sales Factor" Formula for State Corporate Taxes: A Boon to Economic Development or a Costly Giveaway?* Center for Budget and Policy Priorities, 2001, revised September 2005.

[5] See the Appendix for details on the estimate of NYC business tax expenditures; this includes, in addition to tax breaks provided by the NYC IDA, property tax reductions provided under the Industrial and Commercial Incentive Program and its predecessor and successor programs, local property tax breaks extended by state entities such as the Urban Development Corporation and the Battery Park City Authority, and various tax expenditures under New York City's business income taxes.

Figure 2. Annual New York State and Local Business Tax Expenditures by selected major category

(in millions of dollars)

Category	Amounts
NYS Business Tax Expenditures	**$5,362.6**
Corporation Franchise (Article 9A) Tax (2010)	$3,027.0
Bank Tax (2010)	$244.0
Insurance Tax (2010)	$332.0
Corporation (Article 9) Tax (2010)	$20.0
Personal Income Tax (2010)	$734.6
Sales and Use Tax (2010)	$1,005.0
Local Industrial Development Agencies net local tax expenditures (except for NYS sales tax and NYC IDA tax breaks,* 2008)	**$277.6**
Local (except for NYC) commercial property tax exemptions other than local IDAs (2009)	**$206.2**
NYC Business Tax Expenditures (2010 and earlier years)	**$2,349.6**
Total, NYS and Local Business Tax Expenditures	**$8,196.0**

* This amount is net of Payments In Lieu Of Taxes (PILOTs) paid by recipients of IDA subsidies. Note that the Local IDA figure does not include $105.0 million in NYS sales tax breaks awarded by IDAs in 2008; the NYS Sales and Use Tax line above includes tax reductions awarded by local IDAs. The Local IDA figure also does not include business tax expenditures made by the NYC IDA; this amount ($262.4 million) is counted in NYC Business Expenditures below. If these two amounts were not allocated elsewhere, the Local IDA figure would be $645.0 million.

Sources: New York State Division of the Budget and Department of Taxation and Finance. Annual Report on New York State Tax Expenditure. 2010; NYS Comptroller, Annual Performance on New York State's Industrial Development Agencies, FY ending 2008, May 2010; Group F Property Tax Exemptions outside of New York City, Office of Real Property Tax Services; New York City Finance Department, Annual Report on Tax Expenditures, FY 2010, February 2010; other estimates for NYC by the Fiscal Policy Institute.

Escalating costs without accountability

Some business tax expenditures may be worth their cost. Some may be programs that were narrowly targeted but have been broadened so far that they no longer serve their originally intended purpose. Some may have been ill-conceived ideas that never worked very well. Some create an uneven playing field among competing businesses, or create a "line" of businesses that expect a tax break even though they were not considering leaving the state because the tax breaks were given to a competitor that did. The state compiles estimates of the cost of business tax breaks on an individual program basis but there is no regular evaluation of what the state's taxpayers as a whole receive in exchange for the growing volume of such tax breaks.

Some observers may feel that New York needs to provide generous business tax breaks, arguing that New York's overall tax burden is onerous and a leading cause of weak job growth in the Empire State. Caution is necessary in evaluating frequently voiced concerns about New York's high tax burden. Too often, any tax is simplistically equated with a "cost" to business, and more over, a "cost" that is not associated with anything essential to the production of goods and services and the conduct of business.

This is not to say that costs are not important, but to stress that New York needs to provide very good value for businesses, in terms of a quality workforce and in terms of the public infrastructure and services needed to sustain high value production. Too often, commentators invoke a mantra that "taxes are too high" and a hindrance to "competitiveness" without regard to the investments in infrastructure, human capital, or public services that taxes help make possible.[6]

Also, analyses that emphasize business cost or business climate measures often ignore the value side of the equation, failing to look at the value of production that a given set of costs make possible. For example, one measure often cited by the Business Council of New York is the Milken Institute Cost-of-Doing Business Index. In the 2007 Milken index, New York ranks second highest overall in the cost of doing business. However, this ranking is largely based on New York's high average wages (second highest in the country after Connecticut) and high office rents (highest among all states). But what does this tell us? New York's wages and salaries are high because the skills of the workforce and the productivity of our workers are both very high. Office rents are high because there are considerable economies from the dense concentration of activity in New York City. To be meaningful, costs should be related to the value of the production that the high costs make possible.

It is important to point out that, using U.S. Commerce Department data for 2007, New York has the highest value added per worker among the large states with diversified economies and, depending on how measured, the average New York worker is 15 to 37 percent more productive than the national average. In 14 of 18 major sectors, New York ranks first or second among the ten largest states in value added per worker.[7]

Sometimes analysts too readily rely on crude indicators of the total New York state and local tax burden or of various "business climate" rankings rather than looking at how typical businesses are affected by state and local taxes. For example, in its report prepared at the beginning of 2007 for the Spitzer Administration's economic

[6] Robert G. Lynch, "Rethinking Growth Strategies: How State and Local Taxes and Services Affect Economic Development," Economic Policy Institute, 2004.
[7] U.S. Department of Commerce, Bureau of Economic Analysis, Gross Domestic Product by State, 2007. Analysis by the Fiscal Policy Institute. See Figure 5.9, *The State of Working New York 2009*.

development team, management consulting firm A.T. Kearney cites New York's state and local tax burden as the first item under "exorbitant cost of doing business."[8]

In a recent study for the Citizens Budget Commission, economist Don Boyd found that while businesses operating in New York City had higher effective federal-state-local tax rates than like businesses in six other neighboring and "competing" states, businesses operating upstate had lower effective federal-state-local tax burdens compared to the six other states considered (California, Connecticut, Florida, Massachusetts, New Jersey, and Texas).[9]

It should be noted that corporate income taxes relative to the size of New York's economy have declined over the past 25 years. In 1984, business income taxes under Article 9 and 9A, the bank and the insurance tax, have fallen from 0.83 percent of New York GDP to 0.53 percent of GDP for the past five years (2005-2009). See Figure 3. The average amount of corporate income taxes collected over this five-year period was $5.4 billion, roughly the amount of total state business tax expenditures in 2010.

[8] The A.T. Kearney report also cites the "Economic Freedom Index," prepared by the Pacific Research Institute. In his study *Grading Places: What Do the Business Climate Rankings Really Tell Us?* economist Peter Fisher concludes: "The Economic Freedom Index is a sometimes bizarre collection of policies and laws libertarians love, or love to hate, but few have any plausible connection to a state's economic potential." Peter Fisher, *Grading Places*, Economic Policy Institute, 2005.

[9] Donald J. Boyd, "A Simulation of Business Taxes in New York City and Other Locations," Final Technical Report, Prepared for the Citizens Budget Commission, June 2, 2007. Boyd's study factored in state and local corporate income taxes, sales taxes on business purchases, property taxes, unemployment insurance taxes, and the federal corporate income tax. He also considered the deductibility of state and local taxes against the federal corporate income tax. He simulated comparative effective tax burdens and rates of return for 11 industries.

Figure 3. New York Corporate Income Taxes relative to Gross Domestic Product

The stated aim of these special enticements generally is to create jobs for New Yorkers. Yet, there is typically little credible analysis of whether the cost to the state is worth the number of jobs created, few if any guarantees about job quality, minimal analysis of whether alternative uses of funds would generate more or better jobs, and no guarantee that the jobs promised actually will materialize. Indeed, so little accountability is there that in many cases there is not even a public report about whether promised performance targets have been met.

In all likelihood, streamlining of New York's business tax expenditures will have a bigger impact on long-term savings than on short-term gap-filling. If the recent revamping of the Empire Zones is any indication, even programs deemed to be ineffectual are likely to be shut down slowly, with businesses that have already been promised benefits continuing to receive them for some time. While the Legislature and the Governor decided to end the Empire Zones program in 2010, tax expenditures related to the program will continue for another nine years since companies that entered the program before the state stopped accepting new entrants will receive tax breaks for the full 10 years. One indication of the continuing cost of the Zones program is that in tax year 2006, Zone-certified companies had $964 million in Article 9A carryforward tax credits under the program. Changes made today can help bring the state's long-term revenues in line with long-term expenses, an important priority in establishing fiscal stability.

Dealing with the mounting cost of business tax credits: A mixed record in 2010

As part of their actions in 2010 to close the projected 2010-2011 state budget gap, the Legislature and Governor Paterson acted to temporarily limit the amount of business tax credits. A $2 million cap on business-related tax breaks per taxpayer was put in place for 2010, 2011 and 2012, with the unused credits deferred until 2012-2015. For the 2010-2011 fiscal year, the value of this tax credit cap is $100 million, but it rises to $970 million for the next two fiscal years. While this action provided much-needed temporary budget relief, since it only deferred the tax breaks, they will increase the budget gaps for the three fiscal years beginning after 2012. The enactment of the business tax credit cap did not effectively reign in the spiraling costs of business tax breaks.

The State also acted in 2010 to substantially add to the growing business tax expenditure burden when it increased the allocation for film tax credits by $420 million per year for tax years 2010 through 2015. That is a five-year total of $2.1 billion, enacted at a time when the state has repeatedly cut spending on human services, K-12 and higher education and infrastructure investments and faces multi-billion budget gaps worsened by the very slow recovery of tax collections following the Great Recession and the winding down of federal fiscal relief provided under the American Recovery and Reinvestment Act.

Business tax expenditures in the context of New York's regressive overall tax structure

New York's personal income tax is mildly progressive. Yet, the highly regressive effects of the sales tax and local property taxes mean that New York's overall combined state and local tax burden is regressive. Thus, low- and middle-income families pay a higher share of their incomes in state and local taxes than what wealthier families pay. Even with the temporary (2009-2011) high-end income tax rates, the wealthiest one percent of New York's taxpayers paid 8.4 percent of their income in state and local taxes while the middle income quintile or one-fifth of taxpayers paid 11.6 percent in state and local taxes and the poorest one-fifth paid 9.6 percent. See Appendix II.

To address this regressivity and to deal with the widespread and growing concerns about burdensome local property taxes, New York State needs to revamp the fiscal relations between the state and local governments. Several steps are needed.

New York should significantly enhance the property tax circuit breaker administered through the personal income tax to provide meaningful property tax relief to those households, including renters, truly burdened by a high level of property taxation relative to their incomes. The state should aid communities with low property wealth and proportionately high Medicaid usage by increasing the state share of Medicaid costs. This will lessen pressure on the property tax in those communities that have a limited property tax base. The STAR program very inefficiently and ineffectively provides real property tax relief and the resources currently devoted to that program should be redirected to help fund the expanded circuit breaker and Medicaid relief to poorer communities.

New York State should make its personal income tax structure more progressive through higher rates at the top—before the enactment of the 2009-2011 temporary income tax surcharge, New York families with $50,000 in income paid the same marginal tax rate as families with $500,000 or $50 million in income. Finally, the state should seek to close corporate tax loopholes and curb the excessive growth in the cost of business tax expenditures.

Conclusion

A business tax expenditure is budget spending, plain and simple, just like spending on school aid, state police, or "I Love New York" ads. The time has come for the governor and the legislature to carefully go through each state business tax expenditure program with a fine-tooth comb and determine whether the promised benefit is real, and if so whether in this tough budget climate the expense entailed is well justified. Deferring the amount of tax credits that can be claimed this year and the next two years provides short-term budget relief, but it does not come to grips with a $5 billion budget area that lacks transparency, accountability, and rigorous assessment of the effectiveness of that spending.

The Fiscal Policy Institute (www.fiscalpolicy.org) is an independent, nonpartisan, nonprofit research and education organization committed to improving public policies and private practices to better the economic and social conditions of all New Yorkers.

Appendix I

NYS Business Tax Expenditures--Corporation Franchise (Article 9A) Tax
(in millions of dollars)

Tax Item	Year implemented	2000	2006	Forecast 2010
New York Modifications to Federal Taxable Income				
Exclusion of Interest, Dividends, and Capital Gains from Subsidiary Capital	1994	$2,585.7	$2,503.3	$2,366.0
Deduction of Fifty Percent of Dividends from Non-subsidiary Corporations	1994	$53.6	$57.3	$37.0
Credits				
Investment Tax Credit, Retail Enterprise Tax Credit, and Employment Incentive Credit	1969, 1976, 1981, 1987	$110.8	$113.5	$75.0
Investment Tax Credit for the Financial Services Industry	1998	$30.8	$17.1	$17.0
Empire Zone and Zone Equivalent Area Tax Credits	1986	$14.2	$85.2	$57.0
Qualified Empire Zone Enterprise Tax Credits	2001	--	$149.7	$160.0
Qualified Emerging Technology Company (QETC) Credits	1999, 2005	--	$8.0	$15.0
Brownfields Tax Credits	2005	--	$42.9	$158.0
Empire State Film Production Credit	2004	--	$39.8	$115.0
Empire State Commercial Production Credit	2007	--	--	$1.0
Corporate Exemptions				
Corporate Parent with Bank and Insurance Subsidiaries or Gas and Electric Subsidiaries	2000	$10.1	$10.7	$11.0
Preferential Tax Rates				
Qualifying Small Business Corporations	1986	$12.1	$10.3	$6.0
Capital Base Liability Cap Reducation for Manufactures and QETCs	2005	--	$3.3	$3.0
Manufacturer and QETC Rate	2007	--	--	$6.0
Corporation Franchise Tax Grand Total		**$2,817.3**	**$3,041.1**	**$3,027.0**

Source: New York State Division of the Budget and Department of Taxation and Finance, Annual Report on New York State Tax Expenditure, 2005 and 2010.

Appendix I, cont.

NYS Business Tax Expenditures: Bank Tax
(in millions of dollars)

Tax Item	Year implemented	2000	2006	Forecast 2010
New York Modifications to Federal Taxable Income				
Bad Debt Deduction for Commercial Banks	1986	N/A	$18.2	$16.0
Deduction of 17 Percent of Interest Income from Subsidiary Capital	1986	$35.5	$29.7	$25.0
Deduction of 60 Percent of Dividend Income and Excess Gains from Subsidiary Capital	1986	$106.1	$143.1	$131.0
Allocation Percentages				
Discounting of the Wage Factor in the Calculation of Entire Net Income and Taxable Assets Allocation Percentage	1986	$19.1	$30.8	$21.0
IBF Formula Allocation Election	1986	$33.6	$37.2	$34.0
Credits				
Empire Zone and Zone Equivalent Area Tax Credits	1986	$3.0	$1.3	$6.0
Qualified Empire Zone Enterprise Tax Credits	2001	--	$6.7	$6.0
Investment Credit for Financial Services Industry	1998	$5.3	$1.6	$4.0
Brownfields Tax Credits	2005	--	$1.1	$1.0
Bank Tax Grand Total		**$202.6**	**$269.7**	**$244.0**

Source: New York State Division of the Budget and Department of Taxation and Finance, Annual Report on New York State Tax Expenditure, 2005 and 2010.

Appendix I, cont.

NYS Business Tax Expenditures: Insurance Tax
(in millions of dollars)

Tax Item	Year implemented	2000	2006	Forecast 2010
New York Modifications to Federal Taxable Income				
Exclusion of Interest, Dividends, and Capital Gains from Subsidiary Capital	1974	$11.3	$11.0	$10.0
Deduction of 50 Percent of Dividends from Non-subsidiary Corporations	1974	$5.8	$8.5	$8.0
Exclusions from Permiums Based Tax				
Exclusion from the Premium Tax of Premiums Written on Certain Reinsurance Policies	1974	$36.7	$244.4	$244.0
Credits				
Empire Zone and Zone Equivalent Area Tax Credits	1986	$0.1	$3.4	$5.0
Qualified Empire Zone Enterprise Tax Credits	2001	--	$20.2	$25.0
Credit for Investment in Certified Capital Companies	1999	$8.6	$30.6	$40.0
Insurance Tax Grand Total		**$62.5**	**$318.1**	**$332.0**

Source: New York State Division of the Budget and Department of Taxation and Finance, Annual Report on New York State Tax Expenditure, 2005 and 2010.

Appendix I, cont.

NYS Business Tax Expenditures: Corporation (Article 9) Tax
(in millions of dollars)

Tax Item	Year implemented	2000	2006	Forecast 2010
New York Modifications to Gross Income				
Exclusion of Receipts from InterLATA, Interstate, and International Telephone Services	1995	$1.1	$4.5	$5.0
Exclusion of Thirty Percent of Receipts from IntraLATA Toll Telephone Services	1996	$2.0	$4.3	$5.0
Section 186-a - Tax on the Furnishing of Utility Services Credits				
Power for Jobs Tax Credit	1997	$84.4	$21.0	$10.0
Corporation Tax Grand Total		**$87.5**	**$29.8**	**$20.0**

Source: New York State Division of the Budget and Department of Taxation and Finance, Annual Report on New York State Tax Expenditure, 2005 and 2010.

Appendix I, cont.

NYS Business Tax Expenditures: Personal Income Tax
(in millions of dollars)

Tax Item	Year implemented	2000	2007	Forecast 2010
New York Credits				
Investment Credit	1969	$25.3	$25.7	$24.0
Investment Credit for Financial Services Industry	1998	$0.7	$0.1	$0.4
Empire Zone and Zone Equivalent Areas Tax Credit	1986	$12.5	$49.3	$45.0
Qualified Empire Zone Credits	2001	--	$154.0	$170.0
Qualified Emerging Technology Company (QETC) Credits	1999, 2005	$0.3	$4.1	$6.2
Empire State Film Production Credit	2004	--	$5.8	$8.0
Empire State Commercial Production Credit		--	$0.9	$6.0
Brownfields Tax Credits	2005	--	$88.0	$465.0
Biofuel Production Credit	2006	--	$0.3	$10.0
Personal Income Tax Grand Total		**$38.8**	**$328.2**	**$734.6**

Source: New York State Division of the Budget and Department of Taxation and Finance, Annual Report on New York State Tax Expenditure, 2005 and 2010.

Appendix I, cont.

NYS Business Tax Expenditures: Sales and Use Tax

(in millions of dollars)

Tax Item	Year implemented	2000	2007	Forecast 2010
Food Sold to Airlines	1965	$9.0	$6.0	$5.0
Fuel, Gas, Electricity, Refrigeration, and Steam Used in Research and Development and Production	1965	$159.0	$274.0	$261.0
Fuel, Gas, Electricity, Refrigeration, and Steam Used in Farming and Commercial Horse Boarding	2000	$7.0	$13.0	$15.0
Commercial Aircraft	1979, 1996	$20.0	$19.0	$20.0
Fuel Sold to Airlines	1965	$52.0	$135.0	$135.0
Tractor-Trailer Combinations	1988	$11.0	$8.0	$6.0
Commercial Buses	1997	$2.0	$5.0	$4.0
Farm Production and Commercial Horse Boarding	1965, 1982, 2000	$54.0	$59.0	$77.0
Research and Development Property	1965	$114.0	$46.0	$47.0
Machinery and Equipment Used in Production	1965	$253.0	$271.0	$251.0
Services to Machinery and Equipment Used in Production	1981	$15.0	$15.0	$14.0
Lower Manhattan Commercial Office Space	2005	--	$13.0	$21.0
Qualified Empire Zone Enterprises	2001	--	--	$80.0
Industrial Development Agencies	1969	$139.0	$97.0	$69.0
Sales and Use Tax Grand Total		**$835.0**	**$961.0**	**$1,005.0**

Source: New York State Division of the Budget and Department of Taxation and Finance, Annual Report on New York State Tax Expenditure, 2005 and 2010.

Appendix I, cont.

Annual NYC Business Tax Expenditures

(in millions of dollars)

Real Property Tax	**$1,111.3**
Industrial & Commercial Incentive Program	$568.0
Other Commercial & Industrial Exemptions	$26.4
Industrial Development Agency	$181.5
Economic Development Corporation	$12.2
Urban Development Corporation -- Commercial	$217.8
Battery Park City Authority -- Commercial	$95.5
Teleport, Port Authority	$9.9
NYC Personal and Business Income, Sales and Mortgage Recording Taxes	**$1,238.3**
Business Income and Excise Tax Expenditure #	$841.0
Business and Investment Capital Tax Limitation	$324.0
Insuarance Corporation Non-Taxation	$276.0
Other (Energy Cost Savings Program, Film Production, etc.)	$241.0
Sales Tax Expenditures ##	UNK
Fuel Sold to airlines	$120.0
Unincorporated Business Tax Credit on NYC Personal Income Tax ###	$135.6
Industrial Development Agency Tax Expenditures (other than Real Property Tax)*	$41.7
Mortgage Recording Tax Exemption and PILOT Savings	$32.2
Sales Tax Exemption	$2.8
Energey Tax Savings	$0.6
Tax Exempt Bond Savings on NYC Personal Income Tax	$6.0
Unincorporated Business Tax -- Exemption for Carried Interest**	$100.0
Grand Total, all NYC business tax expenditures	**$2,349.6**

Source: Unless noted with an asterisk, data are from New York City Finance Department, Annual Report on Tax Expenditures, FY 2010, February 2010. Real Property tax estimates are for FY 2010, estimates for other taxes are for other fiscal years, as noted.

Tax expenditure estimates by NYC Department of Finance for FY 2006.

Except for six specific exemptions, including fuel sold to airlines, NYC's Department of Finance does not estimate the value of sales tax exemptions, many of which are intended to serve an economic development purpose. Estimate for FY 2006.

Tax expenditure estimate by NYC Department Finance for FY 2007.

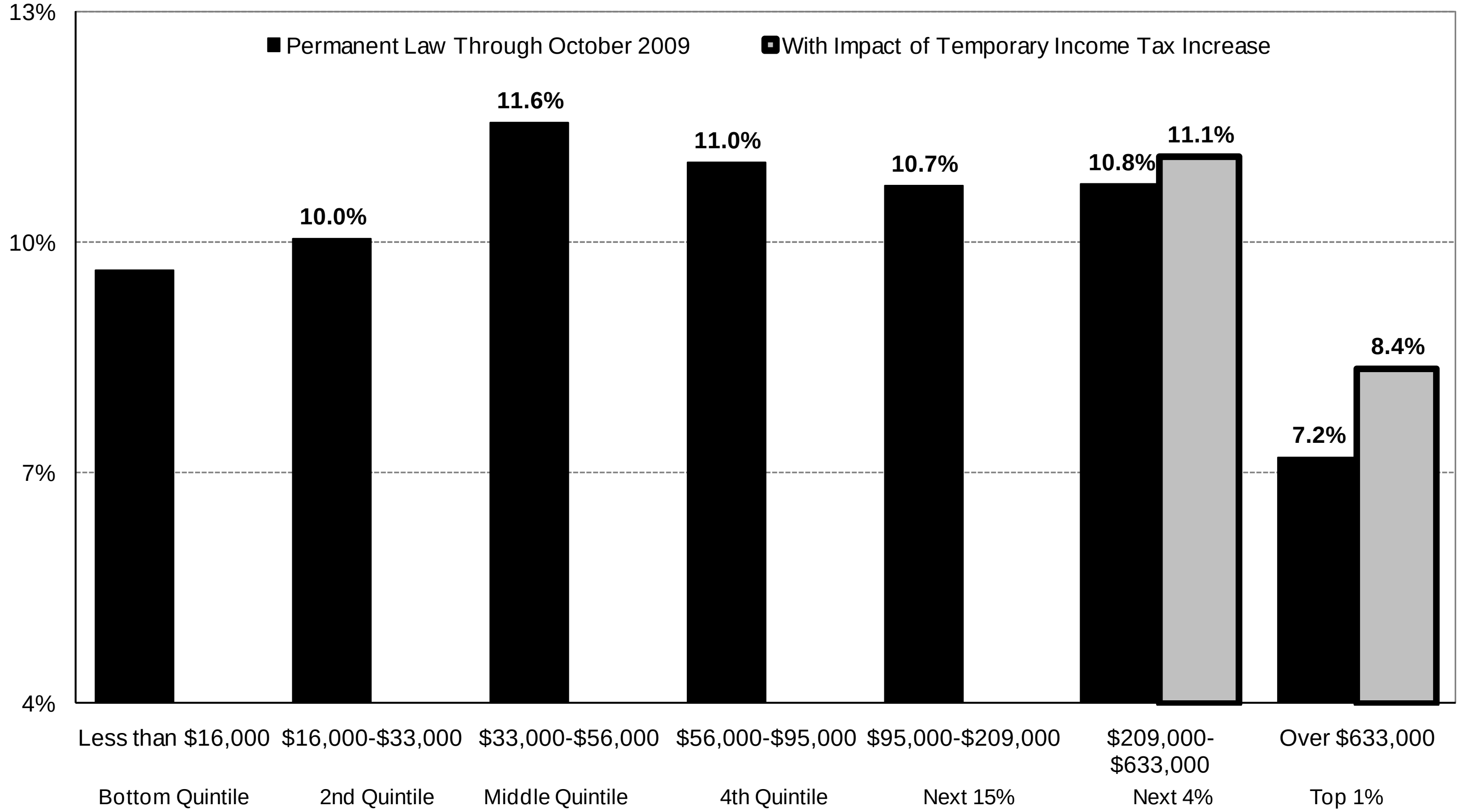
* New York City Economic Development Corporation, Local Law 48 report for FY 2009, Table 2-1.

** See Fiscal Policy Institute, Re-thinking the New York City Business Tax Treatment of Private Equity Fund and Hedge Fund - "Carried Interest," April 15, 2008. The FPI report estimated the annual value of this exemption at $160 million to $255 millions; the $100 million figure used here is a conservative estimate.

Appendix II

Overall, the wealthiest 1% of households pay a much smaller share of their income in state and local taxes than do all other New Yorkers, even with the temporary income tax increase.

Taxes as a percent of family income, for non-elderly taxpayers, after federal deduction offset



Source: Institute on Taxation and Economic Policy, 2009. Note: 2007 tax law updated to reflect changes in law enacted through October