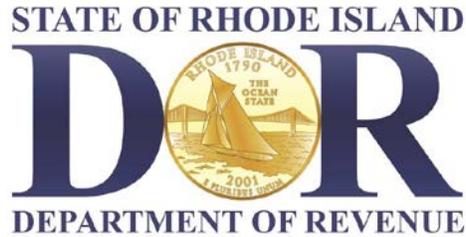


STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
GOVERNOR GINA M. RAIMONDO



Office of Revenue Analysis

State of Rhode Island Revenue Assessment Report  
Monthly and Year-to-Date FY 2017 as of July 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.*

**Changes to the Structure of the Revenue Assessment Report**

In an effort to make the Revenue Assessment Report more accessible to readers, the Office of Revenue Analysis has restructured the report so that the fiscal year-to-date and monthly tables that display adjusted revenues vs. expected revenues appear immediately following this page. Details on the report's methodology and revenue adjustments are contained in the text that follows the tables.

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

	YTD July Adjusted Revenues FY 2017		YTD July Estimate of Enacted FY 2017 Revenues †		Difference	Variance
<b>Personal Income Tax</b>	\$ 82,453,925	a	\$ 80,932,004		\$ 1,521,921	1.9%
<b>General Business Taxes</b>						
Business Corporations †	6,946,754	b	6,690,764		255,990	3.8%
Public Utilities Gross Earnings	289,135		550,943		(261,808)	-47.5%
Financial Institutions	(18,498)		30,902		(49,400)	-159.9%
Insurance Companies	256,018	c	449,215		(193,197)	-43.0%
Bank Deposits	11,602		5,378		6,224	115.7%
Health Care Provider Assessment	3,513,588		3,753,431		(239,843)	-6.4%
<b>Excise Taxes</b>						
Sales and Use	90,961,007		93,675,040		(2,714,033)	-2.9%
Motor Carrier Fuel Use	-	d	-		-	0.0%
Motor Vehicle	719,953		784,832		(64,879)	-8.3%
Cigarettes	11,048,467		12,591,822		(1,543,355)	-12.3%
Alcohol	2,016,840		1,913,134		103,706	5.4%
Controlled Substances						
<b>Other Taxes</b>						
Estate and Transfer	3,281,089		1,837,164		1,443,925	78.6%
Racing and Athletics	78,139		87,238		(9,099)	-10.4%
Realty Transfer	892,747	e	973,726		(80,979)	-8.3%
<b>Total Taxes</b>	<b>\$ 202,450,766</b>		<b>\$ 204,275,595</b>		<b>\$ (1,824,829)</b>	<b>-0.9%</b>
<b>Departmental Receipts</b>	\$ 11,355,989	f	\$ 10,920,576		\$ 435,413	4.0%
<b>Taxes and Departmentals</b>	<b>\$ 213,806,755</b>		<b>\$ 215,196,171</b>		<b>\$ (1,389,416)</b>	<b>-0.6%</b>
<b>Other General Revenue Sources</b>						
Other Miscellaneous Revenues	328		328	+	-	0.0%
Lottery Transfer	-		-		-	n/a
Unclaimed Property	-		-	+	-	n/a
<b>Total Other Sources</b>	<b>\$ 328</b>		<b>\$ 328</b>		<b>\$ -</b>	<b>0.0%</b>
<b>Total General Revenues</b>	<b>\$ 213,807,083</b>		<b>\$ 215,196,499</b>		<b>\$ (1,389,416)</b>	<b>-0.6%</b>

PIT Component	YTD July Adj. Revenues		YTD July Enacted Estimates		Difference	Variance
Estimated payments	\$ 5,059,393		\$ 4,288,334		\$ 771,059	18.0%
Final payments †	3,310,622		3,225,593		85,030	2.6%
Withholding	80,194,333		79,045,988		1,148,345	1.5%
Refunds and Adjustments †	(6,110,424)	a	(5,627,911)		(482,513)	8.6%
<b>Total</b>	<b>\$ 82,453,925</b>		<b>\$ 80,932,004</b>		<b>\$ 1,521,921</b>	<b>1.9%</b>

† Enacted FY 2017 adopted revenues for personal income tax final payments and refunds and adjustments and business corporations 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 FY 2017 YTD refunds and adjustments by \$4,906,957 for refunds paid out in July 2016 but accrued back to FY 2016.

b Adjusts for \$1.5 million refund that was processed in July 2016 but not posted until August 2016.

c Subtracts \$16,844,511 for an HMO insurance payment that was paid in July 2016 and accrued back to FY 2016.

d Subtracts \$169,380 in motor carrier fuel use revenues that were incorrectly posted as general revenues.

e Adds \$30,335 in realty transfer tax revenues that are designated for the Housing Resources Commission. The amount reflects the difference between the June 2016 transfer that occurred in July 2016 and the July 2016 transfer that will occur in August 2016.

f Subtracts \$154,710,510 for hospital licensing fees and \$276,946 for beach parking fees that were both received in FY 2016 year-to-date but accrued back to FY 2016.

**STATE OF RHODE ISLAND REVENUE ASSESSMENT REPORT**  
**Monthly Estimate to Actual**

	July Adjusted Revenues FY 2017		July Estimate of Enacted FY 2017 Revenues †	Difference	Variance
<b>Personal Income Tax</b>	\$ 82,453,925	a	\$ 80,932,004	\$ 1,521,921	1.9%
<b>General Business Taxes</b>					
Business Corporations †	6,946,754	b	6,690,764	255,990	3.8%
Public Utilities Gross Earnings	289,135		550,943	(261,808)	-47.5%
Financial Institutions	(18,498)	c	30,902	(49,400)	-159.9%
Insurance Companies	256,018		449,215	(193,197)	-43.0%
Bank Deposits	11,602		5,378	6,224	115.7%
Health Care Provider Assessment	3,513,588		3,753,431	(239,843)	-6.4%
<b>Excise Taxes</b>					
Sales and Use	90,961,007		93,675,040	(2,714,033)	-2.9%
Motor Carrier Fuel Use	-	d	-	-	0.0%
Motor Vehicle	719,953		784,832	(64,879)	-8.3%
Cigarettes	11,048,467		12,591,822	(1,543,355)	-12.3%
Alcohol	2,016,840		1,913,134	103,706	5.4%
Controlled Substances					
<b>Other Taxes</b>					
Estate and Transfer	3,281,089		1,837,164	1,443,925	78.6%
Racing and Athletics	78,139		87,238	(9,099)	-10.4%
Realty Transfer	892,747	e	973,726	(80,979)	-8.3%
<b>Total Taxes</b>	<b>\$ 202,450,766</b>		<b>\$ 204,275,595</b>	<b>\$ (1,824,829)</b>	<b>-0.9%</b>
<b>Departmental Receipts</b>	\$ 11,355,989	f	\$ 10,920,576	\$ 435,413	4.0%
<b>Taxes and Departmentals</b>	<b>\$ 213,806,755</b>		<b>\$ 215,196,171</b>	<b>\$ (1,389,416)</b>	<b>-0.6%</b>
<b>Other General Revenue Sources</b>					
Other Miscellaneous Revenues	328	+	328	+	-
Lottery Transfer	-		-	-	n/a
Unclaimed Property	-	+	-	+	-
<b>Total Other Sources</b>	<b>\$ 328</b>		<b>\$ 328</b>	<b>\$ -</b>	<b>0.0%</b>
<b>Total General Revenues</b>	<b>\$ 213,807,083</b>		<b>\$ 215,196,499</b>	<b>\$ (1,389,416)</b>	<b>-0.6%</b>

PIT Component	July Adj. Revenues		July Enacted Estimates	Difference	Variance
Estimated payments	\$ 5,059,393		\$ 4,288,334	\$ 771,059	18.0%
Final payments †	3,310,622		3,225,593	85,030	2.6%
Withholding	80,194,333		79,045,988	1,148,345	1.5%
Refunds and Adjustments †	(6,110,424)	a	(5,627,911)	(482,513)	8.6%
<b>Total</b>	<b>\$ 82,453,925</b>		<b>\$ 80,932,004</b>	<b>\$ 1,521,921</b>	<b>1.9%</b>

† Enacted FY 2017 adopted revenues for personal income tax final payments and refunds and adjustments and business corporations 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.

<sup>a</sup> Increases FY 2017 YTD refunds and adjustments by \$4,906,957 for refunds paid out in July 2016 but accrue back to FY 2016.

<sup>b</sup> Adjusts for \$1.5 million refund that was processed in July 2016 but not posted until August 2016.

<sup>c</sup> Subtracts \$16,844,511 for a late HMO payment that was paid in July 2016 but should have been paid in June 2016.

<sup>d</sup> Subtracts \$169,380 in motor carrier fuel use revenues that were incorrectly posted as general revenues.

<sup>e</sup> Adds \$30,335 in realty transfer tax revenues that are designated for the Housing Resources Commission. The amount reflects the difference between the June 2016 transfer that occurred in July 2016 and the July 2016 transfer that will occur in August 2016.

<sup>f</sup> Subtracts \$154,710,510 for hospital licensing fees and \$276,946 for beach parking fees that were both received in July 2016 but accrued back to FY 2016.

## **Law Changes Enacted in the 2016 Session That Impact General Revenues**

In the 2016 session, and earlier sessions, 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 2017 general revenues that will be realized through monthly revenue flows; and (3) changes that impact FY 2017 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 appendix to this report.

## **Estimate of Enacted FY 2017 Revenues**

In order to determine the expected monthly and fiscal year-to-date revenue estimates based on the enacted FY 2017 budget signed into law by Governor Raimondo on June 15, 2016, 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.<sup>1</sup> For estate and transfer taxes, the previous ten fiscal years are used.<sup>2</sup> For monthly estimates, these percentages are applied to the enacted FY 2017 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 2017 revenue estimate for each revenue item. This methodology is used for all revenue items except personal income tax final payments revenues, personal income tax refunds and adjustments revenues, and business corporations tax revenues. For these three revenue items, the monthly percentage, or the sum of the monthly percentages, will be applied to the enacted FY 2017 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.

Given that July is the first month in the fiscal year, the monthly and fiscal year-to-date estimates are the same in this report. 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 July. 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 2016 General Assembly.

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<sup>1</sup> The previous five fiscal years are FY 2012 through FY 2016. In the case of personal income tax refunds and adjustments revenues FY 2011 through FY 2015 was used in computing the five fiscal year average percentage. These fiscal years were selected due to the significant delay in the processing of refunds that occurred in FY 2016 as a result of the implementation of the new personal income tax system by the Division of Taxation.

<sup>2</sup> The previous ten fiscal years are FY 2007 through FY 2016.

Revenue Item	<u>Percent Received</u>		Revenue Item	<u>Percent Received</u>	
	July	YTD		July	YTD
Personal Income Taxes			Sales and Use Taxes	9.2 %	9.2 %
Estimated Payments	1.7 %	1.7 %	Motor Vehicles Fees	6.0 %	6.0 %
Final Payments	1.6 %	1.6 %	Cigarettes Taxes	9.0 %	9.0 %
Withholding Payments	7.0 %	7.0 %	Alcohol Excise Taxes	9.7 %	9.7 %
Refunds/Adjustments	1.9 %	1.9 %	Estate and Transfer	8.6 %	8.6 %
Business Corporations Taxes	4.1 %	4.1 %	Racing and Athletics	7.9 %	7.9 %
Utilities Gross Earnings Taxes	0.5 %	0.5 %	Realty Transfer	8.8 %	8.8 %
Financial Institutions Taxes	0.2 %	0.2 %	Departmental Receipts	5.7 %	5.7 %
Insurance Co. Gross Premiums	0.4 %	0.4 %	Lottery Transfer	0.0 %	0.0 %
Bank Deposits	0.2 %	0.2 %	Other Misc. Revenues	n/a	n/a
Health Care Provider Assessment	8.3 %	8.3 %	Unclaimed Property	0.0 %	0.0 %

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 May 2016, the Streamline Sales Tax Governing Board approved an amendment to the Streamlined Sales and Use Tax Agreement (SSUTA) that put Rhode Island back in compliance with the SSUTA. The State will continue to receive voluntary remittances of sales and use tax revenues from remote sellers that are parties to the SSUTA. The FY 2017 enacted sales and use tax estimate includes these voluntary receipts.

Due to the unusual characteristics of the enacted FY 2017 legislative changes for personal income tax final payments, personal income tax refunds and adjustments, and business corporations tax revenues, ORA had to adjust the revenue bases against which FY 2017 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.<sup>3</sup> In addition, previously enacted law changes, such as the exemption of taxable Social Security benefits for certain taxpayers which passed in the 2015 session, will not flow through as

<sup>3</sup> Since the enactment of the FY 2017 budget, the Office of Accounts and Controls (OAC) has determined that the revenue impacts of tax law changes that take effect in the middle of a fiscal year are properly accounted for in the year-end accrual calculation for that fiscal year.

revenues until later in FY 2017.<sup>4</sup> As a result, ORA will use modified cash revenue flows for expected FY 2017 revenues for these revenue items to gauge the sufficiency of adjusted FY 2017 revenues in meeting estimated revenues. The footnotes to Table B detail the breakdown of modified cash revenue flows and accruals for each of these revenue items.

The FY 2017 estimates by revenue item as enacted by the General Assembly and signed into law by Governor Raimondo are as follows:

<b>Revenue Item</b>	<b>Enacted FY 2017 Estimate</b>	<b>Revenue Item</b>	<b>Enacted FY 2017 Estimate</b>
Personal Income Taxes		Sales and Use Taxes	\$ 1,017,043,806
Estimated Payments	\$ 246,600,000	Motor Vehicles Fees	13,065,000
Final Payments <sup>a</sup>	172,247,672	Cigarettes Taxes	139,600,000
Withholding Payments	1,132,300,000	Alcohol Excise Taxes	19,770,000
Refunds/Adjustments <sup>b</sup>	(300,972,326)	Estate and Transfer	21,400,000
Business Corporations Taxes <sup>c</sup>	164,471,657	Racing and Athletics	1,100,000
Public Utilities Gross Earnings	101,000,000	Realty Transfer	11,100,000
Financial Institutions Taxes	20,300,000	Departmental Receipts ‡	361,587,050
Insurance Co. Gross Premiums	126,064,809	Lottery	365,300,000
Bank Deposits	2,400,000	Other Misc. Revenues	7,065,000
Health Care Provider Assessment	45,100,000	Unclaimed Property	9,200,000
		<b>Total General Revenues *</b>	<b>\$ 3,674,742,668</b>

‡ Departmental receipts figure includes estimated hospital licensing fee revenues of \$168,958,671.  
\* Total general revenues estimate includes the personal income tax net accrual of \$(1,000,000).

Notes to Table B:

<sup>a</sup> Personal income tax final payments revenues estimate includes an estimated revenue impact of \$(18,331,957) from the exemption of taxable Social Security benefits for eligible taxpayers. The realization of this law change will not impact FY 2017 revenue flows until March 2017 through June 2017. The enacted FY 2017 personal income tax final payments revenues estimate includes an estimated revenue accrual of \$(6,340,796) from the exemption of the first \$15,000 of taxable pensions, annuities, etc. for eligible taxpayers effective January 1, 2017. The realization of this revenue accrual will not occur until after the end of the fiscal year. For the period from July 2016 through February 2017, adjusted FY 2017 personal income tax final payments revenues will be assessed against a “base” FY 2017 revenue estimate of \$196,920,426. For the period from March 2017 through June 2017, adjusted FY 2017 personal

<sup>4</sup> In the case of personal income tax final payments, the impact of the 2015 passage of the exemption of taxable Social Security benefits for certain taxpayers will not be realized until March through June 2017. For personal income tax refunds and adjustments, the enactment of the increase in the state EIC from 10 percent to 12.5 percent of the federal EIC in the 2015 session will not be realized until February through June 2017. For business corporations tax revenues, the impact of the reduction in the business corporations minimum tax to \$450 by the 2015 General Assembly will not be realized until March through June 2017.

income tax final payments revenues will be assessed against a “base” FY 2017 revenue estimate of \$178,588,468. These “bases” will be used instead of the FY 2017 enacted estimate of \$172,247,672.

<sup>b</sup> Personal income tax refunds and adjustments revenues estimate includes an estimated revenue impact of \$(6,009,225) from the enhanced Rhode Island earned income tax credit (EIC) at 12.5 percent. The realization of this revenue change will not impact FY 2017 revenue flows until the February 2017 through June 2017 period. The FY 2017 personal income tax refunds and adjustments revenues enacted estimate does include an estimated revenue impact of \$(2,672,326) for the increase of the Rhode Island EIC to 15.0 percent on January 1, 2017. The realization of this revenue accrual will not occur until after the end of the fiscal year. As a result, ORA will assess adjusted FY 2017 personal income tax refunds and adjustments revenues against a “base” FY 2017 revenue estimate of \$(292,290,775) for the period of July 2016 through January 2017. For the period from February 2017 through June 2017, adjusted FY 2017 personal income tax refunds and adjustments revenues will be assessed against a base of \$298,300,000. These “bases” will be used instead of the FY 2017 enacted estimate of \$(300,972,326).

<sup>c</sup> Business corporations tax revenues estimate of \$164,471,657 includes an estimated revenue impact of \$(3,240,000) from the reduction of the business corporations minimum tax to \$450 effective January 1, 2016. The realization of this revenue change will not impact FY 2017 revenue flows until March through June 2017. The business corporations tax enacted estimate does include \$(1,579,348) from the reduction of the business corporations minimum tax to \$400 on January 1, 2017. The realization of this revenue accrual will not occur until after the end of the fiscal year. The enacted estimate also includes \$6,696,000 of revenues from the transfer pricing audit project that is not estimated to be realized until April 2017 through June 2017. As a result, ORA will assess adjusted FY 2017 revenues against a “base” FY 2017 revenue estimate of \$162,595,005, instead of the enacted FY 2017 estimate of \$164,471,657.

### **Results for FY 2017 through July**

The table, *Year-to-Date Estimate to Actual*, gives the results for FY 2017 through July. Given that July is the first month of the fiscal year, the fiscal year-to-date adjusted revenues to expected revenues assessment is the same as the monthly assessment below.

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

The second table, *Monthly Estimate to Actual*, gives the results for July 2016. As is apparent from the table, the Department of Revenue finds that July adjusted total general revenues trail the enacted FY 2017 expected total general revenues estimate for July by \$1.4 million or -0.6 percent. In total taxes, July adjusted revenues are less than the enacted FY 2017 expected monthly revenue estimate by \$1.8 million or -0.9 percent. For departmental receipts, July adjusted revenues exceed the enacted FY 2017 expected monthly revenues estimate by \$435,413 or 4.0 percent. For other general revenue sources, adjusted FY 2017 monthly revenues and enacted FY 2017 expected monthly revenues were equal.

Three revenue items had adjusted revenues in July that exceed the enacted FY 2017 expected monthly estimate by \$1.0 million or more.

- Personal income tax adjusted revenues for July 2016 are \$1.5 million or 1.9 percent more than the enacted FY 2017 expected monthly revenues estimate of \$80.9 million and include a decrease to refunds and adjustments of \$4.9 million to account for the accrual of refunds processed in July 2016 to FY 2016.

- Estate and transfer adjusted revenues for July are \$1.4 million or 78.6 percent more than the enacted FY 2017 expected monthly estate and transfer tax revenues estimate of \$1.8 million.

July adjusted revenues for departmental receipts, business corporations tax, alcohol excise tax, and bank deposits tax are greater than the enacted FY 2017 expected monthly revenue estimates for July, but by less than \$1.0 million each.

On the negative side, two revenue items had adjusted revenues in July that fell short of the enacted FY 2017 expected monthly revenues estimate by \$1.0 million or more.

- Sales and use tax adjusted revenues for July 2016 are \$2.7 million or 2.9 percent less than the enacted FY 2017 expected monthly revenues estimate of \$93.7 million.
- Cigarettes tax adjusted revenues for July 2016 are \$1.5 million or 12.3 percent less than the enacted FY 2017 expected monthly revenue estimate of \$12.6 million.

July 2016 adjusted revenues for public utilities gross earnings tax, health care provider assessment, insurance companies gross premiums tax, realty transfer tax, motor vehicle license and registration fees, financial institutions tax, racing and athletics tax are below the enacted FY 2017 revenue estimates for July, but by less than \$1.0 million each.



Robert S. Hull  
Director, Department of Revenue  
September 26, 2016

## **Appendix: Law Changes Enacted in the 2016 Session of the General Assembly**

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

In the 2014 session, the General Assembly passed legislation that reclassified 75.0 percent of all motor vehicle operator license and vehicle registration fees from general revenues to other funds effective July 1, 2016. The reclassification of these general revenue flows does not have any impact on expected FY 2017 enacted general revenues as these revenues are not included in either the adjusted revenue calculations contained in this report or the enacted FY 2017 general revenue estimates.

In the 2016 session, the General Assembly passed legislation that reclassified all of the motor carrier fuel use tax revenues from general revenues to other funds effective July 1, 2016. As motor carrier fuel use tax revenues are no longer classified as general revenues, they will no longer be included in this report.

Also in the 2016 session, the General Assembly transferred from general revenues to restricted receipts the registration fees of medical marijuana patients and medical marijuana caregivers effective July 1, 2016. The estimated revenues to be reclassified total \$901,647. The reclassification of these general revenue flows does not have any impact on expected FY 2017 enacted general revenues as these revenues are not included in either the adjusted revenue calculations contained in this report or the enacted FY 2017 general revenue estimates.

### ***Revenue Changes That Will Be Realized Through Monthly Revenue Flows***

In the 2015 session, the 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 is 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. Since TY 2016 personal income tax returns will not be filed until after January 1, 2017, most of the \$(6.0 million) impact from this law change is expected to be reflected in FY 2017 personal income tax refund revenue flows beginning in February. As a result, personal income tax refund revenue flows will be higher than the enacted personal income tax refund estimate for the period of July 2016 through January 2017. ORA has adjusted the July 2016 through January 2017 personal income tax refunds and adjustments revenue flows to reflect the higher expected revenues for this period.

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>5</sup> Since TY 2016 personal income tax returns will not be filed until after January 1, 2017, most of the \$(18.3

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<sup>5</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. For TY 2017, the comparable year is 1952.

million) impact from this law change is expected to be reflected in FY 2017 personal income tax final payments. As a result, personal income tax final payments revenue flows will be higher than FY 2017 estimated personal income tax final payments revenues for the period July 2016 through February 2017. ORA has adjusted the July 2016 through February 2017 personal income tax final payments revenue flows to reflect the higher expected revenues for this period.

With respect to business corporations tax, the 2015 General Assembly enacted legislation that reduced the annual corporate minimum tax by 10.0 percent to \$450 for tax years beginning on or after January 1, 2016. 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 due March 15, 2017. Thus, most of this \$(3.2 million) revenue change is expected to be realized in FY 2017 revenue flows, but not until March. ORA has adjusted the July 2016 through February 2017 business corporations tax revenue flows to reflect the higher expected revenues for this period.

In the 2016 session, the General Assembly enacted legislation that added three revenue officers to the Division of Taxation in FY 2017. The enacted FY 2017 personal income tax final payments revenue impact of this law change is \$788,468; the enacted FY 2017 business corporations tax revenue impact is \$205,005; the enacted FY 2017 sales and use tax revenue impact is \$784,639; and the enacted FY 2017 departmental receipts fines and penalties revenue impact is \$645,110. For each of these revenue items, the revenue flows from the addition of three revenue officers are expected to be realized completely during FY 2017 and in accordance to the general flow of revenues for each of these revenue items.

Furthermore, the 2016 General Assembly approved the Governor's proposal to reinstate the nexus program in the Division of Taxation's Field Audit Section. This reinstatement is expected to increase business corporations tax revenues by \$750,000 and sales and use tax revenues by \$250,000. The revenue flows from the reinstated nexus program are expected to be realized completely in FY 2017 and in accordance with the general flow of revenues for these two revenue items.

The 2016 General Assembly approved the Governor's proposal to have the Division of Taxation undertake a transfer pricing audit project which is expected to increase business corporations tax revenues by \$6,696,000 in FY 2017. This revenue change is not expected to be realized in the business corporations monthly revenue flows until the last quarter of FY 2017, and thus business corporations revenue flows will be lower than the enacted estimate until that time. ORA has adjusted the July 2016 through March 2017 business corporations tax revenue flows to reflect the higher expected revenues for this period.

With respect to the insurance companies gross premiums tax, the 2016 General Assembly enacted a program to increase retaliatory actions against foreign insurance companies to ensure that these companies pay the gross premiums tax assessed in their home states on insurance contracts written in Rhode Island if that tax rate is greater than Rhode Island's 2.0 percent gross premiums tax rate.

This enacted change is expected to increase insurance companies gross premiums tax revenues by \$1,074,000 in FY 2017. In addition, FY 2017 insurance companies gross premiums tax revenues are estimated to be \$209,191 less due to lower Medicaid insurance premiums written as a result of the implementation of the Unified Health Infrastructure Project. The impact of these revenue changes is expected to be realized primarily in March and June of 2017, which is typical for insurance companies gross premiums taxes in general.

With respect to sales and use tax, the 2016 General Assembly approved the Governor's proposal to add two revenue agents to the Division of Taxation. This proposal is expected to increase FY 2017 sales and use tax revenues by \$1,009,167. The monthly distribution of the impact of this revenue change is expected to be similar to that of sales and use tax revenues in general.

The 2016 General Assembly enacted legislation that will eliminate fees for veteran plates, as well as create a Gold Star Parent plate. These law changes are expected to have a revenue impact of \$(35,000) in the motor vehicle license and registration fees revenue item in FY 2017. The monthly distribution of the impact of this revenue change is expected to be similar to that of motor vehicle license and registration fees in general.

In the 2016 session, the General Assembly also enacted legislation that created a two-tiered annual license fee for distilleries based on the volume of production and exempted the first 50,000 gallons manufactured by Rhode Island distilleries from the alcohol excise tax. The monthly distribution of the \$(30,000) impact of this revenue change is expected to be similar to that of alcohol excise tax revenues in general.

Also, the 2016 General Assembly passed legislation that impacted the FY 2017 revenue flows for a number of departmental receipts items. Parking fees at state beaches were reduced by 50 percent yielding a decrease in departmental receipts revenues of \$1,284,000; the debt instruments upon which the Public Finance Management Board can assess a fee was expanded raising \$295,000; cost recovery fees paid by banks and insurance companies for examinations are expected to generate \$400,000; the restructuring of the fees paid by limited liability partnerships should reduce revenues by \$30,000; the delay in the reissuance of motor vehicle license plates is projected to lower revenues by \$2.0 million; revenues are expected to increase by \$108,864 based on payments to the state in exchange for state office facilities potentially being "browned out" during periods of excess demand for electricity; and indirect cost recovery fees of \$195,467 from medical marijuana plant tag fees and patient and caregiver registration fees are forecast. The monthly distribution of all of these revenue flows are expected to be the same as departmental receipts revenues in general.

Finally, in the 2016 Session, the General Assembly increased FY 2017 other miscellaneous revenues by \$6.0 million. This increased revenue is from the implementation of the Office of Management and Budget's fraud initiative and the anticipated sale of state fleet vehicles as part of a cost saving measure in the provision of motor vehicles for use by employees in the performance of their duties. The monthly distribution of these revenue flows will be recorded as they are received.

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

The 2016 General Assembly enacted legislation that impacts FY 2017 general revenues primarily through the fiscal year end accrual process. The legislation enacted during the 2016 session impacts the personal income tax and the business corporations tax. The effective date of the legislation is January 1, 2017.

With respect to personal income tax, the 2016 General Assembly enacted legislation that increased the percentage of the federal EIC that could be claimed by the taxpayer from 12.5 percent to 15.0 percent, effective for tax years beginning on or after January 1, 2017. This change in the state EIC is expected to increase TY 2017 personal income tax refunds paid out by \$5.3 million. Since TY 2017 personal income tax returns will not be filed until after January 1, 2018, which is in FY 2018, little or no impact on FY 2017 personal income tax refund revenue flows is expected. There is, however, an expected increase in the payable portion of the FY 2017 personal income tax accrual to align increased future refunds with the time period in which the income was earned that generated these refunds. The increase in the payable portion of the FY 2017 personal income tax accrual is estimated at \$2.7 million. This amount was included in the enacted FY 2017 estimate of personal income tax refunds and adjustments and, as a result, actual personal income tax refund revenue flows will be higher, all else equal, than expected personal income tax refund revenues for at least the July 2016 through October 2016 period. ORA has adjusted personal income tax refunds and adjustments revenue flows to reflect the higher expected revenues for at least this period.

Additionally, the 2016 General Assembly enacted legislation that exempts from state personal income taxes up to \$15,000 of taxable pensions, annuities, and certain other retirement income<sup>6</sup> for taxpayers that have reached full Social Security retirement age.<sup>7</sup> Taxpayers must have federal adjusted gross income (AGI) of \$80,000 or less for individuals or federal AGI of \$100,000 or less for married couples.<sup>8</sup> The exemption of the first \$15,000 of taxable pensions, annuities, etc. is expected to decrease TY 2017 personal income tax final payments by \$12.7 million. Since TY 2017 personal income tax returns will not be filed until after January 1, 2017, which is in FY 2018, little or no impact on FY 2017 personal income tax final payments is expected. There is, however, an expected decrease in the receivable portion of the FY 2017 personal income tax accrual to align anticipated reduced personal income tax final payments with the time period in which the exempted income was generated. The decrease in the receivable portion of the FY 2017 personal income tax accrual is \$6.3 million. This amount was included in the enacted FY 2017 estimate of personal income tax final payments and, as a result, personal income tax final payments revenue flows will be higher, all else equal, than expected personal income tax final payments revenues for at least the July 2016 through October 2017 period. ORA has adjusted personal income tax final payments revenue flows to reflect the higher expected revenues for at least this period.

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<sup>6</sup> Other retirement income consists primarily of distributions from 401(k), 403(b), and 457(b) retirement accounts but not distributions from individual retirement accounts.

<sup>7</sup> For TY 2017, persons born before 1952 will be eligible for a modification reducing federal Adjusted Gross Income subject to Rhode Island income tax.

<sup>8</sup> The actual federal AGI amounts for individual and married taxpayers will be the same as the TY 2017 federal AGI thresholds applicable for the exemption of taxable Social Security benefits.

With respect to business corporations tax revenues, the 2016 General Assembly passed legislation that further reduces corporate minimum tax paid by all for profit business entities other than sole proprietorships and general partnerships to \$400 effective for tax years beginning on or after January 1, 2017. This change is expected to decrease TY 2017 business corporation tax revenues by \$3.2 million. For calendar year minimum corporate tax filers, final TY 2017 returns are due on March 15, 2018, which is in FY 2018. To align the tax paid by corporate minimum filers to the business activity that generated the tax liability, 50.0 percent of minimum corporate tax payments expected to be received for TY 2017 will be accrued back to FY 2017. Since the minimum corporate tax in TY 2017 is less than for TY 2016, a reduction of \$1.6 million in FY 2017 business corporations tax revenues will result on a net accrual basis.

Due to these revenue changes, the methodology used in the *Revenue Assessment Report* for FY 2017 will be similar to that used in the FY 2015 and FY 2016 reports. For most revenue items, the assessment of FY 2017 adjusted revenues will be made vis-à-vis the FY 2017 enacted (or revised) revenue estimates. For some revenue items, however, the assessment of FY 2017 adjusted revenues will be made vis-à-vis FY 2017 enacted (or revised) revenue flows as estimated by ORA.