CORPORATION FRANCHISE TAX

CORPORATION FRANCHISE TAX (millions of dollars)	2010-11 Actual	2011-12 Estimated	Change	Percent Change	2012-13 Projected	Change	Percent Change
General Fund	2,472.2	2,825.0	352.8	14.3	2,844.0	19.0	0.7
Other Funds	373.6	406.0	32.4	8.7	455.0	49.0	12.1
All Funds	2,845.8	3,231.0	385.2	13.5	3,299.0	68.0	2.1

Note: Totals may differ due to rounding.

CORPORATION FRANCHISE TAX BY FUND (millions of dollars)	Gross General Fund	Refunds	General Fund	Gross Special Revenue Funds	Refunds	Special Revenue Funds[1]	All Funds Receipts
2002-03	1,943	535	1,408	243	38	205	1,613
2003-04	2,006	524	1,482	266	48	218	1,700
2004-05	2,289	431	1,858	293	40	253	2,111
2005-06	3,070	405	2,665	415	27	388	3,053
2006-07	4,010	333	3,677	576	25	551	4,228
2007-08	4,035	589	3,446	592	41	551	3,997
2008-09	3,579	824	2,755	542	76	465	3,220
2009-10	2,942	797	2,145	442	76	366	2,511
2010-11	3,234	762	2,472	458	84	374	2,846
Estimated							
2011-12	3,516	691	2,825	484	78	406	3,231
2012-13							
Current Law	3,447	603	2,844	533	78	455	3,299
Proposed Law	3,447	603	2,844	533	78	455	3,299

[1] Receipts from the MTA business tax surcharge are deposited in the Mass Transportation Operating Assistance Fund.

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- Extend the Empire State commercial production credit for five years, through tax year 2016, for qualified costs associated with TV commercials produced in New York ;
- Extend the bio-fuel production credit for seven additional years through tax year 2019; and
- Provide the Commissioner of the Division of Housing Community Renewal authorization to allocate an additional $8 million annually in low income housing tax credits for five additional years.

DESCRIPTION

Tax Base and Rate

The corporation franchise tax is levied by Articles 9-A and 13 of the Tax Law. Article 9-A imposes a franchise tax on domestic and foreign corporations for the privilege of exercising their corporate franchise or doing business, employing capital, owning or leasing property, or maintaining an office in New York. The Article 9-A tax is made up of business entities classified as either C corporations or S corporations. Article 13 of the Tax Law imposes a 9 percent tax on certain not-for-profit entities on business income earned from activities not related to their exempt purpose.

For C corporations, current law requires corporation franchise tax liability to be computed under four alternative bases, with tax due based on the highest tax calculated under the four alternative bases. The four alternative bases are:

- An entire net income (ENI) base, which begins with Federal taxable income before net operating loss deductions and special deductions, and is further adjusted by the exclusion, deduction or addition of certain items. The resulting base is allocated to New York and subject to a tax rate of 7.1 percent. Qualifying small businesses with an ENI of $290,000 or less, certain manufacturers and qualified emerging technology companies are subject to a rate of 6.5 percent. Eligible qualified New York manufacturers are subject to a rate of 3.25 percent for tax years 2012, 2013 and 2014.
- An alternative minimum tax (AMT) base imposed at a rate of 1.5 percent of the ENI (as calculated above) further adjusted to reflect certain Federal tax preference items and adjustments and State-specific net operating loss (NOL) modifications. Eligible qualified New York manufacturers are subject to a rate of 0.75 percent for tax years 2012, 2013, and 2014.

- A capital base, imposed at a rate of 0.15 percent on business and investment capital allocated to New York. For most taxpayers, the maximum annual tax is $1 million.

- A fixed dollar minimum tax, which is based on a taxpayer's NY source gross income as shown in the following schedule. Eligible qualified New York manufacturers will pay one-half of the rates shown in the schedule below for tax years 2012, 2013 and 2014.

C AND S CORPORATIONS FIXED DOLLAR MINIMUM TAXES		
Gross Income	C Corp Min Tax	S Corp Min Tax
$100,000 or less	$25	$25
$100,001 - $250,000	$75	$50
$250,001 - $500,000	$175	$175
$500,001 - $1,000,000	$500	$300
$1,000,001 - $5,000,000	$1,500	$1,000
$5,000,001 - $25,000,000	$3,500	$3,000
Over $25,000,000	$5,000	$4,500

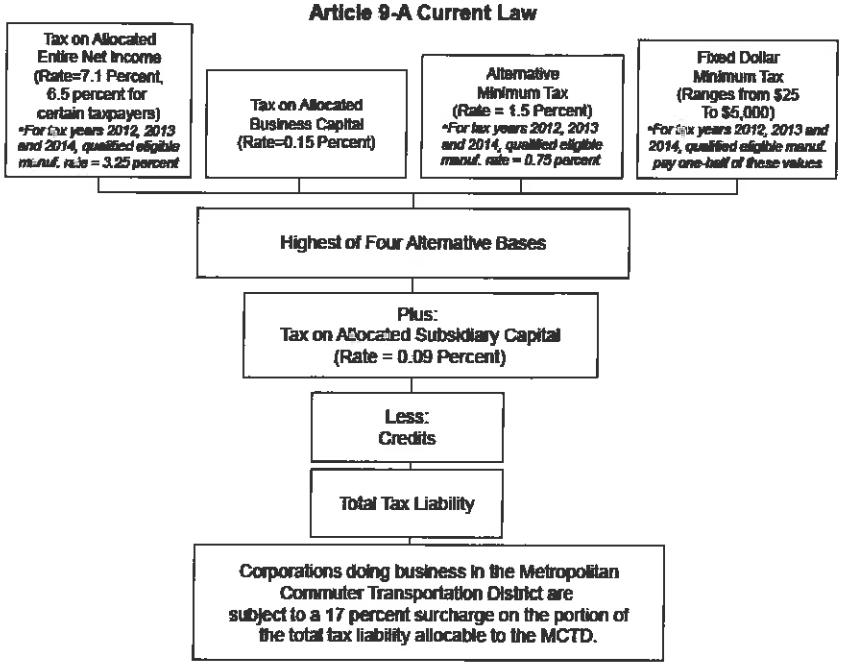
In addition to the tax paid on the highest of the four alternative bases, C corporations also pay a tax of 0.9 mills of each dollar of subsidiary capital allocated to New York State.

S corporations are also subject to a fixed dollar minimum tax imposed at the rates shown in the table above.

Additionally, corporations conducting business in the Metropolitan Commuter Transportation District (MCTD) are subject to a 17 percent surcharge on the portion of the total tax liability computed using the franchise tax rates in effect for the period July 1, 1997, through June 30, 1998, and allocable to the MCTD. The collections from the surcharge are deposited into the Mass Transportation Operating Assistance Fund (MTOAF).

The following flow chart shows how Article 9-A tax liability is computed under the four alternative bases.

Article 9-A Current Law



Administration

Corporations that reasonably expect their tax liability to exceed $1,000 for the current tax year are required to make a mandatory first installment of estimated tax and three additional estimated payments. The mandatory first installment is due 75 days from the end date of a taxpayer's fiscal year. The remaining three estimated tax payments are due on the 15th day of the third month of the fiscal year quarter. The majority of the taxpayers have a fiscal year that ends December 31. The mandatory first installment for these taxpayers is due March 15 with the remaining three estimated payments due on June 15, September 15 and December 15. A final payment is also required of all taxpayers. This payment is due with the mandatory first installment. Taxpayers that expect their tax liability to exceed $100,000 for the current tax year are required to make a mandatory first installment equal to 40 percent of their prior year liability. Taxpayers with expected liability greater than $1,000 and less than $100,000 must make a mandatory first installment equal to 25 percent of their prior year liability.

Tax Expenditures

Tax expenditures are defined as features of the Tax Law that by exclusion, exemption, deduction, allowance, credit, deferral, preferential tax rate or other statutory provisions reduce the amount of a taxpayer's liability to the State by providing either economic incentives or tax relief to particular entities to achieve a public purpose. The corporate franchise tax structure includes various tax expenditures, and the distribution of these benefits varies widely among firms and industries. Among the major tax expenditure items for the corporate franchise tax are the exclusion of interest, dividends and capital gains from subsidiary capital, the investment tax credit, the Empire Zone, Brownfields and Film Production tax credits, and the preferential tax rates for qualifying small business corporations. For a more detailed discussion of tax expenditures, see the

Annual Report on New York State Tax Expenditures, prepared by the Department of Taxation and Finance and the Division of the Budget.

Significant Legislation

Significant statutory changes to the corporate franchise tax since 1981 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1981		
Metropolitan Transportation Business Tax Surcharge	Imposed on business taxpayers a temporary 17 percent surcharge on tax liability allocated to the Metropolitan Commuter Transportation District (MCTD). Collections are dedicated in support of the Metropolitan Transportation Authority.	January 1, 1982
Legislation Enacted in 1985		
Omnibus Tax Equity and Enforcement Act of 1985	Provided several new enforcement tools for enhancing tax compliance, including new penalties for tax evaders, enhancement of existing penalties, and broader investigatory power for the Department of Taxation and Finance.	Various dates in 1985
Legislation Enacted in 1986		
Economic Development Zones	Authorized the designation of selected towns, counties, cities and villages as Economic Development Zones (EDZs), which provided certain tax benefits to qualifying businesses.	January 1, 1986
Legislation Enacted in 1987		
Business Tax Reform and Rate Reduction Act of 1987	Reformed the tax by lowering the rate, restructuring the alternative bases to include a broader range of items of income, and limited the usefulness of the ITC.	January 1, 1987
Legislation Enacted in 1990		
Temporary Business Tax Surcharge	Imposed a temporary 15 percent tax surcharge on the tax liability of certain business taxpayers. The surcharge was extended twice.	January 1, 1990
Legislation Enacted in 1994		
Depreciation	Changed the Modified Accelerated Cost Recovery System (MACRS) depreciation rule for non-New York property to conform to provisions of the Federal Tax Reform Act of 1986.	January 1, 1994
Limited Liability Companies (LLC) and Limited Liability Partnerships (LLP)	Provided New York State authority for formation of LLCs and LLPs, which are business organizations that provide many of the tax benefits associated with partnerships and the liability protection afforded to corporations.	October 24, 1994
Rate Reduction – Alternative Minimum Tax (AMT)	Reduced rate from 5 percent to 3.5 percent.	January 1, 1995
Legislation Enacted in 1997		
Alternative Fuel Vehicle Credit	Provided corporations and individuals with a tax credit for a portion of the cost of purchasing or converting vehicles to operate on alternative fuels.	January 1, 1998
Legislation Enacted in 1998		
Rate Reduction – AMT	Reduced rate from 3.5 percent to 3 percent phased in over two years.	June 30, 1998
Investment Tax Credit	Allowed brokers/dealers in securities to claim a credit for equipment or buildings used in broker/dealer activity and in activities connected with broker/dealer operations.	October 1, 1998

CORPORATION FRANCHISE TAX

Subject	Description	Effective Date
Rate Reduction – ENI	Reduced the tax rate from 9 percent to 7.5 percent over a three year period beginning after June 30, 1999.	June 30, 1999
Legislation Enacted in 1999		
Rate Reduction – AMT	Reduced rate from 3 percent to 2.5 percent.	June 30, 2000
EDZ/ZEA Wage Tax Credit	Doubled the existing Economic Development Zone (EDZ) and Zone Equivalent Area (ZEA) wage tax credits.	January 1, 2001
Legislation Enacted in 2000		
Energy Reform and Reduction	Reformed energy taxation for energy companies, previously taxed under section 186 of Article 9, to pay tax under the Article 9-A corporate franchise tax.	January 1, 2000
Securities and Commodities Brokers or Dealers Customer Sourcing	Allowed securities broker/dealers to allocate receipts, which constitute commissions, margin interest or account maintenance fees, as a service performed at the customer's mailing address.	January 1, 2001
Empire Zones (EZ)	Transformed Economic Development Zones (EDZ) to Empire Zones, effectively providing for virtual "tax free" zones for certain businesses. The enhanced benefits included a tax credit for real property taxes, a tax reduction credit, and a sales and use tax exemption. The tax reduction credit may be applied against the fixed dollar minimum tax, which may reduce the taxpayer's liability to zero.	January 1, 2001
Rate Reduction – S Corporations	Reduced the differential tax rate imposed on S corporations by 45 percent.	June 20, 2003
Rate Reduction – Small Businesses	Reduced the tax rate for small businesses with entire net income of $200,000 or less to 6.85 percent.	June 30, 2003
Legislation Enacted in 2002		
Estimated Payment Requirement	Increased the first quarterly payment of estimated tax from 25 percent to 30 percent of the prior year's liability for those corporate taxpayers whose prior year's liability exceeds $100,000.	January 1, 2003
Legislation Enacted in 2003		
Modification for Decoupling from Federal Bonus Depreciation	Decoupled from Federal depreciation allowances for property placed in service on or after June 1, 2003, that qualified for the special bonus depreciation allowance allowed by the Federal Job Creation and Worker Assistance Act of 2002 and the Jobs and Growth Tax Relief Reconciliation Act of 2003. The modifications do not apply to qualified resurgence zone property or qualified New York Liberty Zone property.	June 1, 2003
Intangible Holding Companies	Required taxpayers to modify Federal taxable income relating to certain royalty and interest payments made with respect to the use of intangible property by related members or royalty and interest payments received from related members.	January 1, 2003
S Corporation Tax Change	Taxed S corporations on a fixed dollar minimum amount for tax years 2003, 2004 and 2005 only. The fixed dollar minimum amounts are those imposed under Article 9-A, ranging from $100 to $1,500.	January 1, 2003
Superfund-Brownfield Tax Credits	Created tax incentives for the redevelopment of brownfields through three tax credits: a redevelopment tax credit, a real property tax credit, and an environmental remediation insurance credit. There are three components in the redevelopment tax credit: a site preparation component, a tangible property component, and an onsite groundwater remediation component.	April 1, 2005
Legislation Enacted in 2004		
Fixed Dollar Minimum Tax	Provided a temporary adjustment to the corporate franchise tax fixed dollar minimum tax schedule, with tax amounts ranging from $100 to $10,000. Applicable to tax years 2004 and 2005.	January 1, 2004
Empire State Film Production Credit	Provided a new tax credit for film production activity in New York State. The credit was originally scheduled to sunset August 20, 2008.	January 1, 2004

Subject	Description	Effective Date
Legislation Enacted in 2005		
Single Sales Apportionment	Changed the computation of a corporation's business allocation percentage from a three-factor formula of payroll, property and receipts to a single receipts factor.	These provisions were phased in over a three year period starting in tax year 2006, and were fully effective for tax years beginning on or after January 1, 2008
Empire Zones Amendments / Twelve New Zones	Made significant changes to the Empire Zone/Qualified Empire Zone Enterprise program with respect to zone boundaries, zone designations, taxpayer eligibility, and benefits. Also authorized twelve new Empire Zones.	Changes to eligibility and benefits apply to taxpayers certified on or after April 1, 2005
Small Business Rate Reduction	Lowered the tax rate from 6.85 percent to 6.5 percent for small businesses and expanded the definition of a qualifying small business.	January 1, 2005
Capital Base Increase	Increased the maximum tax due under the capital base alternative from $350,000 to $1 million for all taxpayers, excluding manufacturers.	January 1, 2005
Legislation Enacted in 2006		
Empire Zones / Significant Investments	Provided that a Qualifying Empire Zone Enterprise (QEZE) with fewer than 200 existing jobs that makes an investment of $750 million or more and creates 500 new jobs is deemed a "new business," qualifying the taxpayer for a 50 percent refund of its EZ Investment Tax Credits and EZ Employment Incentive Credits. Also authorized such taxpayers to select their program benefit period to start either upon certification (current law), or when the qualifying investment is placed in service.	January 1, 2006
Eliminate S Corporation Differential Tax Base	Eliminated the tax base imposed on S Corporations that was calculated using the difference between the corporate franchise tax rate and the top personal income tax rate. The rate had been changed, and the base was also suspended during tax years 2003 through 2005 when the PIT surcharge was in effect. Elimination of this base conforms the State tax code with Federal treatment of S corporations.	January 1, 2003 (note that the differential had already been suspended - eff. date reflects first instance of non-imposition)
Empire State Film Production Tax Credit	Increased the annual credit limitation from $25 million to $60 million annually for 2006 through 2011. Extended credit to December 31, 2011.	June 6, 2006
Legislation Enacted in 2007		
Rate Reduction - ENI	Reduced the rate on the ENI base from 7.5 percent to 7.1 percent, and amended the recapture rate for the small business rate to conform to the general rate change.	January 1, 2007
Rate Reduction - ENI (Manufacturers and QETCs)	Reduced the rate on the ENI base from 7.5 percent to 6.5 percent for qualifying manufacturers and emerging technology companies.	January 31, 2007
Rate Reduction - AMT	Reduced the rate applicable to the alternative minimum taxable income base from 2.5 percent to 1.5 percent.	January 1, 2007
Combined Filing Requirement	Required taxpayers operating several corporations on a unitary basis to file a combined return if there are substantial inter-corporate transactions between them.	January 1, 2007
REITS/RICS Loophole Closer	Required combining a Real Estate Investment Trust (REIT) or Regulated Investment Company (RIC) held as a subsidiary with its parent company. In computing combined entire net income, the deduction available to REITs for dividends paid are not allowed. In addition, such a combined report must include the combined capital of the REIT or RIC subsidiary.	January 1, 2007
Acceleration of Single Sales Apportionment Phase-In	Accelerated, by one year, the final phase-in of the move to sales-only apportionment of income and capital.	January 1, 2007

CORPORATION FRANCHISE TAX

Subject	Description	Effective Date
Legislation Enacted in 2008		
Restructure Fixed Dollar Minimum Tax	Changed minimum tax from a tax based on gross payroll to one based on gross income	January 1, 2008
Change Capital Base	Increased the capital base cap for non-manufacturers from $1 million to $10 million for a three year period. The cap reverts to $1 million effective January 1, 2011. Reduced the capital base rate from 0.178 percent to 0.15 percent.	January 1, 2008
Decouple from the Federal Qualifying Production Activities Income Deduction	Decoupled New York State Entire Net Income determination from Federal QPAI deduction. The Internal Revenue Code allows an above the line deduction of 6 percent (rising to 9 percent in 2010) for manufacturing activities.	January 1, 2008
Technical correction to REITS/RICS Loophole Closer	For a period of three tax years, required all captive REITS and RICS to file a combined return with the closest corporation that directly or indirectly owns or controls the captives.	January 1, 2008
Estimated Payment Requirement	Increased the first quarterly payment of estimated tax from 25 percent to 30 percent of the prior year's liability for those corporate taxpayers whose prior year liability exceeds $100,000.	January 1, 2009
Brownfields Program Reform	Amended the tangible property credit component to impose a limit of the lesser of $35 million or three times the qualifying costs used in calculating the site preparation and on-site groundwater components for projects accepted into the Brownfields program after June 22, 2008. Qualifying manufacturers accepted after this date would be subject to a tangible property credit component limitation equal to the lesser of $45 million or six times the qualifying costs used in calculating the site preparation and on-site groundwater components. Several other changes were effected, including increasing the credit percentages awarded under the site preparation and on-site groundwater components to as much as fifty percent.	June 23, 2008
Empire State Film Production Tax Credit	Increased the credit rate from 10 percent of qualified production costs to 30 percent. Extended the sunset to December 31, 2013 and increased the annual allocation each year from 2008 through 2013.	April 23, 2008
Legislation Enacted in 2009		
Tax Treatment of Overcapitalized Insurance Companies	Required an overcapitalized captive insurance company to file a combined report with the corporation that directly owns or controls over 50 percent of the voting stock of the captive if that corporation is an Article 9-A taxpayer.	January 1, 2009
Estimated Payment Requirement	Increased the first quarterly installment of estimated tax from 30 percent to 40 percent of the prior year's liability for those corporate taxpayers whose liability exceeds $100,000.	January 1, 2010
Empire Zones Reform	Reformed the Empire Zones program. All companies that had been certified for at least three years were subjected to a performance review focusing on cost/benefit ratios.	January 1, 2008
	The QEZE real property tax credit was reduced by 25 percent and firms were disqualified for the QEZE sales tax refund/credit unless the sale qualified for a refund or credit of the local sales and use tax.	April 1, 2009
	Moved program sunset date from December 30, 2011 to June 30, 2010.	April 7, 2009
Empire State Film Production Tax Credit	Authorized an additional $350 million for calendar year 2009. For taxable years beginning January 1, 2009, the utilization of the credit was spread across several years based on the dollar amount of the credit.	January 1, 2009
Change to the Tax Classification of HMOs	Subjected for-profit HMOs to the franchise tax on insurance corporations under Article 33 of the Tax Law.	January 1, 2009
Legislation Enacted in 2010		
Make REITs/RICs Loophole Closer Permanent	Made permanent the provisions that address the closely-held REIT and RIC loophole, which would have otherwise expired on December 31, 2010.	August 11, 2010

Subject	Description	Effective Date
Tax Credit Deferral	Capped aggregate business related tax credit claims at $2 million per taxpayer for each of tax years 2010, 2011 and 2012. The total amount of credits deferred can be claimed by affected taxpayers on returns for tax years 2013, 2014 and 2015.	January 1, 2010
Technical Changes to Empire Zones Program	Made technical corrections to the 2009-10 Enacted Budget Empire Zones Program changes. Clarified that the Legislature intended to decertify certain businesses retroactively to the 2008 tax year, clarified reporting provisions, and allowed qualified investment projects to claim the investment tax credit and employee incentive tax credit after June 30, 2010.	August 11, 2010
Empire State Film Production Tax Credit	Authorized an additional $420 million for calendar years 2010 through 2014, $7 million of which is dedicated to a new post production tax credit. This measure also imposed various reforms to enhance the State's return on investment.	August 11, 2010
Excelsior Jobs Program	Established a new economic development program to provide incentives based on job creation, investment and research and development expenditures in New York State.	July 1, 2010
REIT Technical Amendments	Clarified that certain publicly traded REITs with fractional ownership shares in non-related U.S. REITs are not subject to provisions relating to "closely-held" REITs that were enacted in 2008-09.	August 11, 2010
Legislation Enacted in 2011		
Excelsior Jobs Program Amendments	Modified the credit to make it more widely available and attractive and created a new energy incentive. It also lengthened the benefit period from five to ten years.	March 31, 2011
Economic Transformation and Facility Redevelopment Program	This new program provided tax incentives to businesses to stimulate redevelopment in targeted communities where certain correctional or juvenile facilities are closed (economic transformation areas). This program will expire on December 31, 2021.	March 31, 2011
Manufacturing Tax Reduction	This will reduce the rate on the entire net income base, the rate on the alternative minimum taxable income base and the fixed dollar minimum tax by 50 percent for eligible qualified manufacturers for tax years 2012, 2013, and 2014. The Tax Department will administer an annual total tax benefit limit of $25 million by directing tax relief to economic regions with special economic challenges.	January 1, 2012
New York Youth Works Tax Credit Program	This new program will provide a tax credit to businesses that employ at risk youth in part-time or full-time positions in 2012 and 2013.	January 1, 2012
Empire State Jobs Retention Program	This new program will provide a jobs tax credit to businesses that are at risk of leaving the State due to the negative impact on their business from a natural disaster. The tax credit is 6.85 percent of gross wages of jobs that are retained in New York.	January 1, 2012

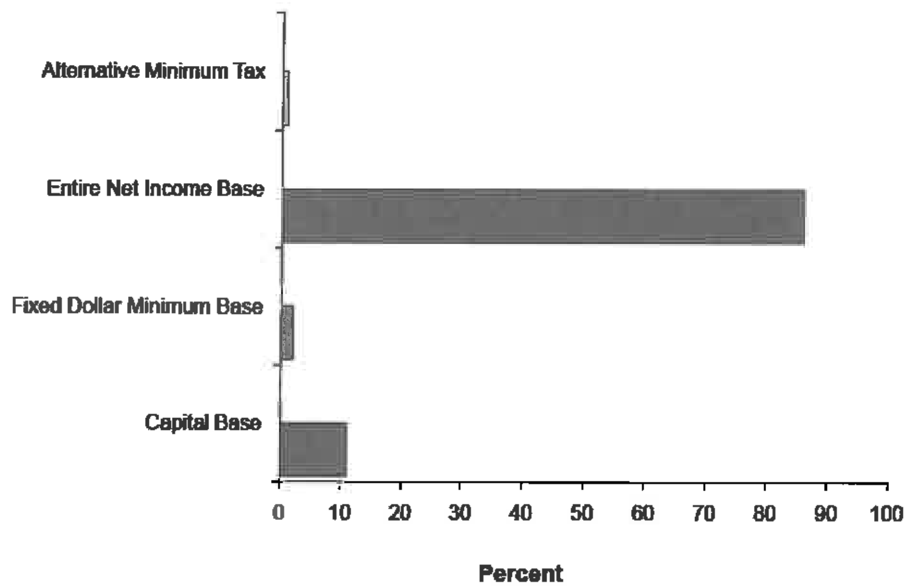
TAX LIABILITY

The Corporate Franchise Tax Study File, which is compiled by the Department of Taxation and Finance's Office of Tax Policy Analysis (OTPA), contains the most recent data available on Article 9-A liability for corporations filing under Article 9-A. The most current liability information is for the 2008 tax year.

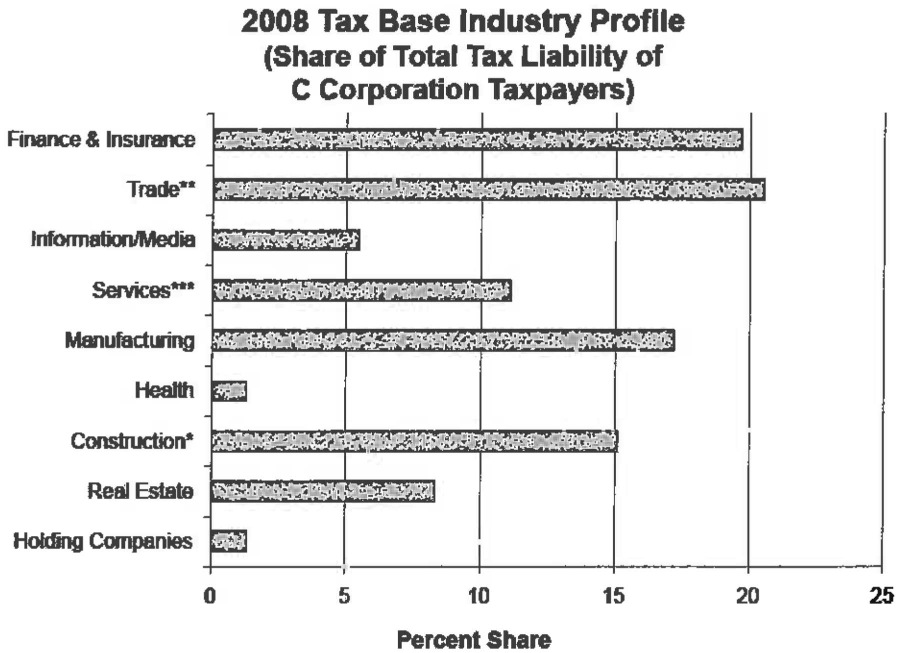
Although the study file does not include information on non-allocating fixed dollar minimum tax filers and S corporations, OTPA compiles corporate tax return data relating to the total number of C and S corporations and tax liability for these entities. The 2007 New York State Corporate Tax Statistical Report, the most recent data available, indicates that 254,683 taxpayers filed as C corporations, while 380,662 taxpayers filed as S corporations. The number of C corporations declined by 3.4 percent from the prior year and the number of S corporations increased by 3.6 percent. Over the last several years, the number of C corporations has been relatively flat, while the number of S corporations has experienced growth averaging 3.7 percent.

As noted above, C corporations pay under the highest of four alternative bases. In 2008, 86 percent of liability was paid under the entire net income base. The capital base was the second largest base, at 11 percent of liability. These percentages have been fairly constant over time with the exception of the AMT base, which has been diminishing the last few years due to Tax Law changes that have reduced the AMT rate.

2008 Distribution of C Corporation Tax Liability by Tax Base

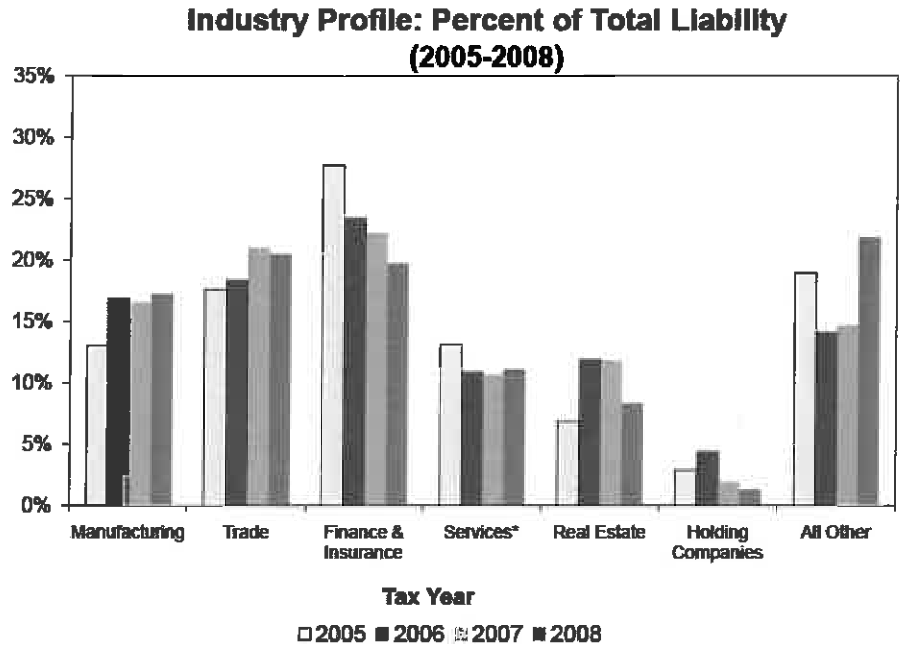


The next chart shows the distribution of tax liability by major industry sector. The 2008 study file indicates that 19.7 percent of total C corporation liability was paid by the finance and insurance sector, 20.5 percent by the trade sector and 17.2 percent by the manufacturing sector. These three sectors have represented the majority of total liability over the last several years. Liability year 2008 is the first year the Finance and Insurance sector has represented less than 20 percent of total C corporation liability since 2004.



* Construction, agriculture, mining, and utilities. (NAICS Sectors 11, 21, 22, and 23)
** Wholesale trade, retail trade and Transportation and warehousing. (NAICS Sectors 42, 44, 45, 48 and 49)
*** Services consist of: professional, scientific, and technical services; administrative and support and waste management and remediation services; art, entertainment, and recreation services; accommodation and food services; and other services. (NAICS Sectors 54, 56, 71, 72, and 81)

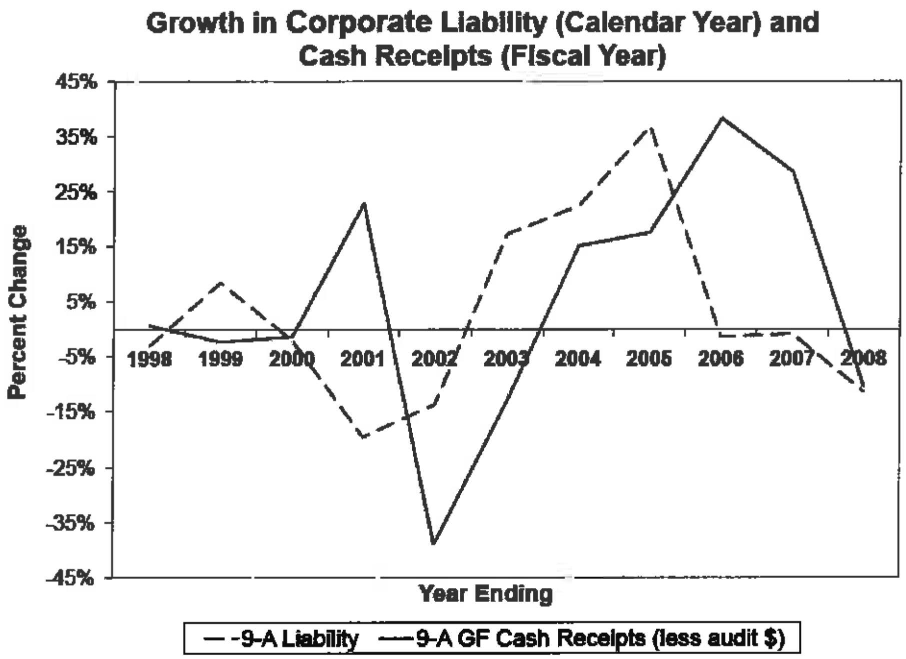
The following chart illustrates the percentage of liability paid by the industry groups of the State's tax base. Liability for the finance and insurance, manufacturing and trade sectors represent the largest share of liability paid over the 2005 to 2008 period. Over this period finance and insurance has declined as a percentage of total liability while trade has increased. The manufacturing sector has been a stable percentage over the last three years. The services sector has also been relatively stable while real estate declined in 2008 after reaching a high of nearly 12 percent in 2006 and 2007.



* These services consist of: professional, scientific, and technical services; administrative and support and waste management and remediation services; art, entertainment, and recreation services; accommodation and food services; and other services. (NAICS Sectors 53, 54, 55, 56, 71, 72, and 81)

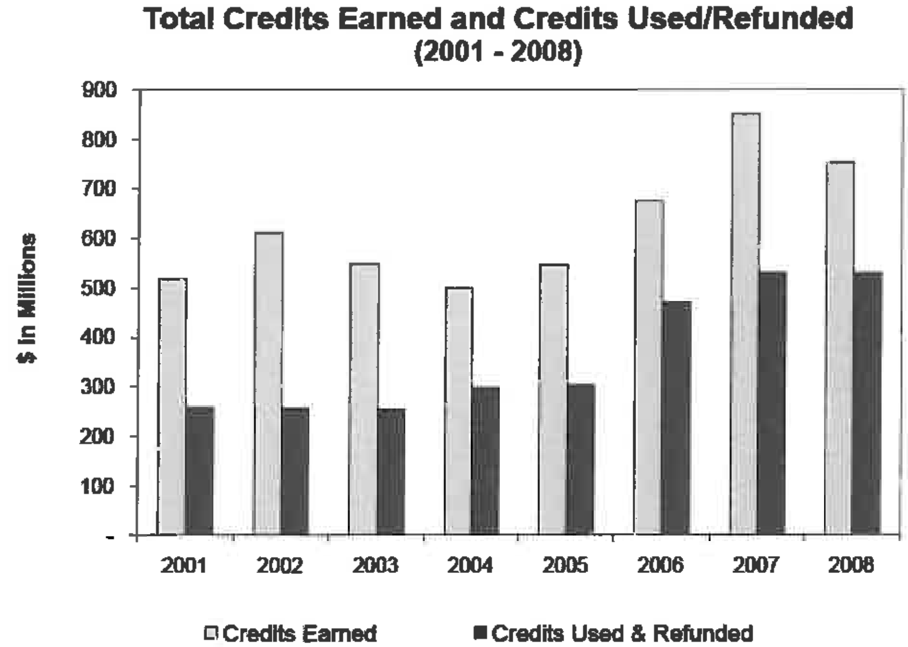
The link between underlying corporate tax liability and cash receipts in any given State fiscal year is often obscured by the timing of payments, the carry forward of prior year losses or credits and the reconciliation of prior year liabilities. Tax collections are the net payments and adjustments made by taxpayers on returns and extensions over the course of a State fiscal year. For taxpayers with a fiscal year ending December 31, current year liability collections include a mandatory first installment payment that is paid in March and is based on 40 percent of the prior year's liability. In addition, calendar year corporations are required to make estimated payments, based on projected liability for the current tax year, in June, September and December. A final payment is made in March of the subsequent year. Calendar year taxpayers make up the majority of the tax base. Taxpayers may make periodic adjustments to these payments after the close of the tax year as their actual liability for a given tax year becomes more definite.

Tax liability in the current year is based on estimated performance for the same year. It is generally calculated by using tax bases, tax rates, special deductions and additions, losses and tax credits. Since taxpayers must pay estimated taxes months in advance of knowing actual liability, it is difficult for taxpayers to determine the proper level of payments needed over the course of a year. This is especially true if business or economic conditions change. The accompanying graph compares historical corporate tax liability and fiscal year cash receipts. It illustrates the significant volatility in the underlying relationship between payments and liability, which is often compounded by the difference between a taxpayer's tax year and the State fiscal year for many taxpayers.



Credits

The following graph shows major credits earned and used by Article 9-A taxpayers, and illustrates that the amount of credits earned significantly exceeds the amount of credits used. These credits include the investment tax credit (ITC), Empire Zone credits, Brownfield credits, Film Production tax credit, the alternative minimum tax (AMT) credit, the agricultural property tax credit, and the special additional mortgage recording tax credit. Credit earned is the amount of credit earned by a taxpayer in the current tax year. This is prior to any credit recapture, and does not include credits earned in or carried over from any prior years.



Generally, Tax Law provisions prevent taxpayers from using tax credits to reduce final liability below the fixed dollar minimum tax or the AMT. This has resulted in taxpayers carrying forward a significant amount of tax credits into subsequent tax years. It is expected that the use of refundable credits, especially Empire Zones, Brownfields and the Film Production Tax credit, will significantly increase the total amount of credits used in future years. These credits can then be used to more than offset tax liability through requests for cash refunds or credit carry forwards.

As seen in the chart above, credits earned and credits used and refunded were relatively stable through 2005. In 2006 and 2007 both credits earned and credits used and refunded increased. Even though credits earned declined in 2008, they remain at a high level compared to history. Credits used and refunded in 2008 were basically the same as 2007. The decline in the 2008 credits earned category is explained by a significant drop in Brownfield tax credits. Brownfield tax credits earned increased substantially from 2006 ($44 million) to 2007 ($128 million) but declined to $35 million in 2008. This may be attributable to the beginnings of the financial crisis and the lack of credit available to fund these large scale projects. Offsetting a portion of the decrease in Brownfield tax credits is an increase in credits earned for the Film tax credit. Credits earned for the film production tax credit program increased from $81 million in 2007 to $105 million in 2008. Credits earned for the investment tax credit were basically the same for 2007 and 2008 and credits earned for the Empire Zones program declined slightly.

The Film Production tax credit and the Brownfield tax credit are expected to be the largest tax credit programs in future years. Demand for the Brownfield tax credit program remains robust even though the value of the tax credits earned was low in 2008. The expectation is that this program will cost approximately $500 million annually in the near term and $300 million annually when the 2008 reforms are fully implemented (SFY 2020-21). The Film Production tax credit program is currently allocated $420 million per year through tax year 2014. The total amount of tax credits available for this program since its inception in 2004 is $3.1 billion.

RECEIPTS: ESTIMATES AND PROJECTIONS

CORPORATION FRANCHISE TAX
(millions of dollars)

	Actual 2010-11	Estimated 2011-12	Change	Percent Change	Projected 2012-13	Change	Percent Change
General Fund							
Non-Audit Receipts	1,788	1,895	107	6.0	2,168	273	14.4
Audit Receipts	684	930	246	36.0	676	(254)	(27.3)
Executive Budget Initiatives	0	0	0	--		0	--
Total	**2,472**	**2,825**	**353**	**14.3**	**2,844**	**19**	**0.7**
Other Funds							
Non-Audit Receipts	248	251	3	1.2	331	80	31.9
Audit Receipts	126	155	29	23.4	124	(31)	(20.0)
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	**374**	**406**	**32**	**8.7**	**455**	**49**	**12.1**
All Funds							
Non-Audit Receipts	2,036	2,146	110	5.4	2,499	353	16.4
Audit Receipts	810	1,085	276	34.0	800	(285)	(26.3)
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	**2,846**	**3,231**	**385**	**13.5**	**3,299**	**68**	**2.1**

All Funds

2011-12 Estimates

All Funds receipts through December are $2,058.5 million, an increase of $171.9 million (9.1 percent) above the comparable period in the prior fiscal year. This increase is attributable to higher receipts for gross collections and audits and lower refunds. Through December, audit receipts are estimated to be $717.5 million, an increase of $112 million (18.5 percent). Refunds are $12.6 million lower than last year through December. Gross receipts, the majority of which are calendar year filers, are $1,934.1 million, an increase of $47.3 million (2.5 percent). Through December, estimated payments made by calendar year filers were basically flat compared to the prior year. This weakness in calendar year filer liability is partially offset by stronger receipts from fiscal year filers. Additionally, taxpayers continue to use high levels of prior period adjustments to make payments toward current year liability. If current trends continue, 2011-12 will be the fourth consecutive year where prior period adjustments exceeded $1 billion.

All Funds receipts for 2011-12 are estimated to be $3,231 million, an increase of $385.2 million (13.5 percent) from 2010-11. This increase is mainly the result of strong audit receipts growth (34 percent) and higher gross collections (5.4 percent). Several large audit cases are expected to be finalized in 2011-12. Gross receipts include an incremental increase of $213 million from the deferral of certain tax credits. Adjusted for the impact of the credit deferral, gross receipts are estimated to decline 6.2 percent. This is driven primarily by the weak December estimated payment. Preliminary December 2011 estimated payments are projected to decline 16.8 percent year-over-year.

2012-13 Projections

All Funds receipts are projected to be $3,299 million, an increase of $68 million (2.1 percent) from 2011-12. Higher gross receipts and lower refunds are mainly offset by lower audits. It is expected that the number of large audit cases in 2012-13 will be lower than in 2011-12. Gross receipts in 2012-13 include an incremental increase of $71 million from the deferral of certain tax credits. Adjusted for the credit deferral, 2012-13 receipts would be flat compared to 2011-12.

General Fund

General Fund collections for 2011-12 are expected to be $2,825 million, an increase of $352.8 million (14.3 percent). General Fund collections reflect the same trends impacting 2011-12 All Funds receipts.

For 2012-13, General Fund receipts are projected to be $2,844 million, an increase of $19 million (0.7 percent). General Fund collections reflect the trends described above for 2012-13 All Funds receipts.

Other Funds

Under current law, corporations doing business in the MCTD are subject to a 17 percent surcharge on the portion of total liability allocable to the region.

The Article 9-A contribution to the MTOAF for 2011-12 is estimated to be $406 million, an increase of $32.4 million (8.7 percent). The voluntary remitted portion of receipts is estimated to grow $3 million (1.2 percent) from 2010-11. Audit collections are expected to increase from $126 million to $155 million based on the current audit caseload.

Collections for 2012-13 are expected to increase 12.1 percent to $455 million. The voluntary remitted portion of receipts is projected to increase $80 million (31.9 percent) while audit receipts are expected to be $124 million, a decrease from 2011-12, as the number of large audit cases is expected to fall in 2012-13.