

February 4, 2008

The Honorable Eliot Spitzer
Governor
Office of the Governor
State Capitol
Albany, NY 12224

Dear Governor Spitzer:

On behalf of the Securities Industry and Financial Markets Association (“SIFMA”)¹, we are writing to express our concerns with the Governor’s proposed 2008-09 Executive Budget. In our view, the budget lacks critical growth incentives for both the financial services industry (including the securities, banking and investment management industries) and proposes a tax increase on the industry. This budget places an inordinate burden on the financial services sector in closing the State’s current state deficit, by imposing over \$100 million in additional taxes our industry, hindering the industry’s ability to compete globally. These proposals may well have the inadvertent and detrimental impact of leading to further declines in employment in this sector, which would contribute to the state’s declining economy and revenues.

As the Executive Budget proposal correctly points out the Finance and Insurance sectors account for greater than 20% of the total of New York State’s employees and wages.² Given New York’s significant employment in the financial sector and the percentage of state revenues it generates, it is at best counterintuitive why at this time the State would eliminate incentives and increase tax rates for the financial services industry. By eliminating the Investment Tax Credit (“ITC”) for the financial services industry and eliminating the liability cap for non-manufacturers on the Franchise Tax on Capital, the budget places a disproportionate tax burden on the financial services industry at time when it has been hard hit by the credit crisis. We respectfully request immediate reconsideration of these policy decisions and would appreciate an opportunity to discuss them with you in detail.

¹ The Securities Industry and Financial Markets Association brings together the shared interests of more than 650 securities firms, banks and asset managers. SIFMA’s mission is to promote policies and practices that work to expand and perfect markets, foster the development of new products and services and create efficiencies for member firms, while preserving and enhancing the public’s trust and confidence in the markets and the industry. SIFMA works to represent its members’ interests locally and globally. It has offices in New York, Washington D.C., and London and its associated firm, the Asia Securities Industry and Financial Markets Association, is based in Hong Kong.

² 2008-09 Executive Budget Economic and Revenue Outlook State of New York p. 118

SIFMA strongly urges that the budget contain a provision to make the ITC, which is set to expire on October 1 of this year, permanent for the financial services industry. The ITC was adopted in 1998 for a limited 5-year period, and extended in 2003 for an additional 5 years, because of its success in maintaining the large presence of the financial services industry in New York. Given its successful track record of encouraging growth and retention of the industry, as evidenced by the recovery of the industry after the devastating September 11 attacks, SIFMA urges you to make the ITC permanent. In addition to making the ITC a permanent incentive, we would propose the following technical changes to the law:

- Eliminate the burdensome and undefined employment test;
- Clarify rules determining whether property is principally used in the ordinary course of business;
- Allow aggregation of the uses of property to qualify for the ITC; and
- Allow aggregation of uses of property by separate but related legal entities in qualifying for ITC.
- Make it clear that investment advisory activities beyond those provided to Regulated Investment Companies (i.e., mutual funds) will qualify for the ITC.

We specifically urge elimination of the provision which removes the liability cap on the Franchise Tax on Capital, as it increases the tax liability for those in the industry facing losses this year, while remaining available to manufacturers.

Making the ITC with needed technical corrections permanent for financial services firms and reinstating the liability cap for all 9-A taxpayers are top priorities for SIFMA members. We look forward to meeting with you to discuss and resolve these critical issues. In the meantime, if you have any questions or need additional information, please contact me at 212-313-1233 or SIFMA's New York counsel, Steve Weingarten or Bob Reid at 518-465-7330.

Sincerely,



Nancy Donohoe Lancia
Managing Director
State Government Affairs