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Subject: New York State Legislation
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To Our Clients and Friends:

New York State has enacted legislation impacting certain significant provisions of the tax law. Highlights of the legislation are summarized below.

1. The business apportionment formula, which currently consists of property, payroll and receipts factors, is being replaced with a single factor sales formula. The change will be phased in for tax years beginning in 2006, and will be complete by the 2008 tax year.
2. The maximum capital base tax liability is increased from \$350,000 to \$1 million for all taxpayers other than manufacturers.
3. The tax rate for small business taxpayers is decreased from 6.85% to 6.5%. The income threshold for the small business rate is increased from \$200,000 to \$290,000.
4. Taxpayers are now required to disclose information about certain transactions that may involve tax avoidance. Taxpayers required to file federal disclosure statements for reportable and listed transactions must now attach such statements to the New York State return. Penalties will be imposed for nondisclosure and underpayment of tax due to participation in such transactions. A voluntary disclosure program is created for taxpayers that wish to report tax and interest attributable to such transactions.
5. Limited liability companies that are disregarded entities for federal purposes are now subject to filing fees.
6. The sales and use tax rate in the Metropolitan Commuter Transportation District is increased by 3/8%. This does not impact the sunset of the statewide rate increase of 1/4% enacted in 2003.

If you have any questions about the recent New York State tax legislation or any other state and local tax matters, please do not hesitate to contact me.

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