



**DEPARTMENT OF REVENUE**  
**Office of Revenue Analysis**

**RHODE ISLAND REVENUE CHANGES**  
**2011 SESSION**

In the 2011 session, the General Assembly enacted a number of changes to state law that impact general revenues. Generally, these changes can be categorized as changes to general revenue sources and changes to non-general revenue sources. Changes to general revenue sources encompass tax and fee changes as well as changes to the operation of the state lottery. Changes to non-general revenue sources primarily consist of changes that impact revenue sources that are dedicated for specific purposes. This report discusses only those revenue changes that occurred after the conclusion of the May 2011 Revenue Estimating Conference either from an enacted change in law or promulgated by administrative rules. It does not discuss revenue changes that were incorporated into the estimates adopted at the May 2011 Revenue Estimating Conference.

The general revenue *tax* changes enacted by the General Assembly in the 2011 session include: (1) instituting a top 100 delinquent personal income taxpayers list; (2) allowing the Division of State Lottery to offset lottery winnings for personal income taxes owed; (3) increasing the ranks of the Division of Taxation's auditing and compliance personnel; (4) instituting a top 100 delinquent business taxpayers list; (5) subjecting additional business entities to the state's corporate minimum tax; (6) eliminating the "cost of living adjustment" for nursing home providers; (7) expanding the sales tax base to include sightseeing and package tours, prewritten software delivered electronically or by "load and leave", and over-the-counter drugs including medical marijuana; (8) disallowing insurance proceeds received for a destroyed or stolen passenger automobile as the trade-in value when purchasing a replacement vehicle; (9) repealing the Rhode Island Economic Development Corporation's and the Rhode Island Industrial Facilities Corporation's authority to issue sales tax exemptions for projects; and (10) establishing the Rhode Island Highway Maintenance Trust Fund to be financed by surcharges on vehicle registrations and operator's licenses that are phased in over the FY 2014 – FY 2016 period.

The general revenue *fee* changes enacted by the General Assembly in the 2011 session include: (1) decreasing the rate and updating the base for the hospital licensing fee; (2) increasing various fees administered by the Department of Environmental Management, the Department of

Business Regulation and the Department of Revenue; (3) imposing a new fee for background checks conducted by the Department of Children, Youth and Families; (4) enabling the Division of Taxation to act as a collection agency for other state and local agencies; (5) extending the state's "admissions tax" to mixed martial arts events; and (6) accepting a Cancer Registries Research grant for the Department of Health and a New Work Force Strategies Grant from the Urban Institute.

The general revenue *transfer* changes enacted by the General Assembly in the 2011 session include: (1) reducing the Division of State Lottery's operating expenses and transferring the savings to the general fund; (2) relieving Newport Grand of the requirement that its net terminal income surpass FY 2010 levels before the State jointly finances the facility's marketing program; (3) increasing the Town of Lincoln's share of Twin River's net terminal income for weeks in which Twin River operates on a 24-hour basis; and (4) reclassifying up to \$1.0 million received from the sale of state property as restricted receipts.

The *non-general revenue* changes enacted by the General Assembly in 2011 consist of: (1) phasing-in increases in the fees to register a motor vehicle or obtain a driver's license effective July 1, 2013 and designating the revenues raised as restricted receipts; (2) increasing the maximum amount of services covered under the Children's Health Account to \$7,500; (3) requiring local education agencies to pay the full cost of students from the school district to attend the William M. Davies School; (4) changing the formula for determining the taxable wage base subject to the state's unemployment insurance tax; (5) imposing a \$1,500 surcharge on the taxable wage base for those employers that have the greatest negative effect on the state's unemployment insurance trust fund's balance; and (6) establishing an annual Low Income Home Energy Assistance Program charge of \$10.00 to be assessed on the accounts of all electric and natural gas company customers.

The details associated with each of these changes are presented below.

## **2011 General Revenue Changes Enacted by the General Assembly**

### **Tax Changes Enacted by the General Assembly**

**Personal Income Taxes:** The 2011 General Assembly's enacted changes to the state's personal income tax consist of requiring the Division of Taxation to publicly post a list of the top 100 individual tax delinquents, allowing the Division of Lottery to offset lottery winnings for taxes owed to the state, and allowing the Division of Taxation to hire four additional full time equivalent revenue agents for personal income tax audit and compliance.

- *Top 100 Individual Tax Delinquents:* The General Assembly enacted into law a requirement that the Rhode Island Division of Taxation publicly post a separate top 100 tax delinquents list for individual taxpayers. This list displays the top 100 individual tax delinquents in descending order by the amount owed to the Division of Taxation. Individual taxpayers that are to be placed on this list are notified in advance of this pending designation and given an opportunity to meet with Division of Taxation officials to resolve the outstanding tax liability. Typically, individual taxpayers that have been notified of the pending placement on this list will make arrangements with the Division

of Taxation to pay the outstanding liability and thereby avoid the public disclosure of the outstanding tax liability.

Prior to the above enactment, Rhode Island General Law § 44-1-34 required the Division of Taxation to publicly post the top 100 tax delinquents that owed the largest amount of state tax and whose taxes have been unpaid for a period in excess of 90 days following the date the tax was due. The list contained the name and address of each delinquent taxpayer, the type of tax levied, and the amount of the delinquency, including interest and penalty. The list was comprised of both individual and business tax delinquents.

The requirement that the Division of Taxation post a top 100 individual delinquent taxpayers list is estimated to increase personal income taxes by \$779,965 in FY 2012.

- *Offset of Lottery Winnings for Personal Income Taxes Owed:* The General Assembly passed legislation that allows the Division of Lottery to offset lottery winnings for any taxes owed to the Division of Taxation. Individuals that win lottery prizes of \$600 or more must go to lottery headquarters to collect their winnings. The State Tax Administrator will furnish to the Director of Lottery a list of taxpayers that have unpaid taxes in excess of \$600. When an individual comes to lottery headquarters to claim winnings, the individual's social security number will be compared to the list of taxpayers with unpaid taxes provided by the Division of Taxation. If there is a match of social security numbers, then the Division of Lottery will offset against the lottery winnings the amount of taxes owed. The amount of unpaid taxes will be the third priority in offsetting lottery winnings.

Under prior law, the Division of Lottery was required to offset lottery winnings for child support debt and any benefit overpayments made by the Department of Labor and Training (DLT). Child support debt is the first priority in the offset of lottery winnings

The requirement that the Division of Lottery offset lottery winnings in excess of \$600 for unpaid taxes is estimated to increase personal income taxes by \$141,457 in FY 2012.

- *Enhanced Personal Income Tax Audit and Compliance Activities:* The General Assembly increased the Division of Taxation's full-time equivalent positions cap to allow the Division of Taxation to hire four full time equivalent revenue agent positions in FY 2012. The Division of Taxation intends to use these four revenue agents to increase the staff dedicated to its Discover Tax program, a program that focuses on increasing taxpayer compliance with the state's income tax. The Division of Taxation has indicated that, on average, the increased compliance that results from revenue agent audit and compliance activities increases tax collections by \$500,000 annually per revenue agent.

Under prior law, the Division of Taxation's full-time equivalent positions cap imposed by the General Assembly would not have allowed the Division of Taxation to hire these positions. The staffing of these positions requires an expenditure of \$260,400 for salaries and benefits.

The addition of the four revenue agent positions is estimated to increase personal income tax collections by \$2.0 million in FY 2012.

**Business Corporations Taxes:** The 2011 General Assembly enacted two changes to current law that impact business corporations taxes. The first is requiring the Division of Taxation to

publicly post a list of the top 100 business tax delinquents. The second expands the type of business entities that are subject to the corporate minimum tax.

- *Top 100 Business Tax Delinquents:* The General Assembly enacted into law a requirement that the Rhode Island Division of Taxation publicly post a separate top 100 tax delinquents list for business taxpayers. This list displays the top 100 business tax delinquents in descending order by the amount owed to the Division of Taxation. Business taxpayers that are to be placed on this list are notified in advance of this pending designation and given an opportunity to meet with Division of Taxation officials to resolve the outstanding tax liability. Typically, business taxpayers that have been notified of the pending placement on this list will make arrangements with the Division of Taxation to pay the outstanding liability and thereby avoid the public disclosure of the outstanding tax liability.

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The requirement that the Division of Taxation post a top 100 delinquent business taxpayers list is estimated to increase business corporations taxes by \$130,415 in FY 2012.

- *Increase the Type of Business Entities Subject to the Corporate Minimum Tax:* The General Assembly passed legislation that subjects limited partnerships and limited liability partnerships to the state's \$500 corporate minimum tax. Prior to the passage of this legislation, neither limited partnerships nor limited liability partnerships were subject to the corporate minimum tax. In addition, the General Assembly amended Rhode Island General Law § 7-16-67 to make it clear that all limited liability companies must pay the state's corporate minimum tax.

Under prior law, business entities that are treated as corporations for purposes of federal income taxation are subject to the state's corporate minimum tax of \$500 as are limited liability companies that are treated as a partnership for purposes of federal income taxation. Further, subchapter S corporations are subject to the state's minimum franchise tax which is also \$500.

The imposition of the state's \$500 corporate minimum tax on limited partnerships and limited liability partnerships is estimated to increase business corporations tax collections by \$794,250 in FY 2012. These estimated revenues are for one-half year as the law took effect on July 1, 2011.

**Health Care Provider Assessment:** The 2011 General Assembly enacted two changes to current law that have implications for the health care provider assessment on nursing homes. The first is requiring the Division of Taxation to publicly post a list of the top 100 business tax delinquents. The second eliminates the "cost of living adjustment" that was to be paid to nursing home providers on July 1, 2011

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The requirement that the Division of Taxation post a top 100 delinquent business taxpayers list is estimated to increase health care provider assessments by \$275,888 in FY 2012.

- *Elimination of the “Cost of Living Adjustment” for Nursing Home Providers:* The General Assembly enacted legislation to eliminate the “cost of living adjustment” that was to be paid to nursing home providers in FY 2012.

Under prior law, nursing home providers were to receive a 2.5 percent increase in the payments made by the state for the provision of nursing home care. This “cost of living adjustment” was to go in to effect on October 1, 2011.

The legislation repealing the 2.5 percent “cost of living adjustment” that was to be paid nursing home providers effective October 1, 2011 is estimated to reduce health care provider assessment revenues by \$348,759 in FY 2012. Nursing home providers pay tax at a rate of 5.5 percent of gross revenues. Thus, the reduction in revenues of \$348,759 implies that nursing home provider payments from the state will be reduced by \$6.3 million in FY 2012.

**Sales and Use Taxes:** The 2011 General Assembly enacted six changes to state law that impacted the state’s sales tax base. One of these changes is the requirement that the Division of Taxation publicly post a list of the top 100 business tax delinquents. The other five changes expanded the state’s sales tax base by eliminating four sales tax exemptions and extending the state’s sales tax to one service previously not subject to the sales tax. The General Assembly took no action during the 2011 Session that changed that state’s sales tax rate.

- *Top 100 Business Tax Delinquents:* The General Assembly enacted into law a requirement that the Rhode Island Division of Taxation publicly post a separate top 100 tax delinquents list for business taxpayers. This list displays the top 100 business tax delinquents in descending order by the amount owed to the Division of Taxation. Business taxpayers that are to be placed on this list are notified in advance of this pending designation and given an opportunity to meet with Division of Taxation officials to

resolve the outstanding tax liability. Typically, business taxpayers that have received notification of the pending placement on this list will make arrangements with the Division of Taxation to pay the outstanding liability and thereby avoid the public disclosure of the outstanding tax liability.

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The requirement that the Division of Taxation post a top 100 delinquent business taxpayers list is estimated to increase sales and use tax revenues by \$602,339 in FY 2012.

- *Use of Insurance Proceeds as the Trade-In Value when Purchasing a New or Used Replacement Vehicle:* The 2011 General Assembly passed into law changes to Rhode Island General Law subsection 44-18-30(23). In particular, the law deletes the provision, effective October 1, 2011, that “the proceeds applicable only to the motor vehicle as are received from an insurance claim as a result of a stolen or damaged motor vehicle” could be used as the trade-in value of the motor vehicle when purchasing a new or used replacement vehicle. In this context, a motor vehicle is defined as a private passenger automobile that is “not used for hire”.

Under prior law, the amount of insurance proceeds received that were applicable only to the value of the motor vehicle that was stolen or damaged could be allocated against the purchase price paid for a new or used replacement automobile as a trade-in allowance. The value of the trade-in allowance for a private passenger automobile is exempt from the state’s sales and use tax.

The repeal of the use of insurance proceeds from a damaged or stolen motor vehicle as the trade-in allowance when purchasing a new or used replacement private passenger automobile is estimated to increase sales and use tax revenues in FY 2012 by \$776,903. These increased revenues incorporate the October 1, 2011 effective date contained in the law.

- *Prewritten Computer Software Delivered Electronically or by Load and Leave:* In the 2011 Session, the General Assembly enacted into law the repeal of the exemption from the state’s sales and use tax for prewritten computer software delivered electronically or by load and leave effective October 1, 2011. Prewritten computer software delivered electronically includes cell phone applications.

Under prior law, prewritten computer software delivered electronically or by load and leave was exempt from the sales and use tax by Rhode Island General Law subsection 44-18-30(61).

The repeal of the exemption for prewritten software delivered electronically or by load and leave is estimated to increase sales and use tax revenues in FY 2012 by \$6,668,600. These increased revenues incorporate the October 1, 2011 effective date contained in the law.

- *Over-The-Counter Drugs Including Medical Marijuana:* The 2011 General Assembly passed legislation that repeals the exemption of over-the-counter drugs from the state sales and use tax contained in Rhode Island General Law subsection 44-18-30(10) effective October 1, 2011. The definition of over-the-counter drugs is found in Rhode Island General Law subsection 44-18-7.1(h)(ii). In addition, the 2011 General Assembly clarified state law so that medical marijuana, regardless of whether or not it is “prescribed” by a health care professional, is subject to the state’s sales and use tax.

Under prior law, the gross receipts from the sale of over-the-counter drugs and the consumption, storage or other use of over-the-counter drugs were exempt from the state’s sales and use tax. Furthermore, it was not clear under state law whether the sale, use, other consumption or storage of medical marijuana was subject to the state’s sales and use tax.

The repeal of the sales and use tax exemption for over-the-counter drugs is estimated to generate \$7,765,808 in additional sales and use taxes in FY 2012. The application of the state’s sales and use tax to the retail sale of medical marijuana is estimated to increase FY 2012 sales and use tax collections by \$849,192. These increased revenues incorporate the October 1, 2011 effective date contained in the law.

- *Rhode Island Economic Development Corporation Project Status Designees and Rhode Island Industrial Facilities Corporation Lessees:* The 2011 General Assembly passed legislation that repeals the sales and use tax exemption that can be granted by the Rhode Island Economic Development Corporation (RIEDC) under Rhode Island General Law § 42-64-20 to companies that receive project status designation. Similarly, the General Assembly enacted legislation in the 2011 session that repeals the sales and use tax exemption that can be granted by the Rhode Island Industrial Facilities Corporation (RIIFC) under Rhode Island General Law § 45-37.1-9 to companies that are project lessees. The repeal of these sales tax exemptions are effective July 1, 2011 for projects that have not been approved prior to the effective date.

Under prior law, RIEDC project status designees did not have to pay the state sales and use tax on “materials used in the construction, reconstruction or rehabilitation of the project and to the acquisition of furniture, fixtures and equipment, except automobiles, trucks or other motor vehicles, or materials that otherwise are depreciable and have a useful life of one year or more, for the project for a period not to exceed six (6) months”. RIIFC project lessees did not have to pay the state sales and use tax on “materials used in construction of such a facility only to the extent that the costs of such materials do not exceed the amount financed through the corporation”.

The repeal of the sales and use tax exemption for RIEDC project status designees and RIIFC project lessees is estimated to increase sales and use tax revenues in FY 2012 by \$100,000.

- *Scenic Sightseeing and Package Tours:* The 2011 General Assembly enacted legislation that expanded the definition of sales contained in Rhode Island General Law § 44-18-7 to include the furnishing of package tour and scenic and sightseeing transportation services provided that such services are conducted in the state, in whole or in part. By adding this language to the definition of sales, the furnishing of package tour and scenic and sightseeing transportation services become subject to the state’s 7.0 percent sales tax.

The effective date of this change in the definition of sales to include package tours and scenic and sightseeing transportation services is October 1, 2011.

Under prior law, the only services that were included in the definition of sales that are subject to the state's sales and use tax were intrastate, interstate and international telecommunications sourced in the state, mobile telecommunication services if a customer's place of primary use is in the state, the transmission of messages by telegraph, cable or radio, community antenna, subscription, and cable television services, the rental of living quarters in any hotel, rooming house or tourist camp, and prepaid telephone calling arrangements and the recharge of prepaid telephone calling arrangements.

The expansion of the state's sales tax base to include package tours and scenic and sightseeing transportation services is estimated to increase sales and use tax revenues by \$1,050,000 in FY 2012. These increased revenues incorporate the October 1, 2011 effective date contained in the law.

**Motor Vehicles Operator License and Vehicle Registration Fees:** The 2011 General Assembly enacted one law and changed another law that impacts motor vehicles operator licenses and vehicle registration fees effective July 1, 2011.

- *The Transportation and Debt Reduction Act of 2011:* In this act, the Rhode Island Highway Maintenance Trust Fund is created. The Trust Fund is to be financed from the monies derived from: (1) a \$30.00 surcharge per passenger car and light truck subject to biennial registration; (2) a \$15.00 surcharge per car and truck subject to annual registration; and (3) a \$30.00 surcharge per operator's license to be paid every five years. These surcharges are to be phased in over three fiscal years in equal increments beginning in FY 2014. Once the surcharges are fully phased-in in FY 2016 they will remain in place thereafter.

Under prior law, passenger cars, light trucks and trucks registered in Rhode Island pay registration fees based on gross vehicle weight. The annualized fees for these registrations range from \$30.00 for passenger cars that have gross vehicle weights of 4,000 pounds or less to more than \$972.00 for vehicles that have gross vehicle weights over 74,000 pounds. Rhode Island operator's licenses fees are \$30.00 and are renewed every five years.

The registration and operator's license fee surcharges have no impact on FY 2012 motor vehicles operator license and vehicle registration fee collections as they do not go into effect until FY 2014.

- *Reflective License Plate Issuance:* The 2011 General Assembly passed a law requiring the Division of Motor Vehicles to issue to owners of motor vehicles a new fully reflective license plate upon the renewal of a motor vehicle registration beginning September 1, 2013 with reissuance to be conducted no less than every 10 years thereafter.

Under prior law, the Division of Motor Vehicles was required to provide motor vehicle owners that renewed their motor vehicle registrations with a fully reflective plate beginning September 1, 2011 with reissuance to be conducted no less than every 10 years thereafter.

The issuance of a fully reflective license plate will have no impact on FY 2012 motor vehicles operator license and vehicle registration fee collections as it does not go into effect until FY 2014.

### **Fee Changes Enacted by the General Assembly**

**Department of Business Regulation Fee Changes:** The 2011 General Assembly passed into law an increase in two annual license fees administered by the Department of Business Regulation and extended the state's tax on admissions to professional mixed martial arts events or exhibitions.

- *License Fees for Securities Sales Representatives:* The 2011 General Assembly enacted an increase in the annual license fee paid by securities sales representatives to \$75.00 effective July 1, 2011.

Under prior law, the annual license fee for securities sales representatives was \$60.00.

The increase in the license fee for securities sales representatives is estimated to generate \$1,183,440 in additional departmental receipts in the enacted FY 2012 budget.

- *License Fees for Federal Covered Investment Advisers:* The 2011 General Assembly enacted an increase in the annual license fee paid by federal covered investment advisers to \$300.00 effective July 1, 2011.

Under prior law, the annual license fee for federal covered investment advisers was \$250.00.

The increase in the license fee for federal covered investment advisers is estimated to add \$41,000 in additional departmental receipts in the enacted FY 2012 budget.

- *Admissions Tax on Professional Mixed Martial Arts Events:* The 2011 General Assembly enacted a law to apply a 5.0 percent tax on the gross receipts from the sale of tickets and from admission fees charged at professional mixed martial arts events and exhibitions. This law expands the base to which the admissions tax is applied.

Under prior law, the State's 5.0 percent tax on admissions was only applied to the gross receipts and admissions fees charged at professional boxing and wrestling events and exhibitions.

No estimate of the revenue generated in FY 2012 from the application of the 5.0 percent admissions tax to professional mixed martial arts events and exhibitions was provided.

**Department of Children, Youth and Families Background Clearance Fees:** The 2011 General Assembly enacted into law a new fee to be charged by the Department of Children, Youth and Families for the performance of DCYF background clearances. The effective date of the implementation of the \$10.00 fee is July 1, 2011.

Under prior law, there was no provision for the Department of Children, Youth and Families to charge of fee for the conduct of background clearances for individuals seeking employment in licensed residential and child day care programs, to become child caregivers or to adopt children through private agencies, or for intrastate requests for a child welfare history.

The implementation of the DCYF background clearance fee is estimated to raise \$110,000 in additional license and fee departmental receipts in FY 2012.

**Department of Environmental Management Beach Parking Fees:** During the 2011 session, the Department of Environmental Management increased the parking fees at state beaches through the administrative procedure process. The 2011 beach parking fees were increased as follows:

<b>Beach Parking Fee Type</b>	<b>Previous Fee</b>	<b>New Fee</b>
<u>Resident</u>		
Season Pass	\$ 30.00	\$ 60.00
Daily Weekday	6.00	10.00
Daily Weekend	7.00	15.00
<u>Resident Senior</u>		
Season Pass	\$ 15.00	\$ 30.00
Daily Weekday	3.00	5.00
Daily Weekend	3.50	7.00
<u>Non-Resident</u>		
Season Pass	\$ 60.00	\$ 120.00
Daily Weekday	12.00	20.00
Daily Weekend	14.00	25.00
<u>Non-Resident Senior</u>		
Season Pass	\$ 30.00	\$ 60.00
Daily Weekday	6.00	10.00
Daily Weekend	7.00	12.00

Under prior law, the fees for parking at state beaches are shown above.

The FY 2012 enacted budget included estimated net general revenues under the licenses and fees component of departmental receipts of \$1,468,978.

**Department of Health Cancer Registries Research Grant:** The 2011 General Assembly enacted the receipt of grant revenue from the Hospital Association of Rhode Island for the purpose of conducting cancer registry research by the Department of Health.

Under prior law, the Department of Health had not received a grant for the purpose of conducting cancer registry research.

The grant revenue for the Department of Health's conduct of cancer registry research increases miscellaneous departmental receipts general revenues in FY 2011 by \$16,107.

**Department of Human Services Hospital Licensing Fee:** In the 2011 Session, the General Assembly passed legislation to reinstitute the state's hospital licensing fee for FY 2012 at a rate of 5.430 percent applied to each hospital's 2010 fiscal year net patient revenues.

Under prior law, the FY 2011 hospital licensing fee rate was set at 5.465 percent of each hospital's fiscal year 2009 net patient revenues. The hospital licensing fee expires at the end of

each state fiscal year and must be reinstated for the following state fiscal year. Thus, under prior law, no hospital licensing fee was in place for FY 2012.

For FY 2012, the reinstatement of the hospital licensing fee at the stated rate and applied to the new base is estimated to generate \$143,991,894 in the licenses and fees component of departmental receipts. The incremental change in hospital licensing fee revenues from FY 2011 to FY 2012 is \$2,175,350.

**Department of Human Services New Work Support Strategies Grant:** The 2011 General Assembly enacted the receipt of a grant from the Urban Institute for the purpose of allowing the Department of Human Services to assess its current delivery of benefits to families and develop plans for more effective and streamlined delivery of benefits to families. The benefits of interest in the study are Medicaid, the Supplemental Nutritional Assistance Program, Rhode Island Works and child care benefits.

Under prior law, the Department of Human Services had not received a grant for the purpose assessing current, and developing more effective future, delivery of benefits to families.

The grant revenue for the Department of Human Service's New Work Support Strategies grant increases miscellaneous departmental receipts general revenues in FY 2012 by \$250,000.

**Department of Revenue Fee Changes:** The 2011 General Assembly enacted legislation to establish or increase select fees imposed by the Division of Motor Vehicles and the Division of Taxation.

- *Division of Motor Vehicles Returned Check Fee:* The 2011 General Assembly enacted a new fee to be assessed by the Division of Motor Vehicles (DMV) for checks that are returned to DMV by the bank for non-sufficient funds. The proposed fee is \$25.00 and the application of the fee is effective July 1, 2011.

Under prior law, the Division of Motor Vehicles did not charge a fee for returned checks.

The estimated revenue impact in departmental receipts for FY 2012 from the application of the returned check fee is \$18,720.

- *Division of Motor Vehicles Special Use Identification Tags:* The 2011 General Assembly changed the law regarding the acquisition and use of special use identification tags by motor vehicle dealers. Specifically, the revised law allows motor vehicle dealers to purchase special use identification tags (i.e., temporary registration plates) in odd lot amounts at a cost of no more than \$25.00 per plate effective July 1, 2011.

Under prior law, motor vehicle dealers were required to purchase from the Division of Motor Vehicles special use identification tags in packs of ten plates at a cost of \$200 a pack.

No estimate of the revenue impact in FY 2012 of allowing motor vehicle dealers to purchase special use identification tags in odd lots for \$25.00 per plate was provided.

- *Division of Taxation Estate Filing Fee:* The 2011 General Assembly enacted an increase in the fee for the filing of a statement under oath showing the full and fair cash value of an estate and the amounts paid out from the estate for claims expenses, charges and fees. The fee is increased to \$50.00 and the increase is effective July 1, 2011.

Under prior law, the Division of Taxation charged \$25.00 for an estate to file the statement under oath noted above.

The estimated revenue impact in the licenses and fees component of departmental receipts for FY 2012 from the increased estate filing fee is \$108,915.

- *Division of Taxation Letter of Good Standing Fee:* The 2011 General Assembly enacted an increase in the fee for any taxpayer obtaining a letter of good standing from the Division of Taxation. A letter of good standing indicates that a “taxpayer is in good standing with respect to any and all returns due and taxes payable to Rhode Island”. A taxpayer typically seeks a letter of good standing in order to obtain financing, renew licenses, sell an asset or other business transactions. The fee is increased to \$50.00 and the increase is effective July 1, 2011.

Under prior law, the Division of Taxation charged \$25.00 for an individual to obtain a letter of good standing.

The estimated revenue impact in the licenses and fees component of departmental receipts for FY 2012 from the increased letter of good standing fee is \$122,925.

- *Division of Taxation Compassion Center Surcharge:* The 2011 General Assembly passed into law a 4.0 percent surcharge on the net patient revenue of compassion centers that are authorized by the State. A compassion center is a “not-for-profit entity registered under Rhode Island General Law § 21-28.6-12 that acquires, possesses, cultivates manufactures, delivers, transfers, transports, supplies or dispenses marijuana, or related supplies and educational materials” to registered patients or registered primary caregivers.

Under prior law, compassion centers were not an allowable legal entity and no surcharge on the net patient revenue of compassion centers was in place.

The estimated revenue impact in the licenses and fees component of departmental receipts for FY 2012 from the compassion center surcharge is \$693,693.

- *Division of Taxation to Serve as Debt Collector for Other Government Agencies:* During the 2011 Session, the General Assembly enacted into law a provision that would allow any governmental entity to contract with the state tax administrator to collect debts on their behalf at a lower cost than the fees charged by collection agencies. The Division of Taxation has collection tools at its disposal that are not typically available to other governmental entities.

Under prior law, the Division of Taxation lacked the authority to enter into such contracts with other governmental entities and serve as a collection agency for them.

The estimated revenue impact in the sales and services component of departmental receipts for FY 2012 from the provision to allow the Division of Taxation to function as a debt collector for other governmental entities is \$153,576. This estimate is based on the Department of Corrections outstanding debt for home confinement costs, probation and parole fees, and electronic monitoring program expenses and the amount the Division of Taxation would collect by offsetting the personal income tax refunds of taxpayers by the amount owed to the Department of Corrections.

## **Other Miscellaneous Revenue Changes Enacted by the General Assembly**

**Rhode Island Resource Recovery Corporation:** In the 2011 session, the General Assembly approved a one-time transfer of excess reserves from the Rhode Island Resource Recovery Corporation (RIRRC) to general revenues. RIRRC received an insurance settlement of \$5.0 million in 2010. The law firm hired to pursue the insurance claim received 30.0 percent of the settlement as its contingency fee. The remainder of the settlement was received by RIRRC and transferred to the general fund.

Under prior law, RIRRC was not obligated to transfer any monies from its excess reserves to the general fund. It should be noted that such transfers have occurred previously with the last one occurring in FY 2009 for a total of \$7.5 million.

The revenue transfer from Rhode Island Resource Recovery's excess reserves totals \$3,500,000 in FY 2012.

**Reclassification of Proceeds from Land Sales:** The 2011 General Assembly passed legislation that converts the first \$1.0 million the State receives from land sales to restricted receipts for the Information Technology Fund.

Under prior law, the proceeds from the sales of land received by the State were considered to be general revenue.

The reclassification of the first \$1.0 million of proceeds from the sale of state land reduces general revenues by \$1.0 million in FY 2012.

## **Lottery Revenue Changes Enacted by the General Assembly**

**Division of Lottery Reduced Operating Expenses:** In the 2011 Session, the General Assembly's appropriation for the Division of Lottery reduced its operating expenditures in FY 2012. Any reduction in operating expenditures for the Division of Lottery increases the lottery transfer to the general fund by the amount of the reduction in operating expenditures.

Under prior law, the General Assembly appropriated monies for the Division of Lottery's operations in accordance with the budget request submitted by the Governor.

The reduction in the appropriation to the Division of Lottery for operating expenses increases the lottery transfer to the general fund by \$982,593 in FY 2012

**Division of Lottery Video Lottery Terminal Division of Revenue:** The 2011 General Assembly enacted an increase in the Town of Lincoln's share of the video lottery terminal (VLT) net terminal income (NTI) generated at Twin River to 1.45 percent as compensation for the 24 hours a day/7 days a week operation of Twin River. The effect of this law change is to decrease the State's share of VLT NTI generated at Twin River to 61.08 percent.

Under prior law, the Town of Lincoln's share of the video lottery terminal (VLT) net terminal income (NTI) generated at Twin River was 1.26 percent and the State's share of Twin River's VLT NTI was 61.27 percent.

The increase in the Town of Lincoln's share of the VLT NTI generated at Twin River is estimated to decrease general revenues by \$868,490 in FY 2012.

**Division of Lottery Newport Grand Marketing Program:** The 2011 General Assembly passed a second amendment to the Master Video Lottery Terminal Contract entered into by the State and Newport Grand, the owner and operator of the Newport Grand facility. The second amendment struck the language contained in the first amendment to the Master Video Lottery Terminal Contract between the State and Newport Grand that required Newport Grand's net terminal income in the fiscal year in which the State and Newport Grand engaged in a joint marketing program to exceed the net terminal income generated by Newport Grand in FY 2010. Removal of this provision made Newport Grand eligible to participate in a joint marketing program with the State immediately. The same language was stricken from the Master Video Lottery Terminal Contract between the State and the owners and operators of Twin River, however, the owners and operators of Twin River had already qualified for the Twin River joint marketing program with the State as a result of the fact that Twin River's net terminal income since FY 2010 had exceeded the net terminal income generated at Twin River in FY 2010. The Division of Lottery's participation in the Newport Grand marketing program reduces the lottery transfer to the state by the amount the Division of Lottery spends on the marketing program

Under prior law, the 2010 General Assembly had passed a first amendment to the Master Video Lottery Terminal Contract entered into by the State and Newport Grand, the owner and operator of the Newport Grand facility. The first amendment called for, among other things, the creation of a marketing program for Newport Grand which would be financed jointly by the Division of Lottery and the owner/operator of Newport Grand. In particular, in each fiscal year or portion thereof that the owner/operator of Newport Grand's marketing expenditures exceed \$560,000 and its net terminal income is greater than the net terminal income generated by Newport Grand in FY 2010, the Division of Lottery will pay the owner/operator of Newport Grand an amount equal to the state's share of the video lottery terminal (VLT) net terminal income (NTI) times the amount by which the owner/operator of Newport Grand's marketing expenditures exceed \$560,000 up to a maximum of \$840,000 of excess marketing expenditures.

The implementation of a marketing program for Newport Grand the expenditures of which are paid for at least in part by the Division of Lottery is estimated to decrease general revenues by \$163,000 in FY 2011 and \$272,000 in FY 2012. These reductions assume that Newport Grand spends \$600,000 on its marketing program with a \$336,000 threshold amount in FY 2011 and \$1,000,000 on its marketing program with a \$560,000 threshold amount in FY 2012.

**Division of Lottery Video Lottery Terminal Promotional Points Program:** The 2011 General Assembly passed a second amendment to the Master Video Lottery Terminal Contracts entered into by the State and Newport Grand, the owner and operator of the Newport Grand facility, and the State and UTGR, the owner and operator of the Twin River facility. The second amendment approved an additional amount of Promotional Points not to exceed \$750,000 per facility to be issued beginning in FY 2011.

Under prior law, the 2010 General Assembly had passed a first amendment to the Master Video Lottery Terminal Contracts entered into by the State and Newport Grand, the owner and operator of the Newport Grand facility and the State and UTGR, the owner and operator of the Twin River facility. The first amendment allowed for, among other things, the issuance of

Promotional Points in an amount not to exceed 4.0 percent of the net terminal income generated at each facility in the prior fiscal year.

No revenue impacts for FY 2011 or FY 2012 were estimated for the increase in the amount of Promotional Points that could be authorized by the owners and operators of Newport Grand and Twin River.

## **2011 Non-General Revenue Changes Enacted by the General Assembly**

### **Tax Changes Enacted by the General Assembly**

**Unemployment Insurance Taxable Wage Base:** In the 2011 session, the General Assembly changed the law that determines the taxable wage base for purposes of calculating unemployment insurance taxes owed by employers. Effective for tax years beginning January 1, 2012 and thereafter, the taxable wage base is “equal to 46.5 percent of the average annual wage in covered employment during the calendar year immediately preceding the computation date for the effective tax year.” In addition, the General Assembly passed legislation that requires employers with reserve account percentages of -24.00 percent or less to pay unemployment insurance taxes on \$1,500 above the taxable wage base for tax years beginning January 1, 2012 and thereafter.

Under prior law, the taxable wage base upon which unemployment insurance taxes were assessed was “determined by the amount of the employment security fund on September 30<sup>th</sup> of each calendar year” with that taxable wage base effective for the tax year immediately following the taxable wage base’s determination. No additional amount was added to the taxable wage base for any employer regardless of its reserve account percentage.

An estimated \$2.5 million is expected to be generated for the unemployment trust fund in 2012 as a result of the passage of this legislation.

### **Other Revenue Changes Enacted by the General Assembly**

**Children’s Health Account Enhancements:** The General Assembly passed into law a change in how the program costs for Medicaid funded services for Children with Special Health Care Needs who have some form of Comprehensive Third Party Liability are determined. Specifically, the law change enacted by the General Assembly requires the Department of Human Services to separately count expenditures for each service within the three service categories subject to assessment, and to increase the maximum expense eligible for reimbursement from insurance companies for each service to \$7,500 per child per service per year.

Under prior law, the Department of Human Services aggregated services within each of the three expense categories, with the maximum aggregate expense eligible for reimbursement from insurance companies set at \$6,000 per child per service category.

In FY 2012, an estimated \$4.2 million of increased payments which are due from insurance companies for applicable Medicaid expenses incurred will be deposited as restricted revenue receipts.

**Local Education Aid for the William M. Davies School:** In the 2010 Session the General Assembly enacted an education funding formula for the first time and in doing so placed the state operated William M. Davies Career and Technical School under the funding formula. As a result of this action, the Davies School's state aid will be determined by the funding formula just like any other Local Education Agency (LEA) and the Davies School will receive a share of the local funding from individual LEAs that send students to the Davies School.

Under prior law, no statewide funding formula existed for elementary and secondary education and as a result the funds for the operation of the Davies School were appropriated by the General Assembly as part of the Department of Elementary and Secondary Education's annual budget.

An additional \$685,495 in local funding will be received by the Davies School in FY 2012. These monies will be deposited in a restricted receipt account to be used for the operation of the Davies School.

**The Henry Shelton Act:** The 2011 General Assembly enacted the Low Income Home Energy Assistance Program Enhancement Plan, known as The Henry Shelton Act, effective upon the signature of the Governor on July 13, 2011. The Act requires the Rhode Island Office of Energy Resources to "develop a recommended monthly [Low Income Home Energy Assistance Program] LIHEAP Enhancement Charge" such that, "[F]or electric distribution company customers, the charge shall not be more than \$10.00 per year" and "[F]or natural gas distribution company customers, the charge shall not be more than \$10.00 per year". In addition, the total projected annual revenue from implementation of the Act for all electric distribution and natural gas distribution company customers can neither exceed \$7.5 million nor be less than \$6.5 million. Further, both the Block Island Power Company and the Pascoag Utility District are excluded from the definition of an electric and/or natural gas distribution company.

Under prior law, the Low Income Home Energy Assistance Program Enhancement Plan did not exist.

No revenue impacts for FY 2012 were estimated for the implementation of The Henry Shelton Act. The revenues raised from the LIHEAP Enhancement Charge are to be retained by the electric and/or natural gas distribution company "to provide a credit to customers accounts that are receiving federal LIHEAP assistance payments".

## 2011 Revenue Changes Enacted by the General Assembly

General Revenue Tax Changes	FY 2012
<b>Personal Income Taxes</b>	
Top 100 Individual Tax Delinquents	\$ 779,965
Offset of Lottery Winnings for Personal Income Taxes Owed	141,457
Enhanced Personal Income Tax Audit & Compliance Activities	2,000,000
<b>Enacted FY 2012 Personal Income Tax Changes</b>	<b>\$ 2,921,422</b>
<b>Business Corporations Taxes</b>	
Top 100 Business Tax Delinquents	\$ 130,415
Increase the Type of Business Entities Subject to Minimum Tax	794,250
<b>Enacted FY 2012 Business Corporations Tax Changes</b>	<b>\$ 924,665</b>
<b>Health Care Provider Assessment</b>	
Top 100 Business Tax Delinquents	\$ 275,888
Elimination of COLA for Nursing Home Providers	(348,759)
<b>Enacted FY 2012 Health Care Provider Assessment Changes</b>	<b>\$ (72,871)</b>
<b>Sales and Use Taxes</b>	
Top 100 Business Tax Delinquents	\$ 602,339
Disallowance of Insurance Proceeds as Trade-In Value on Replacement Vehicle	776,903
Repeal Exemption for Prewritten Computer Software Delivered Electronically	6,668,600
Repeal Exemption for Over-the-Counter Drugs	7,765,808
Repeal Exemption for RIEDC Project Status Designees and RIIFC Lessees	100,000
Tax Retail Sale of Medical Marijuana	849,192
Tax Sale of Scenic Sightseeing and Package Tours	1,050,000
<b>Enacted FY 2012 Sales and Use Tax Changes</b>	<b>\$ 17,812,842</b>
<b>Motor Vehicles License and Registration Fees</b>	
Transportation and Deb Reduction Act of 2011*	Effective FY 2014
Reflective License Plate Issuance**	Effective FY 2014
<b>Enacted FY 2012 Motor Vehicles License and Registration Fee Changes</b>	<b>\$ -</b>
<b>Total General Revenue Tax Changes</b>	<b>\$ 21,586,058</b>
General Revenue Fee Changes	FY 2012
<b>Department of Business Regulation Fee Changes</b>	
Increase License Fees for Securities Sales Representatives	\$ 1,183,440
Increase License Fees for Federal Covered Investment Advisers	41,000
Apply Admissions Tax on Professional Mixed Martial Arts Events	No Estimate Made
<b>Department of Children, Youth and Families Fee Changes</b>	
Institute Fees for the Conducting of Background Clearances	\$ 110,000
<b>Department of Environmental Management Fee Changes</b>	
Increase Beach Parking Fees	\$ 1,468,978
<b>Department of Human Services Fee Changes</b>	
Reinstitute Hospital Licensing Fee	\$ 143,991,894
Urban Institute New Work Support Strategies Grant	250,000
<b>Department of Revenue Fee Changes</b>	
Institute Returned Check Fee at Division of Motor Vehicles	\$ 18,720
Restructure Division of Motor Vehicles Special Use Identification Tags	-
Increase Division of Taxation Estate Filing Fee	108,915
Increase Division of Taxation Letter of Good Standing Fee	122,925
Institute Surcharge on Compassion Centers, Division of Taxation	693,693
Allow Division of Taxation to Serve as a Debt Collector for Governments	153,576
<b>Total General Revenue Fee Changes</b>	<b>\$ 148,143,141</b>

<b>2011 Revenue Changes Enacted by the General Assembly</b>	
<b>Other Miscellaneous General Revenue Changes</b>	<b>FY 2012</b>
<i>Transfer Excess Reserves from Rhode Island Resource Recovery Corporation</i>	\$ 3,500,000
<i>Reclassify Proceeds from Land Sales</i>	(1,000,000)
<b>Total Other Miscellaneous General Revenue Changes</b>	<b>\$ 2,500,000</b>
<b>Lottery General Revenue Changes</b>	<b>FY 2012</b>
<i>Reduced Operating Expenses, Division of Lottery</i>	\$ 982,593
<i>Increase Video Lottery Terminal Share for Town of Lincoln, Division of Lottery</i>	(868,490)
<i>Implement Newport Grand Joint Marketing Program, Division of Lottery</i>	(272,000)
<i>Increase Video Lottery Terminal Promotional Points Program, Division of Lottery</i>	No Estimate Made
<b>Total Lottery General Revenue Changes</b>	<b>\$ (157,897)</b>
<b>Total General Revenue Changes Enacted by the General Assembly</b>	<b>\$ 172,071,302</b>
<b>Non-General Revenue Tax Changes</b>	<b>FY 2012</b>
<b>Unemployment Insurance Taxes</b>	
<i>Expand the Wage Base Subject to Unemployment Insurance Taxes</i>	\$ 2,500,000
<b>Total Non-General Revenue Tax Changes</b>	<b>\$ 2,500,000</b>
<b>Other Non-General Revenue Changes</b>	<b>FY 2012</b>
<i>Children's Health Account Enhancements, Department of Human Services</i>	\$ 4,200,000
<i>Local Education Aid for William M. Davies School, Department of Education</i>	685,495
<i>Henry Shelton Act, Public Utilities Commission</i>	No Estimate Made
<b>Total Other Non-General Revenue Changes</b>	<b>\$ 4,885,495</b>
<b>Total Non-General Revenue Changes Enacted by the General Assembly</b>	<b>\$ 7,385,495</b>
<b>Grand Total of 2011 Revenue Changes Enacted by the General Assembly</b>	<b>\$ 179,456,797</b>