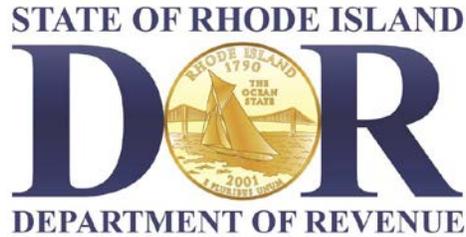


STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
GOVERNOR GINA M. RAIMONDO



Office of Revenue Analysis

State of Rhode Island Revenue Assessment Report  
Monthly and Year-to-Date FY 2016 as of May 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 May 2016 Revenue Assessment Report is the first monthly report that compares adjusted revenues to the revenue estimates adopted at the May 2016 REC. At the May 2016 REC, the Budget Officer, the House Fiscal Advisor, and the Senate Fiscal Advisor revised FY 2016 total general revenues up by \$38,846,000 spread across all general revenue items.

The May 2016 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 May 2016 REC**

In order to determine the expected monthly and fiscal year-to-date revenue estimates based on the revised revenue estimates adopted at the May 2016 Revenue Estimating Conference (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 revised 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 May. 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 May 2016 REC.

Revenue Item	<u>Percent Received</u>		Revenue Item	<u>Percent Received</u>	
	April	YTD		April	YTD
Personal Income Taxes			Motor Vehicles Fees	10.5 %	90.8 %
Estimated Payments	1.5 %	79.1 %	Motor Carrier Fuel Use	10.3 %	96.4 %
Final Payments	2.5 %	97.4 %	Cigarettes Taxes	7.9 %	90.9 %
Withholding Payments	8.2 %	91.6 %	Alcohol Excise Taxes	8.9 %	90.5 %
Refunds/Adjustments	6.6 %	96.2 %	Estate and Transfer	7.1 %	91.7 %
Business Corporations Taxes	0.9 %	74.1 %	Racing and Athletics	11.0 %	91.5 %
Utilities Gross Earnings Taxes	0.7 %	45.9 %	Realty Transfer	8.0 %	90.6 %
Financial Institutions Taxes	0.1 %	57.7 %	Departmental Receipts	7.0 %	83.9 %
Insurance Co. Gross Premiums	0.6 %	45.5 %	Lottery Transfer	8.8 %	91.6 %
Bank Deposits	0.1 %	43.2 %	Other Misc. Revenues	n/a	n/a
Health Care Provider Assessment	8.3 %	91.0 %	Unclaimed Property	0.0 %	0.0 %
Sales and Use Taxes †	8.1 %	91.3 %			

† 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. In May 2016, the Streamline Sales Tax Governing Board approved an amendment to the SSUTA that put Rhode Island back in compliance with the SSUTA.

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 May 2016 REC are as follows:

<b>Table B. Revised FY 2016 Revenue Estimates by Major Revenue Item</b>			
<b>Revenue Item</b>	<b>May 2016 Revised FY 2016 Estimate</b>	<b>Revenue Item</b>	<b>May 2016 Revised FY 2016 Estimate</b>
Personal Income Taxes		Motor Vehicles	\$ 39,200,000
Estimated Payments	\$ 238,000,000	Motor Carrier Fuel	0
Final Payments ‡	179,000,000	Cigarettes Taxes	143,000,000
Withholding Payments	1,093,000,000	Alcohol Excise Taxes	19,300,000
Refunds/Adjustments †	(288,900,000)	Estate and Transfer *	25,100,000
Business Corporations Taxes ^	153,500,000	Racing and Athletics	1,100,000
Public Utilities Gross Earnings	99,500,000	Realty Transfer	10,400,000
Financial Institutions Taxes	20,400,000	Departmental Receipts ‡	363,800,000
Insurance Co. Gross Premiums	121,400,000	Lottery	370,100,000
Bank Deposits	2,400,000	Other Misc. Revenues	3,829,000
Health Care Provider Assessment	44,000,000	Unclaimed Property	12,100,000
Sales and Use Taxes	981,000,000		
		<b>Total General Revenues **</b>	<b>\$ 3,635,029,000</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 \$188,357,863, instead of the \$179,000,000 FY 2016 revised 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 \$(285,832,488), instead of the \$(288,900,000) FY 2016 revised 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 revised estimate.

\* Estate and transfer tax revenues estimate of \$25,100,000 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 \$29,431,434, instead of the \$25,100,000 FY 2016 revised 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 \$3,800,000.

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 May 2016 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 May**

The first table, *Year-to-Date Estimate to Actual*, gives the results for FY 2016 through May. As is apparent from the table, the Department of Revenue finds that fiscal year-to-date adjusted total general revenues through May lead the revised FY 2016 adopted total general revenues through May by \$40.1 million or 1.4 percent. In total taxes, the fiscal year-to-date adjusted revenues through May are greater than the revised FY 2016 adopted total tax revenues through May by \$26.5 million or 1.1 percent. For departmental receipts, the difference between the fiscal year-to-date adjusted revenues through May and the revised FY 2016 adopted departmental receipts through May is \$12.7 million or 8.2 percent. For other general revenue sources, fiscal year-to-date adjusted revenues through May exceed the revised FY 2016 adopted other general revenue sources revenues through May by \$856,816 or 0.3 percent.

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

- Estate and transfer adjusted revenues through May are \$36.7 million or 135.8 percent more than the year-to-date revised FY 2016 adopted estate and transfer tax revenues estimate of \$27.0 million. This difference is due to the receipt of a large infrequently occurring estate and transfer tax payment of \$41.4 million in May 2016.
- Departmental receipts adjusted revenues through May are \$12.7 million or 8.2 percent more than the year-to-date revised FY 2016 adopted departmental receipts revenues estimate of \$154.1 million. Interest on overdue taxes comprises the largest portion of the difference between adjusted departmental receipts revenues through May and revised FY 2016 adopted departmental receipts revenues through May.
- Personal income tax adjusted revenues through May are \$7.2 million or 0.7 percent more than the year-to-date revised FY 2016 adopted personal income tax revenues estimate of \$1.1 billion.

- Adjusted personal income tax refunds and adjustments revenues through May are \$10.7 million or 3.9 percent less than the year-to-date revised FY 2016 adopted year-to-date refunds and adjustments estimate of \$(274.9 million). The Office of Revenue Analysis (ORA) increased adjusted fiscal year-to-date through May personal income tax refunds and adjustments by \$9.2 million for refunds that are awaiting final approval by the Division of Taxation prior to release and by \$10.0 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 \$19.2 million.
- Estimated tax payments adjusted revenues through May are \$720,390 or 0.4 percent more than the year-to-date revised FY 2016 adopted monthly revenues estimate of \$188.3 million.
- Withholding tax payments adjusted revenues through May are \$31,029 or less than -0.1 percent less than the year-to-date revised FY 2016 adopted monthly withholding tax revenues estimate of \$1.0 billion.
- Personal income tax final payments adjusted revenues through May are \$4.2 million or 2.3 percent less than the year-to-date revised FY 2016 adopted monthly revenues estimate of \$183.5 million. Personal income tax final payments adjusted revenues through May include \$5.7 million of reimbursed historic structures tax credits.
- Insurance companies gross premiums tax adjusted revenues through May are \$3.1 million or 5.6 percent more than the year-to-date revised FY 2016 adopted insurance companies gross premiums tax revenues estimate of \$55.2 million. Insurance companies gross premiums tax adjusted revenues through May include \$6.2 million of reimbursed historic structures tax credits.
- Cigarettes tax adjusted revenues through May are \$1.7 million or 1.3 percent more than the year-to-date revised FY 2016 adopted cigarettes tax revenues estimate of \$130.0 million.

Fiscal year-to-date lottery transfer, motor vehicle operator license and registration fee, public utilities gross earnings tax, alcohol excise tax, and bank deposits tax adjusted revenues are greater than the revised FY 2016 adopted revenues through May, but by less than \$1.0 million.

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

- Business corporations tax adjusted revenues for FY 2016 through May are \$12.1 million or 10.5 percent less than the year-to-date revised FY 2016 adopted business corporations tax revenues estimate of \$114.9 million due primarily to increased refunds being paid out. Business corporations tax adjusted revenues through May include \$432,162 of reimbursed historic structures tax credits.
- Sales and use tax adjusted revenues through May are \$7.7 million or 0.9 percent less than the year-to-date revised FY 2016 adopted sales and use tax revenues estimate of \$895.3 million.

- Financial institutions tax adjusted revenues for FY 2016 through May are \$2.6 million or 22.1 percent less than the year-to-date revised FY 2016 adopted financial institutions tax revenues estimate of \$11.8 million.

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

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

The second table, *Monthly Estimate to Actual*, gives the results for May 2016. As is apparent from the table, the Department of Revenue finds that May adjusted total general revenues lead the revised FY 2016 adopted total general revenues estimate for May by \$31.8 million or 13.8 percent. In total taxes, May adjusted revenues are more than the revised FY 2016 adopted monthly revenue estimate by \$28.2 million or 15.2 percent. For departmental receipts, May adjusted revenues exceed the revised FY 2016 adopted monthly revenues estimate by \$3.3 million or 25.7 percent. For other general revenue sources, May adjusted revenues are more than the revised FY 2016 adopted monthly revenue estimate by \$306,933 or 0.9 percent.

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

- Estate and transfer adjusted revenues for May are \$39.6 million or 1,884.3 percent more than the revised FY 2016 adopted monthly estate and transfer tax revenues estimate of \$2.1 million. This difference is due to the receipt of a large infrequently occurring estate and transfer tax payment of \$41.4 million in May 2016.
- Departmental receipts adjusted revenues for May 2016 are \$3.3 million or 25.7 percent more than the revised FY 2016 adopted monthly revenues estimate of \$13.0 million.
- Cigarettes tax adjusted revenues for May 2016 are \$1.5 million or 12.9 percent more than the revised FY 2016 adopted monthly revenue estimate of \$11.4 million.

May adjusted revenues for insurance companies gross premiums tax, the lottery transfer, motor vehicle license and registration fees, financial institutions tax, alcohol excise tax, realty transfer tax, and motor carrier fuel use tax adjusted revenues are greater than the revised FY 2016 adopted monthly revenue estimates for May, but by less than \$1.0 million each.

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

- Business corporations tax adjusted revenues for May 2016 are \$10.6 million or 722.0 percent less than the revised FY 2016 adopted monthly revenues estimate of \$1.5 million.
- Sales and use tax adjusted revenues for May 2016 are \$3.0 million or 3.8 percent less than the revised FY 2016 adopted monthly revenues estimate of \$79.6 million.

April 2016 adjusted revenues for public utilities gross earnings tax, health care provider assessment, racing and athletics tax, and bank deposits tax adjusted revenues are below the revised FY 2016 adopted revenue estimates for May, but by less than \$1.0 million each.



Robert S. Hull  
Director, Department of Revenue  
June 14, 2016

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

	YTD May Adjusted Revenues FY 2016		YTD May Estimate of Revised FY 2016 Revenues †	Difference	Variance	
<b>Personal Income Tax</b>	\$ 1,105,284,766	a, b, c, d	\$ 1,098,058,942	\$ 7,225,824	0.7%	
<b>General Business Taxes</b>						
Business Corporations	102,797,831	b, c, e, f	114,893,102	(12,095,271)	-10.5%	
Public Utilities Gross Earnings	45,767,407	e, g	45,661,228	106,179	0.2%	
Financial Institutions	9,173,791	f	11,772,986	(2,599,195)	-22.1%	
Insurance Companies	58,310,091	a	55,238,473	3,071,618	5.6%	
Bank Deposits	1,043,018		1,037,380	5,638	0.5%	
Health Care Provider Assessment	39,859,514		40,059,413	(199,899)	-0.5%	
<b>Excise Taxes</b>						
Sales and Use	887,670,358	g	895,340,808	(7,670,450)	-0.9%	
Motor Vehicle	36,257,278	h	35,586,075	671,203	1.9%	
Motor Carrier Fuel Use	(152,509)		-	(152,509)	n/a	
Cigarettes	131,665,381		129,982,599	1,682,782	1.3%	
Alcohol	17,500,872		17,465,570	35,302	0.2%	
Controlled Substances						
<b>Other Taxes</b>						
Estate and Transfer	63,674,516	i	27,000,852	36,673,664	135.8%	
Racing and Athletics	960,878		1,006,328	(45,450)	-4.5%	
Realty Transfer	9,264,276	j	9,425,653	(161,378)	-1.7%	
<b>Total Taxes</b>	<b>\$ 2,509,077,467</b>		<b>\$ 2,482,529,410</b>	<b>\$ 26,548,057</b>	<b>1.1%</b>	
<b>Departmental Receipts</b>	\$ 166,816,295	k, l	\$ 154,105,366	\$ 12,710,929	8.2%	
<b>Taxes and Departmentals</b>	<b>\$ 2,675,893,762</b>		<b>\$ 2,636,634,776</b>	<b>\$ 39,258,986</b>	<b>1.5%</b>	
<b>Other General Revenue Sources</b>						
Other Miscellaneous Revenues	1,070,733		1,070,733	+	-	0.0%
Lottery Transfer	307,350,452	m	306,493,636		856,816	0.3%
Unclaimed Property	-		-	+	-	n/a
<b>Total Other Sources</b>	<b>\$ 308,421,185</b>		<b>\$ 307,564,369</b>	<b>\$ 856,816</b>	<b>0.3%</b>	
<b>Total General Revenues</b>	<b>\$ 2,984,314,947</b>		<b>\$ 2,944,199,146</b>	<b>\$ 40,115,802</b>	<b>1.4%</b>	

PIT Component	YTD May Adj. Revenues		YTD May Revised Estimates	Difference	Variance
Estimated payments	\$ 189,017,482		\$ 188,297,092	\$ 720,390	0.4%
Final payments †	179,314,059		183,469,100	(4,155,041)	-2.3%
Withholding †	1,001,122,301		1,001,153,330	(31,029)	0.0%
Refunds and Adjustments †	(264,169,076)	a, b, c, d	(274,860,579)	10,691,504	-3.9%
<b>Total</b>	<b>\$ 1,105,284,766</b>		<b>\$ 1,098,058,942</b>	<b>\$ 7,225,824</b>	<b>0.7%</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 \$20,510,880 in FY 2016 through May refund confirmations and refund exceptions that are expected to be released in June 2016.
- <sup>e</sup> Includes an adjustment of \$(154,547) and \$(249,293) and \$(270,409) for the transfer of revenues from business corporations tax to public utilities gross earnings tax revenues in February 2016 and May 2016 to properly record prior year deposits. The offsetting adjustments included in public utilities gross earnings tax revenues are \$154,547 and \$249,293 recorded in February 2016 and \$270,409 recorded in May 2016.
- <sup>f</sup> Includes an adjustment of \$(170,000) for the transfer of revenues from business corporations tax to financial institutions tax in May 2016. The offsetting adjustment included in financial institutions tax is \$170,000 also recorded in May 2016.
- <sup>g</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>h</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>i</sup> Includes an infrequently occurring payment of \$41,365,745 received in May 2016.
- <sup>j</sup> Subtracts \$271,964 in May 2016 realty transfer tax revenues that are designated for the Housing Resources Commission and will be transferred in June 2016.
- <sup>k</sup> Deducts \$150.3 million for hospital licensing fees received year-to-date but accrued back to FY 2015.
- <sup>l</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>m</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**

	May Adjusted Revenues FY 2016		May Estimate of Revised FY 2016 Revenues †		Difference	Variance
<b>Personal Income Tax</b>	\$ 79,407,021	a	\$ 79,377,139		\$ 29,881	0.0%
<b>General Business Taxes</b>						
Business Corporations	(9,134,900)	b, c	1,468,593		(10,603,493)	-722.0%
Public Utilities Gross Earnings	552,421	b	685,584		(133,163)	-19.4%
Financial Institutions	180,427	c	17,606		162,821	924.8%
Insurance Companies	1,148,484		710,833		437,651	61.6%
Bank Deposits	-		2,488		(2,488)	n/a
Health Care Provider Assessment	3,527,699		3,643,601		(115,902)	-3.2%
<b>Excise Taxes</b>						
Sales and Use	76,594,346		79,634,114		(3,039,768)	-3.8%
Motor Vehicle	4,399,598		4,126,879		272,719	6.6%
Motor Carrier Fuel Use	26		-		26	n/a
Cigarettes	12,829,749		11,362,425		1,467,324	12.9%
Alcohol	1,812,059		1,724,968		87,091	5.0%
Controlled Substances						
<b>Other Taxes</b>						
Estate and Transfer	41,697,362	d	2,101,361		39,596,001	1884.3%
Racing and Athletics	117,230		121,508		(4,278)	-3.5%
Realty Transfer	846,558	e	833,044		13,513	1.6%
<b>Total Taxes</b>	<b>\$ 213,978,080</b>		<b>\$ 185,810,143</b>		<b>\$ 28,167,937</b>	<b>15.2%</b>
<b>Departmental Receipts</b>						
	\$ 16,375,871	f	\$ 13,026,932		\$ 3,348,939	25.7%
<b>Taxes and Departmentals</b>	<b>\$ 230,353,951</b>		<b>\$ 198,837,075</b>		<b>\$ 31,516,876</b>	<b>15.9%</b>
<b>Other General Revenue Sources</b>						
Other Miscellaneous Revenues	174,167	+	174,167	+	-	0.0%
Lottery Transfer	32,738,527		32,431,594		306,933	0.9%
Unclaimed Property	-	+	-	+	-	n/a
<b>Total Other Sources</b>	<b>\$ 32,912,694</b>		<b>\$ 32,605,761</b>		<b>\$ 306,933</b>	<b>0.9%</b>
<b>Total General Revenues</b>	<b>\$ 263,266,645</b>		<b>\$ 231,442,836</b>		<b>\$ 31,823,809</b>	<b>13.8%</b>

<b>PIT Component</b>	May Adj. Revenues		May Revised Estimates		Difference	Variance
Estimated payments	\$ 3,792,403		\$ 3,552,996		\$ 239,408	6.7%
Final payments †	9,971,414		4,718,095		5,253,319	111.3%
Withholding †	90,006,293		90,065,313		(59,020)	-0.1%
Refunds and Adjustments †	(24,363,090)	a	(18,959,264)		(5,403,825)	28.5%
<b>Total</b>	<b>\$ 79,407,021</b>		<b>\$ 79,377,139</b>		<b>\$ 29,881</b>	<b>0.0%</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 Decreases May 2016 refunds and adjustments by \$9,484,904 of refund confirmations and refund exceptions that were accounted for in prior months.

b Includes an adjustment of \$(270,409) for the transfer of revenues from business corporations tax to public utilities gross earnings tax revenues in May 2016 to properly record prior year deposits. The offsetting adjustment included in public utilities gross earnings tax revenues is \$270,409 and recorded in May 2016.

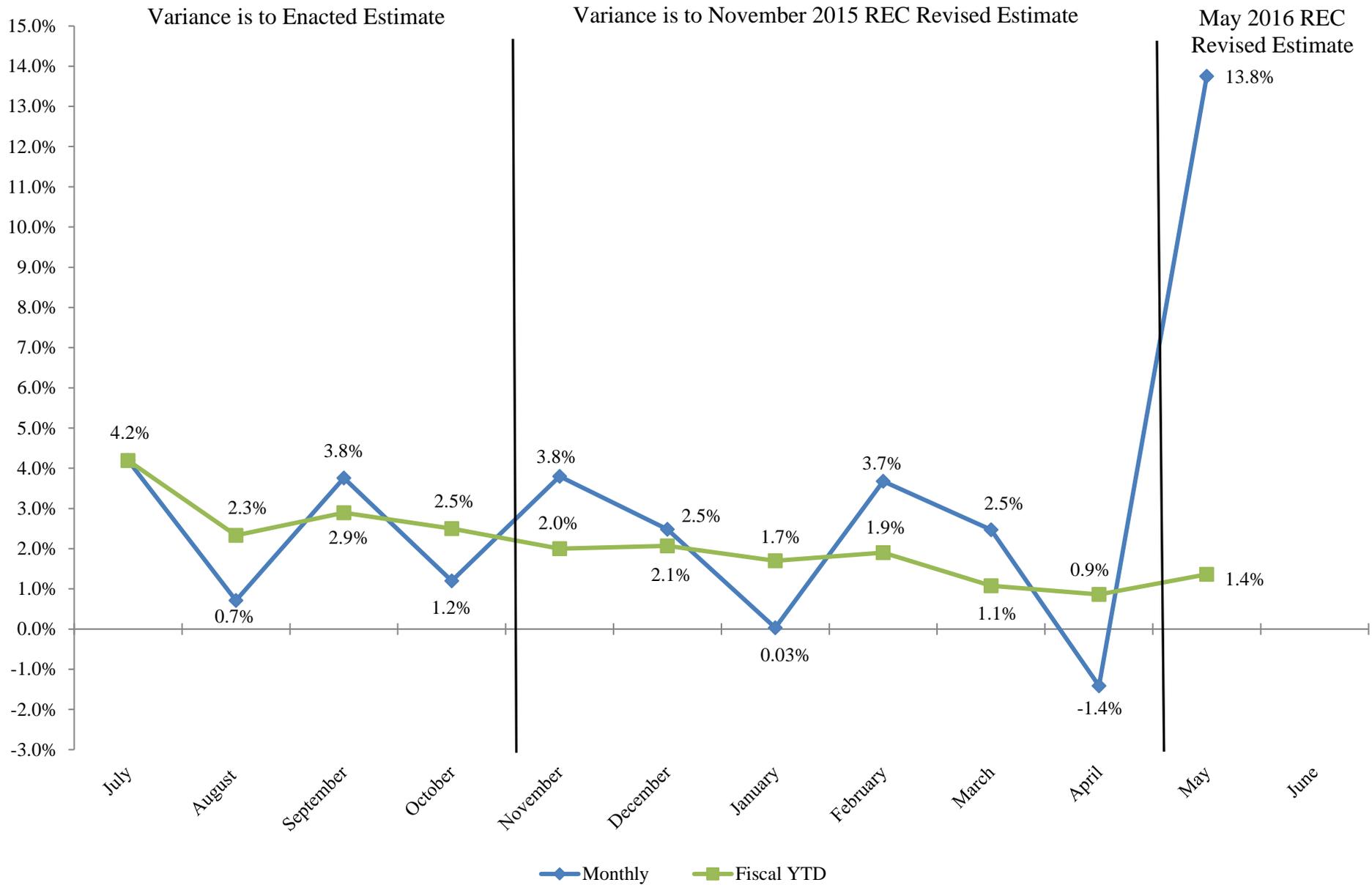
c Includes an adjustment of \$(170,000) for the transfer of revenues from business corporations tax to financial institutions tax in May 2016. The offsetting adjustment included in financial institutions tax is \$170,000 also recorded in May 2016.

d Includes an infrequently occurring payment of \$41,365,745 received in May 2016.

e Subtracts \$42,621 in realty transfer tax revenues that are designated for the Housing Resources Commission. The amount reflects the difference between the April 2016 transfer that occurred in May 2016 and the May 2016 transfer that will occur in June 2016.

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

# FY 2016 Variance of Adjusted Revenues to Estimate



## 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.