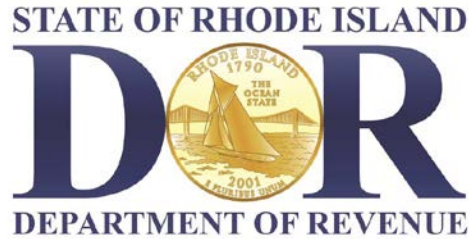


STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
GOVERNOR GINA M. RAIMONDO



Office of Revenue Analysis

State of Rhode Island Revenue Assessment Report  
Monthly and Year-to-Date FY 2016 as of April 2016

The monthly revenue assessment report compares adjusted revenues, on a monthly and fiscal year-to-date basis, to the Office of Revenue Analysis' monthly and fiscal year-to-date estimate of expected revenues based on the current fiscal year revenue estimate. It should be noted that the fiscal year revenue estimate will vary over the course of the fiscal year as the Revenue Estimating Conference (REC) (see Rhode Island General Laws § 35-16-1 et seq.) convenes and modifies the fiscal year revenue estimates as enacted by the General Assembly.

*The purpose of the Revenue Assessment Report is to give readers a sense of how the state's general revenues compare to those that might be expected if the official revenue estimate were being met in a predictable way. Caution should be exercised when interpreting this report as actual revenues may vary significantly from historical patterns. In addition, it is important for the reader to understand that enacted and adopted revenue estimates are made on an accrual basis, not a cash basis. Revenue accruals are not determined until at least one month after the fiscal year-end in June. Thus, even if the assessment of actual fiscal year-to-date revenues trails the fiscal year-to-date revenue estimates, it is possible for the fiscal year-end accrual to make up any shortfall.*

It should be noted that the November 2015 Revenue Assessment Report was the first monthly report that compared adjusted revenues to the revenue estimates adopted at the November 2015 REC. The Revenue Assessment Reports for the months of July through October compared adjusted revenues to the revenue estimates enacted in the FY 2016 budget. The Budget Officer, the House Fiscal Advisor, and the Senate Fiscal Advisor at the November 2015 REC revised FY 2016 total general revenues up by \$52,426,535 spread across all general revenue items.

The November 2015 REC incorporated changes to Rhode Island law enacted in the FY 2016 Budget in the adopted revenue estimates that are the basis of this report. Details on the law changes that impact FY 2016 general revenues are contained in the Appendix to this report.

### **Estimate of Revised FY 2016 Revenues Adopted at the November 2015 REC**

In order to determine the expected monthly and fiscal year-to-date revenue estimates based on the revised revenue estimates adopted at the November 2015 (REC), the Office of Revenue Analysis (ORA) first calculates the average percentage of total adjusted revenues that occurred in a given month over the previous five fiscal years for each revenue item. For estate and transfer taxes, the previous ten fiscal years are used. For monthly estimates, these percentages are applied to the enacted FY 2016 revenue estimate for each revenue item. For the fiscal year-to-date estimates, the monthly percentages are summed and then applied to the enacted FY 2016 revenue estimate for each revenue item. This methodology is used for all revenue items except personal income tax final payments, personal income tax withholding payments, personal income tax refunds and adjustments revenues, business corporations tax revenues, sales and use tax revenues, motor vehicle operator license and registration fees, cigarette excise tax revenues and estate and transfer tax revenues. For these eight revenue items, the monthly percentage, or the sum of the monthly percentages, will be applied to the FY 2016 modified cash revenue flows as estimated by ORA. In the case of other miscellaneous revenues, the actual fiscal year-to-date revenues are used in place of an estimate due to the discrete and unpredictable nature in the timing of these receipts.

Table A provides the rounded five-year or ten-year, in the case of estate and transfer tax revenues, average percentages used to determine expected monthly and fiscal year-to-date revenues for November. It should be noted that ORA has made adjustments to these percentages based on the estimated flow of revenues that result from the changes in law enacted by the 2015 General Assembly and included as part of the revised FY 2016 revenue estimates adopted at the November 2015 REC.

Revenue Item	<u>Percent Received</u>		Revenue Item	<u>Percent Received</u>	
	April	YTD		April	YTD
Personal Income Taxes			Motor Vehicles Fees	10.2 %	80.3 %
Estimated Payments	12.9 %	77.6 %	Motor Carrier Fuel Use	4.1 %	86.1 %
Final Payments	69.6 %	94.9 %	Cigarettes Taxes	7.9 %	83.0 %
Withholding Payments	7.7 %	83.3 %	Alcohol Excise Taxes	8.3 %	81.6 %
Refunds/Adjustments	23.6 %	89.5 %	Estate and Transfer	6.7 %	84.6 %
Business Corporations Taxes	9.3 %	73.1 %	Racing and Athletics	8.3 %	80.4 %
Utilities Gross Earnings Taxes	0.6 %	45.2 %	Realty Transfer	8.0 %	82.6 %
Financial Institutions Taxes	4.3 %	57.5 %	Departmental Receipts	8.9 %	76.9 %
Insurance Co. Gross Premiums	1.0 %	44.6 %	Lottery Transfer	9.5 %	74.1 %
Bank Deposits	0.5 %	43.1 %	Other Misc. Revenues	n/a	n/a
Health Care Provider Assessment	8.2 %	82.8 %	Unclaimed Property	0.0 %	0.0 %
Sales and Use Taxes †	8.1 %	83.2 %			

† Percentages are a weighted average of the monthly and fiscal year-to-date percentages for the “base” sales and use tax adjusted revenues and the monthly and fiscal year-to-date percentages calculated by ORA for both foregone sales and use tax revenues projected from the exemption of heating fuels, electricity and natural gas from the sales and use tax and enhanced sales and use tax revenues projected from the cigarette excise tax rate increase and the expansion of the sales and use tax to unlicensed rentals, room resellers and vacation home rentals. See the body of the report for a more detailed discussion of this methodology.

The health care provider assessment consists only of an assessment on nursing homes. Motor vehicle fees are comprised only of fees paid for operators’ licenses and motor vehicle registrations. Racing and athletics taxes consist of a tax on wagers placed on out-of-state greyhound and horse races that are broadcast to Rhode Island via closed circuit television. The “Percent Received” for monthly and year-to-date departmental receipts is calculated excluding hospital licensing fee revenues, which are large, generally made only once in the fiscal year, and not always at the same time each fiscal year. Finally, the lottery transfer does not begin in a given fiscal year until August, while the unclaimed property transfer occurs only in June of each fiscal year.

In August 2014, Rhode Island became out-of-compliance with the Streamlined Sales and Use Tax Agreement (SSUTA). A potential impact of this non-compliance is that the State will no longer receive voluntary remittances of sales and use tax revenues from remote sellers that are parties to the SSUTA. To date, these voluntary remittances have continued to be made and the FY 2016 revised estimate includes continued receipt of voluntary sales and use tax payments. The FY 2016 revised sales and use tax revenue estimate incorporates an enhancement derived from the increase of the cigarette excise tax rate to \$3.75 per pack of 20 cigarettes. In addition, the application of the state’s sales and use tax on rental properties was expanded, while electricity, heating fuel, and natural

gas were exempted for commercial users. ORA has taken into account these anticipated changes in sales and use tax revenues when determining the average percentages used to calculate expected FY 2016 sales and use tax revenues.

Due to the unusual characteristics of the enacted legislative changes for personal income tax final payments, personal income tax refunds and adjustments, business corporations tax, and estate and transfer tax revenues, ORA had to adjust the revenue bases against which FY 2016 adjusted revenues would be assessed for these revenue items. Specifically, significant impacts on revenue will be realized through the accrual component of these revenue items and thus not recorded until the end of the fiscal year. ORA will use modified cash revenue flows for expected FY 2016 revenues to gauge the sufficiency of adjusted FY 2016 revenues in meeting estimated revenues. To do otherwise would result in the understatement of expected FY 2016 revenues on a monthly and fiscal year-to-date basis relative to actual FY 2016 adjusted revenues on the same basis. The footnotes in Table B detail the breakdown of cash receipts and accruals for each of these revenue items and indicate the modified cash revenue flows against which FY 2016 adjusted revenues will be assessed.

The revised FY 2016 estimates by revenue item as adopted at the November 2015 REC are as follows:

<b>Table B. Revised FY 2016 Revenue Estimates by Major Revenue Item</b>			
<b>Revenue Item</b>	<b>Nov. 2015 Revised FY 2016 Estimate</b>	<b>Revenue Item</b>	<b>Nov. 2015 Revised FY 2016 Estimate</b>
Personal Income Taxes		Motor Vehicles	\$ 36,200,000
Estimated Payments	\$ 226,600,000	Motor Carrier Fuel	500,000
Final Payments ‡	180,800,00	Cigarettes Taxes	142,100,000
Withholding Payments	1,086,000,000	Alcohol Excise Taxes	19,000,000
Refunds/Adjustments †	(276,200,000)	Estate and Transfer *	23,000,000
Business Corporations Taxes ^	153,500,000	Racing and Athletics	1,100,000
Public Utilities Gross Earnings	104,000,000	Realty Transfer	10,000,000
Financial Institutions Taxes	17,700,000	Departmental Receipts ‡	356,700,000
Insurance Co. Gross Premiums	122,400,000	Lottery	356,900,000
Bank Deposits	2,300,000	Other Misc. Revenues	783,000
Health Care Provider Assessment	44,000,000	Unclaimed Property	10,100,000
Sales and Use Taxes	981,000,000		
		<b>Total General Revenues **</b>	<b>\$ 3,596,183,000</b>

‡ Personal income tax final payments revenues estimate includes an estimated revenue accrual of \$(9,357,863) from the exemption of taxable Social Security benefits for eligible taxpayers. The estimated accrual will not impact FY 2016 revenues until the end of the fiscal year. As a result, ORA will assess adjusted FY 2016 revenues against a “base” FY 2016 revenue estimate of \$190,157,863, instead of the \$180,800,000 FY 2016 enacted estimate.

† Personal income tax refunds and adjustments revenues estimate includes an estimated revenue accrual of \$(3,067,512) from the enhanced Rhode Island earned income tax credit. The realization of this revenue accrual will not occur until the end of FY 2016. As a result, ORA will assess adjusted FY 2016 personal income tax refunds and adjustments revenues against a “base” FY 2016 revenue estimate of \$(273,132,488), instead of the \$(276,200,000) FY 2016 enacted estimate.

^ Business corporations tax revenues estimate of \$153,500,000 includes an estimated revenue accrual from the reduction of the minimum business corporations tax of \$(1,620,000). As a result, ORA will assess adjusted FY 2016 revenues against a “base” FY 2016 revenue estimate of \$155,120,000, instead of the \$153,500,000 FY 2016 enacted estimate.

\* Estate and transfer tax revenues estimate of \$23,000,000 includes an estimated accrual impact of \$(4,331,434) to account for the filing behavior of executors for the estates of those who die on or after January 1, 2015. The estimated accrual will not affect FY 2016 revenues until the end of the fiscal year. As a result, ORA will assess adjusted FY 2016 revenues against a “base” FY 2016 revenue estimate of \$27,331,434, instead of the \$23,000,000 FY 2016 enacted estimate.

‡ Departmental receipts figure includes estimated hospital licensing fee revenues of \$169,050,449.

\*\* Total general revenues estimate includes the personal income tax net accrual of \$(2,300,000).

The revised FY 2016 adopted estimate for sales and use taxes is \$981.0 million. ORA estimated that this figure is comprised of \$997.6 million of “base” sales and use tax revenues. The calculation of “base” sales and use tax revenues attempts to determine recurring sales and use tax revenues in the absence of current legislative changes. “Base” sales and use tax revenues controls for the \$24.4 million of foregone sales and use tax revenues included in the adopted FY 2016 budget for the exemption of heating fuels, electricity and natural gas for all purposes; the \$7.1 million of new sales and use tax revenues resulting from the expansion of the state sales and use tax to short term rental properties previously exempt; and the \$656,228 in sales and use tax revenues due to the increase in the cigarette excise tax rate. ORA adjusted the methodology for determining the percentages used to calculate revised FY 2016 enacted revenues as adopted at the November 2015 Revenue Estimating Conference to incorporate the timing of these changes.

It should be noted that the principals of the November 2015 REC reclassified the foregone revenues from the deferred reissuance of motor vehicle license plates to July 2016 as departmental receipts. As a result, motor vehicle operator license and registration fees are no longer adjusted to reflect this change to revenues.

### **Results for FY 2016 through April**

The first table, *Year-to-Date Estimate to Actual*, gives the results for FY 2016 through April. As is apparent from the table, the Department of Revenue finds that fiscal year-to-date adjusted total general revenues through April lead the revised FY 2016 adopted total general revenues through April by \$23.2 million or 0.9 percent. In total taxes, the fiscal year-to-date adjusted revenues through April are greater than the revised FY 2016 adopted total tax revenues through April by \$3.5 million or 0.2 percent. For departmental receipts, the difference between the fiscal year-to-date adjusted revenues through April and the revised FY 2016 adopted departmental receipts through April is \$9.4 million or 6.6 percent. For other general revenue sources, fiscal year-to-date adjusted revenues through April exceed the revised FY 2016 adopted other general revenue sources revenues through April by \$10.3 million or 3.9 percent.

Five revenue items have fiscal year-to-date adjusted revenues through April that exceed the revised FY 2016 adopted revenues by \$1.0 million or more.

- The lottery transfer adjusted revenues through April are \$10.3 million or 3.9 percent more than the year-to-date revised FY 2016 adopted lottery transfer revenues estimate of \$264.3 million.
- Departmental receipts adjusted revenues through April are \$9.4 million or 6.6 percent more than the year-to-date revised FY 2016 adopted departmental receipts revenues estimate of \$141.1 million. Interest on overdue taxes comprises the largest portion of the difference between adjusted departmental receipts revenues through April and revised FY 2016 adopted departmental receipts revenues through April with the former \$3.7 million ahead of the latter.
- Personal income tax adjusted revenues through April are \$7.8 million or 0.8 percent more than the year-to-date revised FY 2016 adopted lottery transfer revenues estimate of \$1.0 billion.

- Estimated tax payments adjusted revenues through April are \$9.3 million or 5.3 percent more than the year-to-date revised FY 2016 adopted monthly revenues estimate of \$175.9 million.
- Withholding tax payments adjusted revenues through April are \$5.9 million or 0.6 percent more than the year-to-date revised FY 2016 adopted monthly withholding tax revenues estimate of \$905.3 million.
- Personal income tax final payments adjusted revenues through April are \$11.1 million or 6.2 percent less than the year-to-date revised FY 2016 adopted monthly revenues estimate of \$180.5 million. Personal income tax final payments adjusted revenues through April include \$5.2 million of reimbursed historic structures tax credits.
- Adjusted personal income tax refunds and adjustments revenues through April are \$3.7 million or 1.5 percent less than the year-to-date revised FY 2016 adopted year-to-date refunds and adjustments estimate of \$(244.5 million). The Office of Revenue Analysis (ORA) increased adjusted fiscal year-to-date through April personal income tax refunds and adjustments by \$19.2 million for refunds that are awaiting final approval by the Division of Taxation prior to release and by \$10.5 million for refunds that are being delayed due to tax filer error and awaiting correction yielding a net increase in adjusted refunds and adjustments of \$29.7 million.
- Motor vehicle operator license and vehicle registration fees adjusted revenues through April are \$2.8 million or 9.7 percent more than the year-to-date revised FY 2016 adopted motor vehicle operator's license and vehicle registration fees revenues estimate of \$29.1 million. Adjusted motor vehicle license and registration fee revenues include \$1.1 million of motor vehicle operator license and vehicle registration fees revenues that were improperly recorded in a prior fiscal year.
- Insurance companies gross premiums tax adjusted revenues through April are \$2.5 million or 4.6 percent more than the year-to-date revised FY 2016 adopted insurance companies gross premiums tax revenues estimate of \$54.6 million. Insurance companies gross premiums tax adjusted revenues through April include \$6.2 million of reimbursed historic structures tax credits.

Fiscal year-to-date cigarette excise tax, alcohol excise tax, realty transfer tax, and bank deposits tax adjusted revenues are greater than the revised FY 2016 adopted revenues through April, but by less than \$1.0 million.

Four revenue items had adjusted revenues through April that fell short of the revised FY 2016 adopted revenue estimate through April by \$1.0 million or more.

- Sales and use tax adjusted revenues through April are \$4.6 million or 0.6 percent less than the year-to-date revised FY 2016 adopted sales and use tax revenues estimate of \$815.7 million.

- Public utilities gross earnings tax adjusted revenues through April are \$1.8 million or 3.9 percent less than the year-to-date revised FY 2016 adopted public utilities gross earnings tax revenues estimate of \$47.0 million.
- Business corporations tax adjusted revenues for FY 2016 through April are \$1.5 million or 1.3 percent less than the year-to-date revised FY 2016 adopted business corporations tax revenues estimate of \$113.4 million. Business corporations tax adjusted revenues through April include \$432,162 of reimbursed historic structures tax credits.
- Financial institutions tax adjusted revenues for FY 2016 through April are \$1.2 million or 11.6 percent less than the year-to-date revised FY 2016 adopted financial institutions tax revenues estimate of \$10.2 million.
- Estate and transfer tax adjusted revenues for FY 2016 through April are \$1.1 million or 5.0 percent less than the year-to-date revised FY 2016 adopted estate and transfer tax revenues estimate of \$23.1 million.

Fiscal year-to-date motor carrier fuel use tax, healthcare provider assessment, and racing and athletics tax adjusted revenues through April are below the year-to-date revised FY 2016 adopted revenues, but by less than \$1.0 million each.

### **Results for the Month of April 2016**

The second table, *Monthly Estimate to Actual*, gives the results for April 2016. As is apparent from the table, the Department of Revenue finds that April adjusted total general revenues trail the revised FY 2016 adopted total general revenues estimate for April by \$5.0 million or -1.4 percent. In total taxes, April adjusted revenues are less than the revised FY 2016 adopted monthly revenue estimate by \$6.5 million or -2.2 percent. For departmental receipts, April adjusted revenues exceed the revised FY 2016 adopted monthly revenues estimate by \$3.6 million or 22.0 percent. For other general revenue sources, April adjusted revenues are less than the revised FY 2016 adopted monthly revenue estimate by \$2.1 million or -6.1 percent.

Three revenue items had adjusted revenues in April that exceed the revised FY 2016 adopted monthly estimate by \$1.0 million or more.

- Insurance companies gross premiums tax adjusted revenues for April 2016 are \$4.4 million or 364.9 percent more than the revised FY 2016 adopted monthly revenue estimate of \$1.2 million. Insurance companies gross premiums tax adjusted revenues for April 2016 include \$4.1 million of reimbursed historic structures tax credits.
- Personal income tax adjusted revenues for April 2016 are \$4.1 million or 2.2 percent more than the revised FY 2016 adopted monthly revenues of \$181.0 million.
  - Withholding tax payments adjusted revenues for April 2016 are \$7.4 million or 8.9 percent more than the revised FY 2016 adopted monthly withholding tax revenues estimate of \$83.8 million.
  - Estimated tax payments adjusted revenues for April 2016 are \$1.3 million or 4.3 percent more than the revised FY 2016 adopted monthly revenues estimate of \$29.3 million.



- Personal income tax final payments adjusted revenues for April 2016 are \$6.4 million or 4.8 percent less than the revised FY 2016 adopted monthly revenues estimate of \$132.3 million. April 2016 final payments adjusted revenues include \$1.7 million of reimbursed HSTCs.
- Adjusted personal income tax refunds and adjustments revenues for April 2016 are \$1.7 million or 2.7 percent less than the revised FY 2016 adopted monthly refunds and adjustments estimate of \$(64.4 million). ORA reduced the adjusted April 2016 refunds and adjustments by \$2.2 million for refunds that had been awaiting final approval by the Division of Taxation in March that were released and increased adjusted April 2016 refunds and adjustments by \$1.4 million for additional refunds that are being delayed due to tax filer error and awaiting correction yielding a net decrease in refunds and adjustments of \$765,759.
- Departmental receipts adjusted revenues for April 2016 are \$3.6 million or 22.0 percent more than the revised FY 2016 adopted monthly revenues estimate of \$16.5 million.

April adjusted revenues for motor vehicle license and registration fees and alcohol excise tax adjusted revenues are greater than the revised FY 2016 adopted monthly revenue estimates for April, but by less than \$1.0 million each.

On the negative side, four revenue items had adjusted revenues in April that fell short of the revised FY 2016 adopted monthly revenues estimate by \$1.0 million or more.

- Business corporations tax adjusted revenues for April 2016 are \$7.5 million or 51.9 percent less than the revised FY 2016 adopted monthly revenues estimate of \$14.4 million.
- Sales and use tax adjusted revenues for April 2016 are \$3.9 million or 4.9 percent less than the revised FY 2016 adopted monthly revenues estimate of \$79.8 million.
- Estate and transfer tax adjusted revenues for April 2016 are \$2.4 million or 130.9 percent less than the revised FY 2016 adopted monthly revenues estimate of \$1.8 million.
- The lottery transfer adjusted revenues for April 2016 are \$2.1 million or 6.1 percent less than the revised FY 2016 adopted monthly revenues estimate of \$33.9 million.

April 2016 adjusted revenues for cigarettes tax, financial institutions tax, public utilities gross earnings tax, realty transfer tax, motor carrier fuel use tax, health care provider assessment, bank deposits tax, and racing and athletics tax adjusted revenues are below the revised FY 2016 adopted revenue estimates for April, but by less than \$1.0 million each.



Robert S. Hull  
 Director, Department of Revenue  
 May 25, 2016

**STATE OF RHODE ISLAND REVENUE ASSESSMENT REPORT**  
**Year-to-Date Estimate to Actual**

	YTD April Adjusted Revenues FY 2016		YTD April Estimate of Revised FY 2016 Revenues †	Difference	Variance
<b>Personal Income Tax</b>	\$ 1,024,850,782	a, b, c, d	\$ 1,017,077,064	\$ 7,773,719	0.8%
<b>General Business Taxes</b>					
Business Corporations	111,932,731	b, c, e	113,388,454	(1,455,723)	-1.3%
Public Utilities Gross Earnings	45,214,986	e, f	47,036,575	(1,821,589)	-3.9%
Financial Institutions	8,993,364		10,174,920	(1,181,556)	-11.6%
Insurance Companies	57,161,607	a	54,633,236	2,528,370	4.6%
Bank Deposits	1,043,018		991,772	51,246	5.2%
Health Care Provider Assessment	36,331,815		36,415,812	(83,997)	-0.2%
<b>Excise Taxes</b>					
Sales and Use	811,076,012	f	815,706,695	(4,630,683)	-0.6%
Motor Vehicle	31,857,680	g	29,051,604	2,806,076	9.7%
Motor Carrier Fuel Use	(152,535)		430,522	(583,057)	-135.4%
Cigarettes	118,835,632		117,874,199	961,433	0.8%
Alcohol	15,688,813		15,495,930	192,883	1.2%
Controlled Substances					
<b>Other Taxes</b>					
Estate and Transfer	21,977,154		23,122,856	(1,145,702)	-5.0%
Racing and Athletics	843,648		884,820	(41,172)	-4.7%
Realty Transfer	8,417,718	h	8,262,124	155,594	1.9%
<b>Total Taxes</b>	<b>\$ 2,294,072,425</b>		<b>\$ 2,290,546,583</b>	<b>\$ 3,525,842</b>	<b>0.2%</b>
<b>Departmental Receipts</b>	\$ 150,440,464	i, j	\$ 141,078,434	\$ 9,362,030	6.6%
<b>Taxes and Departmentals</b>	<b>\$ 2,444,512,889</b>		<b>\$ 2,431,625,017</b>	<b>\$ 12,887,872</b>	<b>0.5%</b>
<b>Other General Revenue Sources</b>					
Other Miscellaneous Revenues	896,566		896,566	-	0.0%
Lottery Transfer	274,611,925	k	264,287,336	10,324,589	3.9%
Unclaimed Property	-		-	-	n/a
<b>Total Other Sources</b>	<b>\$ 275,508,491</b>		<b>\$ 265,183,902</b>	<b>\$ 10,324,589</b>	<b>3.9%</b>
<b>Total General Revenues</b>	<b>\$ 2,720,021,380</b>		<b>\$ 2,696,808,919</b>	<b>\$ 23,212,461</b>	<b>0.9%</b>

PIT Component	YTD April Adj. Revenues		YTD April Revised Estimates	Difference	Variance
Estimated payments	\$ 185,225,078		\$ 175,895,009	\$ 9,330,069	5.3%
Final payments †	169,342,645		180,459,199	(11,116,554)	-6.2%
Withholding †	911,116,008		905,254,061	5,861,946	0.6%
Refunds and Adjustments †	(240,846,003)	a, b, c, d	(244,531,205)	3,685,202	-1.5%
<b>Total</b>	<b>\$ 1,024,837,728</b>		<b>\$ 1,017,077,064</b>	<b>\$ 7,760,664</b>	<b>0.8%</b>

† Revised FY 2016 adopted revenues for personal income tax final payments, withholding, and refunds and adjustments, sales and use taxes, business corporation taxes, motor vehicle registration and license fees, cigarette excise taxes and estate and transfer taxes are calculated using modified cash based revenue flows to align expected revenues with the actual realization of revenues.

+ Set equal to actual amounts received.

*Detailed notes on the following page*

# STATE OF RHODE ISLAND REVENUE ASSESSMENT REPORT

## Year-to-Date Estimate to Actual

- <sup>a</sup> Subtracts \$1,355,142 in personal income tax refunds and adjustment revenues and \$4,450,735 in insurance companies gross premium tax revenues for historic structure tax credit (HSTC) reimbursements that were recorded in July but accrued back to FY 2015.
- <sup>b</sup> Includes an adjustment of \$2,049,477 in personal income tax refunds and adjustments revenues that were transferred from business corporations tax revenues in October 2015 and an adjustment of \$(2,049,477) in business corporations tax revenues that were transferred to personal income tax refunds and adjustments in October 2015 to properly record payments.
- <sup>c</sup> Includes a positive adjustment of \$127,130 and \$262,170 in personal income tax refunds and adjustments for revenues transferred from business corporations tax in February 2016 to properly record prior year deposits. The offsetting adjustments included in business corporations tax revenues are \$(127,130) and \$(262,170) also recorded in February 2016.
- <sup>d</sup> Subtracts \$29,680,660 in FY 2016 through April refund confirmations and refund exceptions that are expected to be released in May 2016.
- <sup>e</sup> Includes an adjustment of \$(154,547) and \$(249,293) for the transfer of revenues from business corporations tax to public utilities gross earnings tax revenues in February 2016 to properly record prior year deposits. The offsetting adjustments included in public utilities gross earnings tax revenues are \$154,547 and \$249,293 also recorded in February 2016.
- <sup>f</sup> Includes an adjustment of \$113,439 in public utilities gross earnings tax revenues for the transfer of revenues from sales and use tax revenues in February 2016 to properly record prior year deposits. The offsetting adjustment included in sales and use tax revenues is \$(113,439) also recorded in February 2016.
- <sup>g</sup> Includes \$1,106,524 of operator's license and motor vehicle registration fees revenues that were improperly recorded in a prior fiscal year.
- <sup>h</sup> Subtracts \$229,343 in April 2016 realty transfer tax revenues that are designated for the Housing Resources Commission and will be transferred in May 2016.
- <sup>i</sup> Deducts \$149.8 million for hospital licensing fees received year-to-date but accrued back to FY 2015.
- <sup>j</sup> Includes the transfer in November 2015 of \$(4,843,938) of refunds written off by the Office of the Treasurer and the Division of Taxation to unclaimed property and an increase of \$484,394 in the Treasurer's indirect cost recovery account for the same.
- <sup>k</sup> Deducts \$1,062,175 for the lottery transfer received in November that accrued back to FY 2015.

**STATE OF RHODE ISLAND REVENUE ASSESSMENT REPORT**

**Monthly Estimate to Actual**

	April Adjusted Revenues FY 2016		April Estimate of Revised FY 2016 Revenues †		Difference	Variance
<b><u>Personal Income Tax</u></b>	\$ 185,036,590	a	\$ 180,985,531		\$ 4,051,059	2.2%
<b><u>General Business Taxes</u></b>						
Business Corporations	6,918,633		14,379,315		(7,460,682)	-51.9%
Public Utilities Gross Earnings	387,225		589,181		(201,956)	-34.3%
Financial Institutions	304,330		761,211		(456,881)	-60.0%
Insurance Companies	5,601,065		1,204,839		4,396,226	364.9%
Bank Deposits	-		10,451		(10,451)	n/a
Health Care Provider Assessment	3,578,034		3,628,797		(50,763)	-1.4%
<b><u>Excise Taxes</u></b>						
Sales and Use	75,961,116		79,837,838		(3,876,722)	-4.9%
Motor Vehicle	4,202,835		3,693,730		509,105	13.8%
Motor Carrier Fuel Use	(74,261)		20,640		(94,901)	-459.8%
Cigarettes	10,260,171		11,237,997		(977,826)	-8.7%
Alcohol	1,727,446		1,567,849		159,597	10.2%
Controlled Substances						
<b><u>Other Taxes</u></b>						
Estate and Transfer	(565,405)		1,827,501		(2,392,906)	-130.9%
Racing and Athletics	84,994		91,274		(6,280)	-6.9%
Realty Transfer	665,291	b	797,375		(132,084)	-16.6%
<b>Total Taxes</b>	<b>\$ 294,088,064</b>		<b>\$ 300,633,528</b>		<b>\$ (6,545,464)</b>	<b>-2.2%</b>
<b><u>Departmental Receipts</u></b>	\$ 20,184,884	c	\$ 16,547,200		\$ 3,637,684	22.0%
<b>Taxes and Departmentals</b>	<b>\$ 314,272,948</b>		<b>\$ 317,180,729</b>		<b>\$ (2,907,780)</b>	<b>-0.9%</b>
<b><u>Other General Revenue Sources</u></b>						
Other Miscellaneous Revenues	818	+	818	+	-	0.0%
Lottery Transfer	31,812,869		33,864,744		(2,051,875)	-6.1%
Unclaimed Property	-	+	-	+	-	n/a
<b>Total Other Sources</b>	<b>\$ 31,813,687</b>		<b>\$ 33,865,562</b>		<b>\$ (2,051,875)</b>	<b>-6.1%</b>
<b>Total General Revenues</b>	<b>\$ 346,086,635</b>		<b>\$ 351,046,291</b>		<b>\$ (4,959,656)</b>	<b>-1.4%</b>

<b>PIT Component</b>	April Adj. Revenues		April Revised Estimates		Difference	Variance
Estimated payments	\$ 30,543,114		\$ 29,282,289		\$ 1,260,825	4.3%
Final payments †	125,936,503		132,308,906		(6,372,403)	-4.8%
Withholding †	91,238,046		83,798,917		7,439,129	8.9%
Refunds and Adjustments †	(62,681,073)	a	(64,404,581)		1,723,508	-2.7%
<b>Total</b>	<b>\$ 185,036,590</b>		<b>\$ 180,985,531</b>		<b>\$ 4,051,059</b>	<b>2.2%</b>

† Revised FY 2016 adopted revenues for personal income tax final payments, withholding, and refunds and adjustments, sales and use taxes, business corporation taxes, motor vehicle registration and license fees, cigarette excise taxes and estate and transfer taxes are calculated using modified cash based revenue flows to align expected revenues with the actual realization of revenues.

+ Set equal to actual amounts received.

a Subtracts \$(765,759) in April 2016 refund confirmations and refund exceptions that are expected to be released in May 2016.

b Adds \$8,787 in realty transfer tax revenues that are designated for the Housing Resources Commission. The amount reflects the difference between the March 2016 transfer that occurred in April 2016 and the April 2016 transfer that will occur in May 2016.

c Subtracts \$508,779 in departmental receipts for FY 2015 hospital licensing fees received in April 2016.

## Appendix

### **Law Changes Enacted in the 2015 Session That Impact General Revenues**

In the 2015 session, the General Assembly enacted several changes to the state's general laws that impact general revenues. These changes can be categorized as follows: (1) changes that reclassify revenues that were previously considered to be general revenues to other funds; (2) changes that impact FY 2016 general revenues that will be realized through monthly revenue flows; and (3) changes that impact FY 2016 general revenues that will be realized through fiscal year end accruals. Those changes in state law that impact monthly revenue flows will generally exhibit seasonality in the receipt of the revenue. ORA attempts to model the seasonality in such revenue flows in order to better align the expected receipt of revenues with the actual receipt of revenues. A more specific discussion of these items is provided in the paragraphs that follow.

#### ***Revenue Changes That Reclassify General Revenues***

In the 2014 session, the General Assembly passed legislation that reclassified 25.0 percent of all motor vehicle operator license and vehicle registration fees from general revenues to other funds effective July 1, 2015. The reclassification of these general revenue flows does not have any impact on expected FY 2016 enacted general revenues as these revenues are not included in either the adjusted revenue calculations contained in this report or the enacted FY 2016 general revenue estimates.

In addition, during the 2015 session, the General Assembly accepted the Governor's proposal to transfer the state's share and the statewide tourism district's share of the state 5.0 percent hotel tax from general revenues to the Rhode Island Commerce Corporation for a state-level tourism promotion and business attraction campaign. The transfer of these revenues flows is in effect for all returns and payments received after June 30, 2015 regardless of when the underlying activity that generated the revenue occurred. The transfer of these hotel tax revenue flows from general revenues to the Rhode Island Commerce Corporation will have no impact on expected FY 2016 enacted general revenues as these revenues are not included in either the adjusted revenue calculations contained in this report or the enacted FY 2016 general revenue estimates.

#### ***Revenue Changes That Will Be Realized Through Monthly Revenue Flows<sup>1</sup>***

In the 2015 session, the General Assembly enacted legislation to fully exempt the sale of electricity, heating fuel, and natural gas for non-manufacturing commercial use from the state's

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<sup>1</sup> The 2015 General Assembly made permanent, effective July 1, 2015, the increased excise taxes on beer and malt, still wine, and high proof spirits and the exemption of all wine and spirits from the sales and use tax that were passed initially in the 2013 session of the General Assembly. Originally the increased excise taxes on beer and malt, still wine, and high proof spirits and the sales and use tax exemption for the sale of wine and spirits by holders of Class A liquor licenses were to expire after June 30, 2015. The permanent enactment of these changes will have no impact on the assessment of the state's adjusted general revenues versus the expected general revenues as these revenue changes

7.0 percent sales and use tax effective July 1, 2015. This enactment was a modification of the Governor's proposal to phase-in this exemption over a five year period beginning on July 1, 2015. Previously, the sales and use tax exemption for electricity, heating fuel, and natural gas only applied to consumption by occupants of residential premises or if they were used in the manufacturing process. The expected decrease in FY 2016 sales and use tax revenues from the exemption will generally be realized in the August 2015 to June 2016 period with a greater impact for electricity in August, September, and February. For heating fuel and natural gas, the greatest impacts are in December through April.

The 2015 General Assembly concurred with the Governor's recommendation to extend the sales and use tax to the unlicensed rental of lodging via on-line hosting platforms, the resale of rental accommodations by on-line travel companies, and the rental of vacation homes for less than one consecutive month by owners of such properties.<sup>2</sup> The effective date of the application of the 7.0 percent sales and use tax to these types of rentals is July 1, 2015. The expected increase in sales and use tax revenues from the expansion of the sales and use tax to unlicensed rentals, the resale of lodging accommodations, and the rental of vacation homes is expected to be realized in the August 2015 to June 2016 period.<sup>3</sup> The greatest impacts from these changes are generally expected in July through September and May through June.

The 2015 General Assembly also approved the Governor's proposal to increase the cigarette excise tax rate by 25 cents per pack of 20 cigarettes from \$3.50 to \$3.75 effective August 1, 2015. The increased cigarette excise tax impacts both sales and use tax and cigarettes tax revenues. The expected increase in these two revenue sources from this change will be realized primarily in the months of September 2015 through June of 2016. The distribution of the impact of this revenue change is similar to that of sales and use taxes in general.

### ***Revenue Changes That Will Be Realized Through Fiscal Year End Accruals***

The 2015 General Assembly enacted legislation that impacts FY 2016 general revenues primarily through the fiscal year end accrual process. The legislation enacted during the 2015 session impacts the personal income tax, the business corporation tax, and the estate and transfer tax. The effective date of the legislation is January 1, 2016.

With respect to the personal income tax, the 2015 General Assembly enacted legislation that restructured the state's earned income credit (EIC). For tax years beginning on or after January 1, 2016, the state EIC will be equal to 12.5 percent of the federal EIC claimed by a taxpayer with the amount of the state EIC greater than the taxpayer's state personal income tax liability fully refundable. This change in the state EIC is expected to increase FY 2016 personal income tax

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(continued) are already incorporated in the ORA's adjusted revenue calculations and included in the enacted FY 2016 general revenues based on prior enactments.

<sup>2</sup> The state's 5.0 percent hotel tax is also applied to unlicensed rentals and the resale of lodging accommodations. The local 1.0 percent occupancy tax is applied to these types of rentals as well as the rental of vacation homes. Neither the state hotel tax nor the local occupancy tax are considered to be general revenues.

<sup>3</sup> The Department of Revenue's Division of Taxation has promulgated rules that allow for such rentals to not be subject to the sales and use tax provided that the contracts for said rentals were entered into prior to July 1, 2015.

refund revenues. Since TY 2016 personal income tax returns will not be filed until after January 1, 2017, which is in FY 2017, little or no impact on FY 2016 personal income tax refund revenue flows is expected. There is, however, an expected increase in the refunds payable portion of the FY 2016 personal income tax accrual to align anticipated future refunds with the time period in which the income was earned that generated these refunds. As a result, personal income tax refund revenue flows will be higher than final personal income tax refund revenues until the close of the fiscal year.

Further, the 2015 General Assembly enacted legislation that exempts from state personal income taxes taxable Social Security benefits for taxpayers with federal adjusted gross income of \$80,000 or less if filing as an individual or \$100,000 or less if filing a joint return. This exemption is provided only to those taxpayers that have reached full Social Security retirement age.<sup>4</sup> Since TY 2016 personal income tax returns will not be filed until after January 1, 2017, which is in FY 2017, little or no impact on FY 2016 personal income tax final payments is expected. There is, however, an expected decrease in the final payments receivable portion of the FY 2016 personal income tax accrual to align anticipated future final payments with the time period in which the income was earned that generated these payments. As a result, personal income tax final payments revenue flows will be higher than fiscal year end personal income tax final payments revenues until the close of the fiscal year.

In addition, during the 2015 session, the General Assembly passed legislation that reduces the annual minimum corporate tax by 10.0 percent to \$450. This change is expected to decrease FY 2016 business corporation tax revenues. Business entities that pay the minimum corporate tax include all for-profit enterprises except for sole proprietorships and general partnerships. Minimum corporate tax filers that have January to December taxable years are required to pay the minimum tax by March 15<sup>th</sup> of the following calendar year. For calendar year minimum corporate tax filers, final TY 2016 returns are not due until March 15, 2017, which is in FY 2017 even though one-half of the business activity which generated the tax liability occurred in January to June which is in FY 2016. To align the tax paid to the business activity that generated the tax liability, 50.0 percent of minimum corporate tax payments expected to be received for TY 2016 are accrued back to FY 2016. Since the minimum corporate tax in TY 2016 is less than for TY 2015, a reduction in FY 2016 business corporations tax revenues will result on a net accrual basis. As a result, business corporations tax revenue flows will be higher than final business corporations tax revenues until the net accrual is determined after the close of FY 2016.

Finally, the 2014 General Assembly enacted legislation restructuring the estate and transfer tax.<sup>5</sup> This restructuring of the estate and transfer tax impacted estate and transfer tax revenues in FY

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<sup>4</sup> For TY 2016, persons born before 1951 will be eligible for a modification reducing federal Adjusted Gross Income subject to Rhode Island income tax.

<sup>5</sup> The restructuring of the estate and transfer tax involved replacing the estate and transfer tax threshold exemption amount with a credit against estate and transfer taxes owed. Under a threshold exemption amount structure, any estate with a gross taxable estate value greater than the threshold exemption amount was subject to tax on the full taxable value of the estate while an estate with a gross taxable estate value less than the threshold exemption amount was (continued) exempt from the estate tax. Under a credit amount structure, all estates regardless of their gross taxable estate value must compute the estate tax owed on the estate and then subtract the credit amount from the tax owed. If the credit amount exceeds the tax owed, then no estate tax is due. If the estate tax owed exceeds the credit amount,

2015 and will lower FY 2016 estate and transfer tax revenues. By law, the tax due on the estate of a decedent is not payable until nine months after the decedent's date of death, which is in FY 2017 for decedents who die after January 1, 2016 but before July 1, 2016. To account for this filing provision, at the fiscal year-end close, 75.0 percent of the estimated FY 2017 estate and transfer tax revenues are accrued back to FY 2016. As a result, estate and transfer tax revenue flows will be higher than final estate and transfer tax revenues until the close of the fiscal year.

Due to these revenue changes, the methodology used in the *Revenue Assessment Report* for FY 2016 will be similar to that used in the FY 2015 reports. For most revenue items, the assessment of FY 2016 adjusted revenues will be made vis-à-vis the FY 2016 enacted (or revised) revenue estimates. For some revenue items, however, the assessment of FY 2016 adjusted revenues will be made vis-à-vis FY 2016 enacted (or revised) revenue flows as estimated by ORA.

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(continued) then the difference is the estate tax due. The estate and transfer tax restructuring applies to the estates of decedents who die on or after January 1, 2015.