

## EXECUTIVE SUMMARY

New York City furthers its social and economic objectives through a variety of programs. Some programs are funded by direct governmental appropriations; others are funded by reductions in tax liability and are referred to as "tax expenditures." This report, as mandated by the City Charter, identifies and describes the tax expenditure programs of taxes administered by the City and provides tax expenditure estimates based on available data.

In FY 1999 there were more than fifty tax expenditure programs related to the City-administered real estate tax and business and excise taxes. These programs were valued at close to \$1.9 billion.

- Real estate tax expenditures accounted for the largest share, with nearly \$1.5 billion in tax benefits. Housing and economic development-related incentives comprised 50 percent and 33 percent of the real estate tax expenditures, respectively.
- Business income and excise taxes accounted for more than half of the total number of tax expenditure programs and were valued at \$397 million. Many of these programs are designed to foster economic development, by, for example, reducing City energy costs for eligible businesses or providing relocation incentives.

There have been many changes in City tax expenditures in recent years. These changes are the result of the expiration and phasing-out of certain incentives, as well as the creation of new programs and the expansion of existing programs. The program descriptions are updated each year to reflect these changes.

The report provides tables and charts detailing tax expenditure costs. Real estate tax expenditure data are for FY 1999 while the business and excise tax expenditures are generally based on data for tax year 1997, the latest year for which data are available. The report also provides a variety of data to assist in analyzing the effectiveness of tax expenditure programs, such as the annual analysis of taxes per worker found in Appendix II and the property tax statistical supplement in Appendix IV.

The report also includes a summary of recent tax law changes. Part VII reviews the changes in tax law that have taken effect through FY 1999, such as the repeal of the Commercial Rent Tax north of 96<sup>th</sup> in Manhattan and in the other boroughs and reforms affecting the City's business taxes.

## INTRODUCTION

Tax expenditures are deviations from the basic tax structure which reduce taxes for specific taxpayers or groups of taxpayers. Traditionally, tax expenditures have been used to alter the distribution of the tax burden and to create incentives for taxpayers to change economic behavior. Tax expenditures provide economic benefits and are often used as alternatives to direct governmental allocations. Improved reporting on tax expenditures has been a nation-wide trend in recent years. Tax expenditure reports are currently produced by the federal government and most states. In New York City, the first annual Tax Expenditure Report was produced in 1990.

The New York City Charter approved by referendum in November 1989 requires that the City provide a full accounting of local tax expenditure programs. Section 240 of the Charter mandates that an annual City tax expenditure report should include:

- a comprehensive listing of City-specific tax expenditures;
- the citation of legal authority and the objectives and eligibility requirements for each tax expenditure;
- data, as available, on the number and kind of taxpayers benefiting from City tax expenditure programs and the total value of these programs;
- data on the number and kind of taxpayers carrying forward tax benefits to future years and the total value of these carry forwards;
- data, as available, on the economic and social impact of City tax expenditure programs;
- a listing and summary of all evaluations and audits of City tax expenditure programs conducted during the previous two years.

The New York City Tax Expenditure Report for FY 1999 includes detailed distributional information for City real property tax expenditure programs and, where available, for other tax expenditure programs. Such data are intended to help policy makers evaluate the impact of tax benefit programs.

Part I provides the criteria used to define City tax expenditures and the methodology used to identify and estimate the cost of such expenditures. Parts II and III describe tax expenditures for the Real Property Tax and business income and excise taxes, respectively. In past years, Part IV has provided detailed examinations of selected aspects of the City's tax system. This feature is not included in this year's report. Part V describes tax expenditures for the City's Sales Tax and Personal Income Tax, which are administered by New York State. Part VI summarizes audits and evaluations of City tax expenditures that have been conducted during the previous two years. Part VII describes the main provisions of major New York City taxes and recent New York City tax law changes.

The Appendix to the report provides the text of New York City Charter Section 240, updates of the Finance Department's taxes-per-worker calculations and ranking of industry sectors based on the New York City taxes directly attributable to them, and supplemental statistical data for FY 1999 regarding City real property tax expenditures.

## DEFINITION OF TAX EXPENDITURES

Defining a normal tax structure and identifying specific tax expenditure items is a subjective and controversial process. Some proponents of tax expenditure reporting recommend that tax expenditure lists be as inclusive as possible, identifying all deductions or credits which reduce the taxable base from 100 percent of income and wealth. Others recommend a more narrow definition, focusing on targeted measures that provide preferential treatment. This latter approach assumes that the definition of the taxable entity and the general rate schedule are part of the "normal" tax system.

This report utilizes the more targeted approach. In accordance with City Charter requirements, it identifies provisions of City-administered taxes that are intended to confer special tax benefits. This approach focuses attention on information needed for local policy evaluation and public accountability.

In this report, a tax expenditure is defined as a revenue loss attributable to a provision of the tax law that allows a *special* exclusion, exemption, or deduction from gross income or which provides a *special* credit, preferential rate of tax, or deferral of tax liability.

This report classifies a provision of the tax law as a tax expenditure if the following conditions are met:

- City-Specific - The tax expenditure must derive from a tax administered by the City.
- Targeted Preference - The tax provision has to be "special" in that it is targeted to a narrow class of transactions or taxpayers.
- Clear Exception - The tax provision must constitute a clear exception to a general provision of the tax laws.

The "targeted preference" and "clear exception" criteria are used by the federal Office of Management and Budget for federal tax expenditure reporting purposes.

## **METHODOLOGY**

### **Application of City Tax Expenditure Criteria**

Parts II and III of this report identify tax expenditures of the following City-administered taxes: Real Property Tax, Banking Corporation Tax, Commercial Rent Tax, General Corporation Tax, Mortgage Recording Tax, Real Property Transfer Tax, Unincorporated Business Tax, and Utility Tax.

In order to provide a full range of information, Part II on the Real Property Tax includes programs that exist throughout New York State and others that are granted by means of public authorities.

Tax expenditures deriving from City taxes administered by New York State, the Personal Income Tax and Sales and Use Tax, are discussed in Part V.

Tax exemptions provided to government entities and to nonprofit organizations that serve the public at large are not included as City tax expenditures since such exemptions are routinely granted by states and municipalities and generally reflect conformity with federal law.

### **Data**

Revenue information for property tax exemptions and abatements is for the City's FY 1999 (July 1, 1998 - June 30, 1999). Estimates for business income and excise taxes are for tax year 1997, which for most taxpayers corresponds to calendar year 1997. (For Commercial Rent Tax purposes, tax year 1997 was from June 1, 1996 to May 31, 1997.) All estimates are derived from Department of Finance data, unless otherwise noted. Data for Payments in Lieu of Taxes (PILOTs) are based on Department of Finance Data and information provided by the City's Office of Management and Budget.

### **Measurement**

In Parts II and III, the tax expenditure information provided for each item represents a direct mathematical calculation of the tax revenue foregone. The estimate is not intended to represent the potential revenue gain for the City if the expenditure were eliminated. For example, the absence of a tax expenditure may lead taxpayers to take advantage of other tax relief programs. In certain cases, the elimination of a tax expenditure may even result in a revenue loss if the benefit had been stimulating other taxable economic activity. The data provided in this report do not take into account the effect of tax expenditures on the economic behavior of taxpayers or on the City's overall economy.

## REAL PROPERTY TAX EXPENDITURES

### Overview

The City estimates that the real estate tax, its single largest revenue source, will provide more than \$7.5 billion or 36.1 percent of total tax revenue in FY 1999. Real estate tax programs for the current year provide benefits through 164,815 exemptions and 385,957 abatements.<sup>1</sup> These exemptions and abatements result in a total tax expenditure of almost \$1.5 billion in FY 1999.

The City's property tax programs can generally be categorized as: (1) incentives for spurring residential construction or economic development; or (2) providing tax relief to individual homeowners or tenants. The City has maintained flexibility in its real estate tax incentive programs, restricting or expanding them as the economy has changed. Although certain housing and economic development incentives were curtailed or eliminated in prime Manhattan commercial and residential neighborhoods during the late 1980's, the City began offering such incentives on a limited basis in response to persistently high vacancy rates in commercial space and the lack of new housing even in Manhattan.

The City derives its authority for providing real estate tax expenditures from a variety of New York State laws,<sup>2</sup> provisions in the City Charter, the City Administrative Code and underlying agency regulations. Sunset dates are included for many programs to allow for periodic review of continuing need and, if necessary, to institute revisions in the law. Annual reports are mandated for some programs. Tax expenditures are largely granted and administered by various City agencies. The City also uses Statewide programs and public agencies to provide housing and economic development incentives to the local real estate market.

A statistical appendix provides information on the distribution of housing units by residential exemption program, borough, and property type.

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<sup>1</sup> A tax exemption provides relief through a reduction in taxable assessed value. A tax abatement reduces real property tax liability through a credit rather than a reduction in taxable value. A single property may qualify for both an exemption and abatement of taxes.

<sup>2</sup> The School Tax Relief (STAR) program is locally administered through a real property tax exemption. However, it does not qualify as a local tax expenditure since the State bears the cost of the program. Consequentially, the STAR program has been excluded from the report.

## Tax Expenditure Purposes

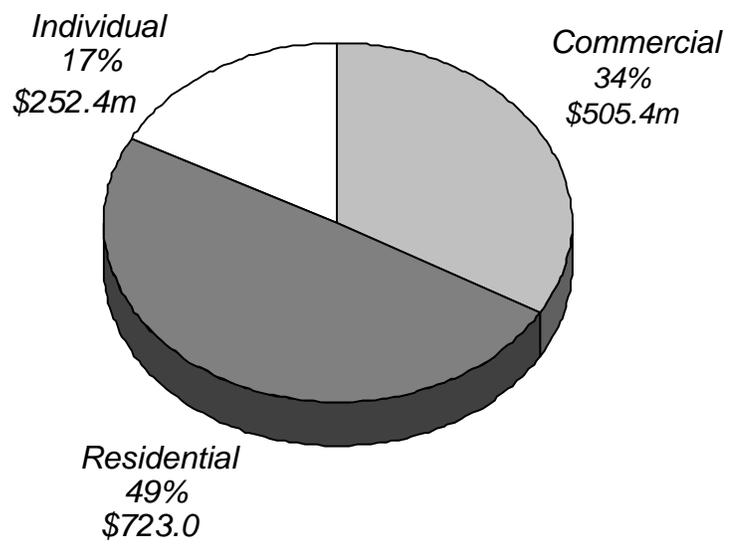
Property tax expenditures support residential, commercial and individual assistance programs. (Chart 1)

Residential - Housing benefits comprise 48.8 percent of property tax expenditures, or the equivalent of \$723 million in FY 1999 revenues. Tax relief is currently provided through almost 53,000 exemptions and nearly 52,000 abatements. Different programs provide incentives for new construction or rehabilitation of small homes and/or multi-family buildings. Some programs are combined with additional financial assistance to target benefits for moderate and middle income housing. Several housing programs vary benefits on the basis of geographic criteria. The exemption benefits granted to residential properties are frequently extended to commercial space within the same building. The single largest residential incentive program is the Limited Profit Housing Companies, otherwise known as Mitchell-Lama housing.

Commercial - The value of economic development incentives is \$505.4 million in FY 1999, 34.1 percent of total property tax expenditures. The City provides these benefits through more than 7,500 exemptions and 361 abatements. The kinds of properties assisted by the commercial programs vary from hotels, retail space, and office buildings to properties involved in manufacturing and distribution activities, such as factories and warehouses. The programs will frequently provide more extensive benefits to industrial construction and renovation.

Individual Assistance - The smallest real property tax expenditure category, programs for individual assistance, totals \$252.4 million in FY 1999. Over 104,000 exemptions currently reduce taxes for veteran and senior citizen homeowners, while SCRIE provides relief to senior citizen renters. Senior citizen programs are based on the income of the qualifying individual who legally owns or occupies the property. In its third year, the City's Co-op/Condo Program has reduced FY 1999 tax bills of certain class two co-op and condo owners by almost \$153 million.

**Chart 1**  
**Real Property Tax Expenditures**  
**By Purpose, FY 1999**  
**Total: \$1,480.9 million**



## Tax Expenditure Sources

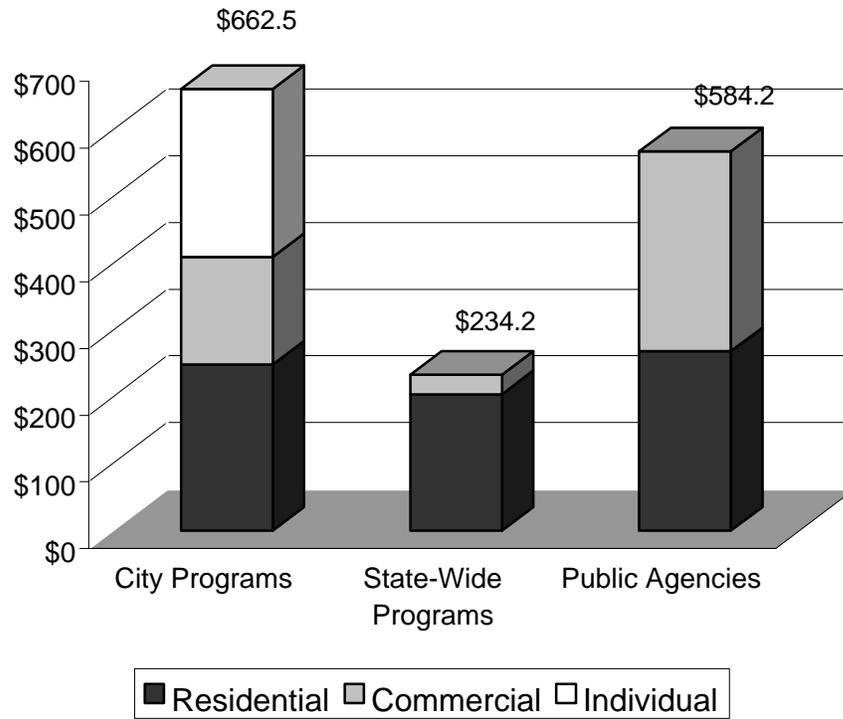
The major sources of expenditures include City and State programs and public agencies. Various State-wide programs have been included in this report since the City administers the related exemptions and these programs serve as channels for housing and economic development incentives in the City. (Chart 2)

City Programs - This category includes local incentives granted directly by the City for housing, commercial development and individual assistance. Also included are State-wide programs in which participation is at the discretion of the locality. In FY 1999, tax expenditures from this source totaled \$662.5 million or 45.2 percent of net City-wide property tax expenditures. Residential incentives comprised 37.6 percent of City program expenditures and are valued at \$249 million. Another 24.3 percent of City Program tax expenditures are attributable to economic development programs.

State-wide Programs - These are predominantly residential programs that meet many of the same goals as the City programs but are not exclusive to City taxpayers. For these programs, the net tax expenditure is displayed after deducting Payments-in-Lieu-of-Taxes (PILOTs) and Shelter Rent. Of the total \$234.2 million of property tax expenditures in this category, more than 87 percent is granted to moderate and middle income housing, with the largest proportion going to Limited Profit Housing Companies.

Public Agencies - Although tax exemptions are granted to all public authorities, the exempt properties included in this report benefit certain taxpayers rather than the public at large. The agencies include the City's Industrial Development Agency, the New York City Housing Authority, the State Urban Development Corporation and the regional New York-New Jersey Port Authority. Commercial and industrial projects account for over \$300 million of the tax expenditures attributable to public agencies. The New York City Housing Authority accounts for 88.5 percent of the \$269.2 million in residential tax expenditures in this category.

**Chart 2.**  
**Real Property Tax Expenditures**  
**By Source, FY 1999**  
**Total: \$1.480.9 million**



## **Detailed Program Descriptions: City Programs, State-Wide Programs, and Public Agencies**

The following sections provide information on tax expenditures within the real property tax. Table 1 covers City Programs, with a distribution by borough in Table 2. Similarly, Table 3 covers State-wide Programs, with a borough analysis in Table 4. Public Agencies are reviewed on a Citywide basis in Table 5, with a borough analysis provided in Table 6. Tables 1 and 2 contain data as described below:

Number of Exemptions - This column represents the quantity of exemptions under each program. Certain properties may be eligible for more than one exemption, such as the Veterans' and Senior Citizen exemptions. As a result, the number of exemptions does not coincide with the number of parcels receiving exemptions.

Exempt Assessed Value - Exemptions have the effect of excluding from the tax rolls a portion of the assessed value, whether the result of new construction (for example, the Industrial and Commercial Incentive Program) or tax relief (Senior Citizens Homeowner Exemption). When a program provides an abatement of property taxes, this column is marked "N/A" and the value of the abatement can be found in the column marked "Tax Expenditures."

Tax Expenditures - Tax expenditures were determined by applying the appropriate tax rates to the exempt values in each category. The City's property tax system establishes separate tax rates for each of the four major classes: class one - one, two and three family homes; class two - all other residential properties; class three - property owned by utility corporations; and class four - all other properties, primarily commercial and industrial. Each exemption category was analyzed to determine the amount of exemption attributable to each of the City's four tax classes.

Abatements are often based upon factors that are unrelated to assessed values. For example, an abatement granted to a landlord under the SCRIE program is based upon the cumulative amount of rent increases not collected from eligible senior citizen renters living in his or her apartment building.

Residential/Commercial - In Tables 1, 3, and 5, the number of exemptions, exempt assessed value, and tax expenditure are further detailed between residential and commercial use. The residential category includes those properties designated as Tax Class One or Two. The commercial category includes all others, including properties that combine residential and commercial use.

Tables 3, 4, 5, and 6 contain the following additional data as described below:

Gross Tax Expenditures - For Tables 3 and 5, gross tax expenditures are determined by applying the appropriate tax rates to the exempt values, using the same methodology that was applied for Tax Expenditures in Table 1, but not accounting for any offsetting revenues.

Payments-in-Lieu-of-Taxes (PILOTs) - Although exempt from taxation, certain properties may be contractually obligated to make payments to the City. Additionally, certain housing programs are required to pay taxes based on a shelter rent formula, defined as gross rent less utility costs. Though available by exemption, this information may not be available by property type at this time.

Net Tax Expenditures - These values are determined by reducing the gross tax expenditures by applicable PILOTs. Tax abatements, which are credits used to reduce tax liability (rather than assessment reductions), are included in this column.

The following set of tables is a complete description of the tax expenditure programs, including the legal citations, program objective, and distribution of benefits and the value of the tax expenditure. Because of limitations in the data, property tax information for certain programs was not available for this report

**Table 1**  
**CITY PROGRAMS**  
**REAL PROPERTY TAX EXPENDITURES**  
**Fiscal Year 1999**  
**(\$ Millions)**

	Number of Exemptions & Abatements	Exempt Assessed Value <sup>1</sup>	Tax Expenditure
<b>HOUSING DEVELOPMENT PROGRAMS</b>	<b>96,669</b>	<b>\$1,421.9</b>	<b>\$253.9</b>
J-51 Exemption	7,790	\$512.1	\$54.9
Residential	7,783	\$507.5	\$54.4
Commercial	7	\$4.6	\$0.5
J-51 Abatement	51,741	N/A	\$105.8
Residential	51,711	N/A	\$105.6
Commercial	30	N/A	\$0.2
421-a, New Multiple Dwellings	23,749	\$734.7	\$78.9
10 year exemption	7,820	\$253.8	\$27.2
15 year exemption	12,570	\$252.1	\$27.1
20 year exemption	5	\$90.7	\$9.7
25 year exemption	3,354	\$138.1	\$14.8
Residential	21,685	\$693.6	\$74.7
Commercial	2,064	\$41.2	\$4.2
421-b, New Private Housing	12,724	\$89.1	\$9.8
HPD Division of Alternative Management (DAMP)	665	\$43.2	\$4.6
<b>INDIVIDUAL ASSISTANCE PROGRAMS</b>	<b>438,167</b>	<b>\$ 453.3</b>	<b>\$ 252.4</b>
Senior Citizen Homeowner Exemption (SCHE)	30,120	\$192.8	\$21.1
Senior Citizen Rent Increase Exemption (SCRIE) <sup>2</sup>	49,002	N/A	\$62.5
Veterans' Exemption	74,191	\$260.5	\$16.1
Physically Disabled Crime Victims Partial Exemption	1	\$0.0	\$0.0
Co-op/Condo Abatement <sup>3</sup>	284,853	N/A	\$152.7

<sup>1</sup> When the program provides an abatement of property taxes, this column is marked "N/A" and the value of the abatement is reflected in the column marked "Tax Expenditures."

<sup>2</sup> SCRIE amount as of April 1, 1998; this amount includes \$2 million in suspension; based on fiscal 1998 Dept. of Aging data, 55,469 households receive SCRIE benefits.

<sup>3</sup> A total of 38,625 residential condo units plus 246,228 co-op units in 4,551 developments benefitted from this program in FY 99.

**Table 1 (cont'd)**

	<b>Number of Exemptions &amp; Abatements</b>	<b>Exempt Assessed Value</b>	<b>Tax Expenditure</b>
<b>ECONOMIC DEVELOPMENT PROGRAMS</b>	<b>4,323</b>	<b>\$1,467.4</b>	<b>\$156.2</b>
Industrial & Commercial Incentive Board (ICIB)	288	87.5	9.0
New Construction	55	16.6	1.7
Alterations	233	70.9	7.3
Industrial & Commercial Incentive Program (ICIP)	3,552	1,204.1	123.5
Deferral Areas <sup>4</sup>	47	62.3	6.6
Industrial & Special Commercial	1,838	460.4	47.1
All Other Commercial Projects	1,667	681.4	69.8
Other Commercial & Industrial Exemptions	483	175.8	23.8
Water-works Corporations	121	90.8	8.2
Major League Sports Facilities	1	85.1	8.7
Commercial Revitalization Program <sup>5</sup>	361	N/A	6.9
<b>TOTAL- CITY PROGRAMS</b>	<b>539,159</b>	<b>\$3,299.8</b>	<b>\$662.5</b>
Total Residential	94,568	1,333.4	249.0
Total Commercial/Industrial	6,424	1,513.2	161.0
Total Individual Assistance	438,167	453.3	252.4

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<sup>4</sup> Taxes in these areas are deferred, not wholly forgiven, and must be paid back over a ten year period.  
The amount shown reflects the unadjusted values of the current tax exemption.

<sup>5</sup> CRP amounts through February 8, 1999.

*Totals may not add due to rounding.*

**Table 2**  
**CITY PROGRAMS**  
**REAL PROPERTY TAX EXPENDITURES BY BOROUGH**  
**Fiscal Year 1999**  
**(\$ Millions)**

	MANHATTAN		THE BRONX	
	Number of Exemptions	Tax Expenditure	Number of Exemptions	Tax Expenditure
<b>HOUSING DEVELOPMENT PROGRAMS</b>	<b>30,245</b>	<b>\$96.3</b>	<b>18,922</b>	<b>\$49.4</b>
J-51 Exemption	2,267	16.4	1,219	21.6
J-51 Abatement	19,122	31.7	14,741	22.4
421-a, New Multiple Dwellings	8,516	45.1	1,468	3.7
421-b, New Private Housing	25	0.0	1,331	0.8
HPD Division of Alternative Management	315	3.1	163	0.8
<b>INDIVIDUAL ASSISTANCE PROGRAMS</b>	<b>175,664</b>	<b>\$139.8</b>	<b>31,065</b>	<b>\$15.7</b>
Senior Citizen Homeowner Exemption	314	0.6	3,325	2.0
Senior Citizen Rent Increase Exemption	14,206	20.5	7,193	8.9
Veterans' Exemption	2,089	2.6	6,012	1.1
Co-op/Condo Abatement	159,055	116.1	14,535	3.7
Phys. Disabled Crime Victims Part. Exemption	0	0	0	0
<b>ECONOMIC DEVELOPMENT PROGRAMS</b>	<b>940</b>	<b>\$62.0</b>	<b>456</b>	<b>\$16.3</b>
Industrial & Commercial Incentive Board	81	4.6	26	0.3
Industrial & Commercial Incentive Program	504	41.9	430	16.0
Water-works Corporations	0	0	0	0
Major League Sports Facilities	1	8.7	0	0
Commercial Revitalization Program	354	6.8	0	0
<b><u>TOTAL: CITY PROGRAMS</u></b>	<b><u>206,849</u></b>	<b><u>\$298.1</u></b>	<b><u>50,443</u></b>	<b><u>\$81.4</u></b>

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*Note: Totals may not add due to rounding.*

Table 2 (cont'd)

<u>BROOKLYN</u>		<u>QUEENS</u>		<u>STATEN ISLAND</u>	
<u>Number of Exemptions</u>	<u>Tax Expenditure</u>	<u>Number of Exemptions</u>	<u>Tax Expenditure</u>	<u>Number of Exemptions</u>	<u>Tax Expenditure</u>
<b>18,575</b>	<b>\$55.5</b>	<b>16,174</b>	<b>\$41.8</b>	<b>12,753</b>	<b>\$10.9</b>
3,427	14.6	695	2.1	182	0.3
8,916	29.8	8,284	21.2	678	0.5
4,877	9.5	6,330	17.6	2,558	2.9
1,175	0.9	858	0.8	9,335	7.2
180	0.7	7	0	0	0
<b>75,205</b>	<b>\$36.3</b>	<b>134,204</b>	<b>\$55.0</b>	<b>22,029</b>	<b>\$5.7</b>
8,233	5.9	14,660	10.5	3,588	2.1
16,463	17.6	10,919	15.4	221	0.2
17,418	3.2	32,932	6.7	15,740	2.6
33,091	9.6	75,692	22.5	2,480	0.7
0	0	1	0	0	0
<b>965</b>	<b>\$19.3</b>	<b>1,471</b>	<b>\$45.4</b>	<b>491</b>	<b>\$13.1</b>
62	0.9	101	2.1	18	1.0
903	18.4	1,242	35.0	473	12.1
0	0	121	8.2	0	0
0	0	0	0	0	0
0	0	7	0.1	0	0
<b>94,745</b>	<b>\$111.1</b>	<b>151,849</b>	<b>\$142.2</b>	<b>35,273</b>	<b>\$29.7</b>

**Table 3**  
**STATE-WIDE PROGRAMS**  
**REAL PROPERTY TAX EXPENDITURES**  
**Fiscal Year 1999**  
**(\$ Millions)**

	<b>Number of Exemptions</b>	<b>Exempt Assessed Value</b>	<b>Gross Tax Expenditure</b>	<b>PILOTs<sup>1</sup></b>	<b>Net Tax Expenditures</b>
Limited Profit Housing					
Companies	368	\$2,084.7	\$223.3	\$63.9	\$159.4
Residential	326	1,979.9	212.6	63.9	148.7
Commercial	42	104.8	10.7	0	10.7
Limited Dividend Companies	16	85.7	6.9	3.5	3.4
Redevelopment Companies	405	531.1	57.0	34.6	22.4
Residential	382	525.9	56.5	34.6	21.8
Commercial	23	5.1	0.5	0	0.5
Housing Development Fund					
Companies	236	344.5	36.5	10.8	25.7
Residential	183	248.7	26.7	10.8	15.9
Commercial	53	95.8	9.8	0	9.8
Urban Development Action					
Area Program	5,523	95.7	10.4	3.1	7.2
State Assisted Housing	78	156.8	16.4	0.4	16.1
Residential	37	75.7	8.1	0.4	7.8
Commercial	41	81.1	8.3	0	8.3
<b>TOTAL: STATE-WIDE PROGRAMS</b>	<b><u>6,626</u></b>	<b><u>\$3,298.5</u></b>	<b><u>\$350.6</u></b>	<b><u>\$116.4</u></b>	<b><u>\$234.2</u></b>
Total Residential	6,467	3,011.7	321.3	116.4	204.8
Total Commercial/Industrial	159	286.8	29.4	0	29.4

<sup>1</sup> PILOTs are fiscal year 1999 estimates.

Note: Totals may not add due to rounding.

**Table 4**  
**STATE-WIDE**  
**REAL PROPERTY TAX EXPENDITURES BY BOROUGH**  
**Fiscal Year 1999**  
**(\$ Millions)**

	MANHATTAN		THE BRONX	
	<b>Number of Exemptions</b>	<b>Net Tax Expenditure</b>	<b>Number of Exemptions</b>	<b>Net Tax Expenditure</b>
Limited Profit Housing Companies	100	\$72.3	98	\$35.7
Limited Dividend Companies	3	2.2	1	(0.1)
Redevelopment Companies	92	14.9	166	1.4
Housing Development Fund Companies	67	9.9	69	9.1
Urban Development Action Area Program	173	1.6	1,078	1.4
State Assisted Housing	39	5.3	16	4.0
<b><u>TOTAL STATE-WIDE PROGRAMS</u></b>	<b><u>474</u></b>	<b><u>\$106.2</u></b>	<b><u>1,428</u></b>	<b><u>\$51.6</u></b>

*Note: Totals may not add due to rounding.*

Table 4 (cont'd)

<u>BROOKLYN</u>		<u>QUEENS</u>		<u>STATEN ISLAND</u>	
<u>Number of Exemptions</u>	<u>Net Tax Expenditure</u>	<u>Number of Exemptions</u>	<u>Net Tax Expenditure</u>	<u>Number of Exemptions</u>	<u>Net Tax Expenditure</u>
110	\$35.3	55	\$15.3	5	\$0.8
9	1.1	3	0.1	0	0
132	5.5	7	0.4	8	0.1
83	5.1	14	1.3	3	0.4
3,717	3.5	539	0.7	16	0.0
15	4.3	7	1.9	1	0.7
<u>4,066</u>	<u>\$54.7</u>	<u>625</u>	<u>\$19.7</u>	<u>33</u>	<u>\$2.0</u>

**Table 5**  
**PUBLIC AGENCIES**  
**REAL PROPERTY TAX EXPENDITURES**  
**Fiscal Year 1999**  
**(\$ Millions)**

	<b>Number of Exemptions</b>	<b>Exempt Assessed Value</b>	<b>Gross Tax Expenditure</b>	<b>PILOTs</b>	<b>Net Tax Expenditure</b>
Industrial Development Agency	622	\$1,002.0	\$101.3	\$39.8	\$61.5
Economic Development Corporation	197	87.4	8.9	1.5	7.4
NYC Housing Authority	1,450	2,443.5	262.3	21.1	241.2
Residential	1,350	2,414.4	259.3	21.1	238.2
Commercial	100	29.1	3.0		3.0
Urban Development Corporation	120	824.0	84.6	0.1	84.5
Residential	15	41.6	4.5		4.5
Commercial	105	782.4	80.1	0.1	80.0
NYS Power Authority	8	456.9	41.3	0.0	41.3
Battery Park City Authority	2,333	1121.6	116.0	36.5	79.5
Residential	2,296	247.0	26.5		26.5
Commercial	37	874.6	89.5	36.5	53.0
World Trade Center, Port Authority	1	855.0	87.5	26.0	61.5
Teleport, Port Authority	5	14.9	1.5	0.0	1.5
Trust for Cultural Resources	251	54.5	5.7	0.0	5.7
<b>TOTAL: PUBLIC AGENCIES</b>	<b><del>4,987</del></b>	<b><del>\$6,859.8</del></b>	<b><del>\$709.2</del></b>	<b><del>\$125.0</del></b>	<b><del>\$584.2</del></b>
Total Residential	3,661	2,703.0	290.3	21.1	269.2
Total Commercial/Industrial	1,326	4,156.8	418.9	103.9	315.0

Notes:

PILOTs are fiscal year 1999 billing estimates.

Teleport exempt AV source: NYC Department of Finance – Real Estate Utilities Coporation; the PILOT was discontinued due to the abatement of 100% of the taxes (and PILOT) as of February 1999.

*Totals may not add due to rounding.*

**Table 6**  
**PUBLIC AGENCIES**  
**REAL PROPERTY TAX EXPENDITURES BY BOROUGH**<sup>1</sup>  
**Fiscal Year 1999**  
**(\$ Millions)**

	<u>MANHATTAN</u>		<u>THE BRONX</u>	
	<u>Number of Exemptions</u>	<u>Gross Expenditure</u>	<u>Number of Exemptions</u>	<u>Gross Expenditure</u>
Industrial Development Agency	270	\$52.6	54	\$2.7
Economic Development Corporation	0	0	2	0.2
NYC Housing Authority	305	95.5	242	63.6
Urban Development Corporation	99	71.8	9	3.6
NYS Power Authority	3	2.8	2	0.0
Battery Park City Authority	2,333	116.0	0	0
World Trade Center, Port Authority	1	87.5	0	0
Teleport, Port Authority	0	0	0	0
Trust for Cultural Resources	251	5.7	0	0
<b>TOTAL: PUBLIC AGENCIES</b>	<b><u>3,262</u></b>	<b><u>\$432.1</u></b>	<b><u>309</u></b>	<b><u>\$70.2</u></b>

<sup>1</sup> Calculation of Net Tax Expenditure not possible due to lack of PILOT information by borough.

*Note: Totals may not add due to rounding.*

Table 6 (cont'd)

<u>BROOKLYN</u>		<u>QUEENS</u>		<u>STATEN ISLAND</u>	
<u>Number of Exemptions</u>	<u>Gross Tax Expenditure</u>	<u>Number of Exemptions</u>	<u>Gross Tax Expenditure</u>	<u>Number of Exemptions</u>	<u>Gross Tax Expenditure</u>
120	\$21.7	173	\$16.7	5	\$7.4
32	7.2	21	0.6	142	0.9
457	77.3	431	21.5	15	4.4
10	6.7	1	0.0	1	2.4
0	0	3	38.5	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	5	1.5
0	0	0	0	0	0
<b><u>619</u></b>	<b><u>\$113.0</u></b>	<b><u>629</u></b>	<b><u>\$77.3</u></b>	<b><u>168</u></b>	<b><u>\$16.6</u></b>

## **BUSINESS INCOME AND EXCISE TAX EXPENDITURES**

### **Overview**

The tax expenditures in this section derive from provisions of New York City tax law concerning the following business income and excise taxes: General Corporation Tax; Unincorporated Business Tax; Banking Corporation Tax; Utility Tax; Mortgage Recording Tax; Real Property Transfer Tax; and Commercial Rent Tax. A description of each tax, including the tax rate and base, is contained in Part VII.

In 1997, New York City tax law for the business income and excise taxes contained 23 provisions granting tax preferences that can be defined as tax expenditures. Data exist to estimate the value of 15 of these tax expenditures. The estimates are stated on a tax year rather than New York City fiscal year basis. When available, information is provided on the number of businesses benefiting from a tax expenditure program.

In Tax Year 1997, the tax expenditure value of the 15 programs totaled approximately \$397 million. Certain tax benefits are explicitly designed to foster economic development. Other tax expenditures, while created for economic development purposes, are also intended to reflect the unique economic activity in which certain industries are engaged. For example, there are special rules for allocating net income for the broadcasting, publishing and mutual fund industries. Still other tax expenditures are created for social objectives, such as to assist the dramatic arts or to promote certain types of scientific research.

### **Detailed Program Descriptions**

The following section provides information on New York City business income and excise tax expenditures. Table 7 provides a summary list of these tax expenditures with Tax Year 1997 estimates of revenue foregone for tax expenditure items for which data are available. The amounts were derived from Department of Finance data, unless otherwise noted. Following the summary table is a description of each program, including the legal citations and information, where applicable, regarding the years to which tax benefits can be carried forward.

**Table 7**

**BUSINESS INCOME AND EXCISE TAX EXPENDITURES  
Tax Year 1997**

<b>Program</b>	<b>(\$ Millions) Amount</b>
<u>Quantifiable</u>	
Insurance Corporation Non-Taxation .....	182
International Banking Facility .....	101
Foreign Bank Alternative Tax on Capital Stock .....	29
Energy Cost Savings Program Credit .....	27
Business and Investment Capital Tax Limitation.....	21
Cooperative Housing Corporation Four-Tenths Mill Tax Rate on Capital .....	15
Real Estate Investment Trusts .....	7
Special Allocation Rule: Regulated Investment Company Management Fees .....	7
Relocation and Employment Assistance Program .....	5
School Bus Operation Deduction . .....	2
Commercial Revitalization Program .....	1
Dramatic or Musical Arts Performance Exemption .....	*
Employment Opportunity Relocation Costs Credit .....	*
Manufacturing and Research and Development Property Depreciation .....	*
Real Estate Tax Escalation Credit .....	*
 TOTAL QUANTIFIABLE TAX EXPENDITURES .....	 397

Not Quantifiable

- Air Pollution Control Facilities Deduction
- Credit Line Mortgages
- Owner, Lessee or Fiduciary that Holds, Leases or Manages Real Property
- Purchase and Sale of Property or Stock Option Contracts  
for Taxpayer's Own Account
- Special Allocation Rules:
  - Credit Card Interest
  - 80/20 Allocation Rule for Security/Commodity Brokers
  - Newspaper and Periodical Publishers' Advertising Sales Receipts
  - Radio/TV Commercial Receipts

\* = Less than 1 million.

## **CALCULATION OF AVERAGE NEW YORK CITY TAXES PER WORKER**

Average New York City taxes per worker is calculated in two basic ways. For taxes paid by businesses, industry sector tax liability from Department of Finance Office of Tax Policy data is divided by sector employment to determine average business taxes per worker. For taxes paid by individuals, payroll data are divided by employment data to estimate average wages per sector, which are then converted by Office of Tax Policy ratios into personal income of residents and nonresidents per sector to determine average income taxes and sales taxes per worker.

The estimate of average City taxes per worker is the sum, by sector, of average business taxes per worker and average individual taxes per worker. Employment data are for calendar year 1997 and tax data are for tax year 1997, which roughly corresponds to calendar year 1997.

Eight City taxes are included in the calculations: Real Property Tax, Banking Corporation Tax, General Corporation Tax, Unincorporated Business Tax, Utility Tax, Commercial Rent Tax, Personal Income Tax and Sales Tax. (Minor City taxes, such as the Hotel Room Occupancy Tax, Cigarette Tax and Beer and Liquor Excise Tax, which are not directly related to primary City business activities, are not included in the calculations.) The industry sectors are: FIRE, Services, Manufacturing, Wholesale Trade, Retail Trade, Construction, Transportation-Communications-Utilities and Government.

In previous issues of this report, the average taxes-per-worker calculations were used to conduct a "break-even" analysis of selected tax expenditure programs. The analysis calculated the amount of measurable benefits that would have to be achieved in order to offset known program costs, and was used to help evaluate the programs. This year's report does not include a detailed review of any tax expenditure program.

The table below shows the calculated values of average taxes per worker by industry sector. The second column shows these values with property taxes excluded, and the third column shows the values for all City taxes.

## Calculation of Average Taxes per Worker

<u>Industry Sector</u>	<u>Non-Property Taxes Average per worker</u>	<u>All Taxes Average per worker</u>
FIRE	\$6,610	\$7,869
Services	2,274	2,783
Manufacturing	2,644	3,248
Wholesale Trade	2,753	2,987
Transport & Public Utilities	2,196	2,218
Construction	2,177	2,181
Retail Trade	1,348	1,996
Government	1,448	1,608
Private	2,921	3,506
<b>ALL INDUSTRIES</b>	<b>\$2,697</b>	<b>\$3,218</b>

The methodology and data sources used to calculate the average taxes per worker for each tax are detailed below.

1. Business Income Taxes:
  - General Corporation Tax (GCT)
  - Unincorporated Business Tax (UBT)
  - Banking Corporation Tax (BCT)

Department of Finance (DOF) Office of Tax Policy databases contain the distribution of GCT and UBT liability by industry sector; the Bank Tax is allocated entirely to the FIRE sector. Total business income taxes per sector are then divided by sector employment to determine business income taxes per sector per worker.

Sources: DOF Tax Policy Stat Unit data; NYS Department of Labor (DOL) employment data

2. Personal Income Tax (PIT)

For each industry sector, payroll data is divided by employment data to determine average wages per employee. The average wage is converted into taxable income to determine the value of taxes paid by City residents under the PIT, and by non-resident workers under the Non-Resident Earnings Tax. A weighted average of resident/non-resident taxes per sector per worker is determined using Census Journey-to-Work data and DOF PIT/Non-Resident Tax data.

Sources: DOF Tax Policy PIT data; NYS DOL data

### 3. Sales Tax (STX)

The business share of the Sales Tax is assumed to be distributed according to the sector distribution of business taxable income, as identified from GCT, UBT and BCT databases by the Office of Tax Policy. Industry sector STX shares are then divided by sector employment to determine average business STX paid per worker.

The average individual STX paid per worker is determined from wage and income data for residents and non-residents according to #2, above, combined with BLS Consumer Expenditure Survey data to determine average taxable consumer expenditures at various income levels for residents and non-residents. A weighted average of resident and non-resident STX paid is used to determine the average tax per individual worker. The average Sales Tax per sector per worker is the sum of the business share per worker and the individual share per worker.

Sources: NYC Tax Study Commission data; DOF Tax Policy Stat Unit and PIT data; NYS DOL data

### 4. Commercial Rent Tax

Department of Finance Commercial Rent Tax (CRT) processing tapes which do not have identifying industry codes are matched by business identification number with Tax Policy business income tax databases to identify each CRT filer's industry sector. CRT liability is then calculated by industry sector, and liability is divided by sector employment to determine average CRT per sector per worker.

Sources: DOF Tax Policy Stat Unit; NYS DOL data

### 5. Real Property Tax

The billable assessed value for Class 4 (non-residential, non-utility) buildings - net of the value of land which is assumed to be independent of the number of employees - is allocated to industry sector according to building classification, with the exception of the class "office buildings" which cannot be specifically identified by sector. For office buildings, the billable assessed value is assumed to be distributed by sector in proportion to the distribution of employment by sector. Billable assessed value for each industry sector is totaled and multiplied by the tax rate to determine tax liability, which is then divided by sector employment to determine the average property tax paid per sector per worker.

Sources: DOF Real Property Assessment Division (RPAD) data; Tax Policy Real Property data; Tax Policy Stat Unit data; NYS DOL data

6. Utility Tax (UTX)

Utility Tax liability is distributed 55 percent to commercial customers, based on NYS Public Service Commission data. (Residential utility taxes are assumed to be independent of employment and are not included in the calculation of taxes per worker.) Business UTX is assumed to be distributed among industry sectors in proportion to the sector distribution of business taxable income, as described in #4 above. Sector liability is then divided by sector employment to determine UTX paid per worker.

Sources: NYS Public Service Commission data; DOF Tax Policy Stat Unit data; NYS DOL data

**NYC TAXES DIRECTLY RELATED TO CITY EMPLOYMENT  
BY INDUSTRY SECTOR  
TAX YEAR 1997**

The ranking of industry sectors based on the City taxes directly attributable to them, is derived from the taxes-per-worker analysis described in Appendix II and utilizes the same methodological assumptions. For taxes paid by businesses, aggregate City tax liability is sorted by industry sector. For taxes paid by individuals, average taxes per worker calculated by industry sector are multiplied by industry-sector employment levels to determine the aggregate individual taxes attributable to the sectors. The two amounts are combined to provide the total taxes directly attributable to an industry sector. As in the average taxes-per-worker analysis, the calculation of total taxes is not intended to capture marginal revenues resulting from new employment, either directly or indirectly through "multiplier effects."

The first table presented below provides a ranking of one-digit industry sectors in descending order of total taxes attributable to the sectors. Following is a more detailed two-digit industry sector listing. For comparison purposes, the average taxes-per-worker and NYC employment rankings of the industry sectors are provided.

Please note that for several two-digit sectors, the average taxes-per-worker numbers are atypically high. This is due to the presence in the City of management offices and employees with relatively high City tax liabilities compared to the number of City workers employed in those sectors. Thus, for example, Petroleum Refining is ranked first in average taxes per worker but next to last in City employment.

**NYC Taxes Directly Related to City Employment <sup>2</sup>**  
**By One-Digit Industry Sector**  
**Tax Year 1997 <sup>3</sup>**

<b>Rank</b>	<b>Sector</b>	<b>Total Taxes</b>	<b>Taxes per Worker</b>	<b>TPW Rank</b>	<b>Employment Rank</b>
	All Industries	10,727.3	\$3,217.63		
	Private	9,911.4	\$3,506.49		
1	FIRE	3,689.0	\$7,869.30	2	4
2	Services	3,409.9	\$2,783.12	6	1
3	Government	815.9	\$1,608.19	10	2
4	Retail Trade	747.9	\$1,966.25	9	3
5	Nondurable Manufacturing	659.7	\$3,318.13	3	6
6	Wholesale Trade	539.2	\$2,987.13	5	7
7	Transport & Public Utilities	445.4	\$2,218.07	7	5
8	Durable Manufacturing	193.8	\$3,028.54	4	9
9	Construction	198.0	\$2,180.70	8	8
10	Agriculture, Forestry, Fisheries	4.5	\$1,328.21	11	10
11	Mining	2.5	\$8,927.08	1	11

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<sup>2</sup> Employment numbers are from the NYS Department of Labor Unemployment Insurance Series (ES 202), which matches the data and industry sectors used to calculate the average taxes-per-worker. The ES 202 data slightly understates NYC employment since it does not include employees not covered by unemployment insurance. Taxes included in the calculations are: Real Property Tax (Class 4 Buildings only), Banking Corporation Tax, General Corporation Tax, Unincorporated Business Tax, Utility Tax, Commercial Rent Tax, Personal Income Tax, and Sales Tax. Minor taxes not directly related to primary City business activities are not included.

<sup>3</sup> See Appendix II for discussion of methodology.

**NYC Taxes Directly Related to City Employment  
By Two-Digit Industry Sector  
Tax Year 1997**

<b>Rank</b>	<b>Sector</b>	<b>Total Taxes</b>	<b>Taxes per Worker</b>	<b>TPW Rank</b>	<b>Employment Rank</b>
1	Security & Commodities	1,685,486,867	10,850.38	5	4
2	Depository Institutions	990,343,784	8,622.56	6	7
3	Business Services	769,980,474	3,021.75	26	3
4	Local Government	658,607,500	1,639.47	58	1
5	Medical & Other Health Services	658,177,858	2,134.13	46	2
6	Legal Services	482,634,178	6,923.75	7	15
7	Real Estate	374,217,586	3,752.23	17	10
8	Engineering, Accounting & Related	371,224,052	3,763.88	16	11
9	Printing & Publishing	314,467,903	4,309.49	14	14
10	Holding & Other Investments	302,948,383	17,416.83	3	40
11	Nondurable Wholesale Trade	302,484,639	2,933.04	28	9
12	Durable Wholesale Trade	236,710,446	3,059.22	24	12
13	Eating & Drinking Places	205,938,911	1,507.32	60	6
14	Communication	191,163,769	3,037.38	25	18
15	Hotels	185,903,178	5,327.65	10	28
16	Social Services	181,284,153	1,178.90	65	5
17	Miscellaneous Retail	170,692,876	2,728.68	30	19
18	Educational Services	169,451,790	1,598.90	59	8
19	Insurance Carriers	162,630,697	3,226.10	22	22
20	Amusement & Recreation	159,384,761	3,671.11	18	24
21	Apparel	149,671,624	2,038.60	48	13
22	Special Trade Contractors	128,919,301	2,007.12	49	16
23	Insurance Agents, Brokers, Services	123,359,212	5,188.61	11	31
24	Federal Government	120,115,750	1,892.12	53	17
25	Motion Pictures	115,831,879	3,420.60	20	29
26	Apparel & Accessories	113,404,053	2,533.04	36	23
27	Air Transportation	101,368,474	1,900.53	52	21
28	Food Stores	87,664,868	1,496.22	61	20
29	Chemicals & Allied Products	78,304,727	5,540.95	9	43
30	State Government	78,304,563	1,859.22	54	25
31	General Merchandise	64,564,337	1,796.05	56	27
32	Membership Organizations	64,390,925	1,692.49	57	26
33	Electrical Equipment	59,668,022	4,597.27	13	45
34	Personal Services	51,152,228	1,797.15	55	30
35	General Building Contractors	50,281,539	2,637.24	33	38

**NYC Taxes Directly Related to City Employment  
By Two-Digit Industry Sector  
Tax Year 1997**

<b>Rank</b>	<b>Sector</b>	<b>Total Taxes</b>	<b>Taxes per Worker</b>	<b>TPW Rank</b>	<b>Employment Rank</b>
36	Nondepository Institutions	49,671,301	6,820.17	8	51
37	Miscellaneous Manufacturing Industries	47,973,863	2,201.34	44	32
38	Furniture & Homefurnishings	45,973,779	2,313.26	40	36
39	Automotive Repair & Garages	44,798,248	2,062.72	47	33
40	Food & Kindered Products	43,690,550	2,993.73	27	42
41	Electric, Gas & Sanitary	41,317,367	2,287.40	41	39
42	Transportation Services	37,228,690	1,945.28	51	37
43	Automotive Dealers & Gas Stations	37,094,063	2,712.15	31	44
44	Motor Freight & Warehousing	31,762,096	1,489.78	62	34
45	Local & Suburban Transit	31,663,470	1,488.99	63	35
46	Textile Mill Products	24,901,202	2,442.01	38	46
47	Building Materials	22,546,111	2,710.52	32	49
48	Miscellaneous Repair Services	22,351,047	3,293.70	21	52
49	Fabricated Metal Products	22,144,018	2,267.23	42	47
50	General Contractors other than Bldgs	18,776,254	2,507.18	37	50
51	Tobacco Products	16,796,237	18,336.50	2	64
52	Instruments, Photo & Optical Goods	15,549,469	4,883.63	12	58
53	Industrial & Commercial Machinery	15,467,390	3,200.37	23	54
54	Paper & Allied Products	15,059,888	2,412.28	39	53
55	Museums, Art Galleries & Gardens	12,260,625	1,316.37	64	48
56	Private Households	11,026,283	727.52	66	41
57	Water Transportation	10,605,783	2,251.28	43	55
58	Furniture & Fixtures	9,572,814	2,533.16	35	56
59	Transportation Equipment	8,472,371	3,902.52	15	61
60	Rubber & Miscellaneous Plastics	7,078,659	1,964.11	50	57
61	Leather & Leather Products	6,827,794	2,564.91	34	59
62	Stone, Clay & Glass	5,940,497	2,853.26	29	62
63	Lumber & Wood	4,869,760	2,155.71	45	60
64	Primary Metal Industries	4,168,556	3,615.40	19	63
65	Petroleum Refining	2,928,475	33,660.63	1	65
66	Pipelines	260,492	12,404.37	4	66