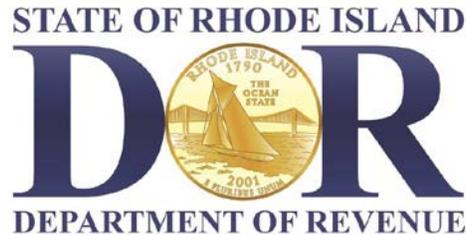


*STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS*  
**GOVERNOR GINA M. RAIMONDO**



**Office of Revenue Analysis**

**State of Rhode Island Revenue Assessment Report  
Monthly and Year-to-Date FY 2015 as of February 2015**

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 revenues based on the current fiscal year's enacted revenue estimates. It is important to note that any discrepancies between the Comparative Statement of Revenue and the component breakdown for personal income tax, sales and use tax and business corporations tax provided by the Division of Taxation are the result of timing differences in the reporting of revenues. It also should be noted that the fiscal year revenue estimates will vary over the course of the fiscal year as the Revenue Estimating Conference (see Rhode Island General Laws § 35-16-1) 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 was 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 trail the fiscal year-to-date revenue estimates, it is possible for the fiscal year-end accrual to make up any shortfall.*

The November 2014 Revenue Assessment report was the first monthly report that compared adjusted revenues to the revenue estimates adopted at the November 2014 Revenue Estimating Conference. The Revenue Assessment reports for the months of July through October compared adjusted revenues to the revenue estimates enacted in the FY 2015 budget. The principals at the November 2014 Revenue Estimating Conference revised FY 2015 total general revenues up by \$15,796,612 spread across all general revenue items.

The November 2014 Revenue Estimating Conference incorporated changes to Rhode Island law enacted in the FY 2015 Budget in the adopted revenue estimates that are the basis of this report. Details on the law changes that impact FY 2015 general revenues are contained in the Appendix to this report.

### **Estimate of Revised FY 2015 Revenues Adopted at the November 2014 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 2014 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 revised FY 2015 adopted 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 2015 adopted revenue estimate for each revenue item. This methodology is used for all revenue items except personal income tax refunds and adjustments revenues, business corporation tax revenues and estate and transfer tax revenues. For these three revenue items, the monthly percentage, or the sum of the monthly percentages, will be applied to the FY 2015 modified revenue cash flows as estimated by ORA based on revised FY 2015 revenue estimates adopted at the November 2014 REC. 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 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 2014 General Assembly (see Appendix) and included as part of the revised FY 2015 revenue estimates adopted at the November 2014 REC.

| Revenue Item                    | <u>Percent Received</u> |        | Revenue Item           | <u>Percent Received</u> |        |
|---------------------------------|-------------------------|--------|------------------------|-------------------------|--------|
|                                 | Feb.                    | YTD    |                        | Feb.                    | YTD    |
| Personal Income Taxes           |                         |        | Motor Vehicles Fees    | 8.7 %                   | 52.6 % |
| Estimated Payments              | 1.1 %                   | 63.6 % | Motor Carrier Fuel Use | 12.5 %                  | 74.2 % |
| Final Payments                  | 2.3 %                   | 18.0 % | Cigarettes Taxes       | 6.7 %                   | 67.3 % |
| Withholding Payments            | 8.5 %                   | 65.9 % | Alcohol Excise Taxes   | 5.8 %                   | 66.7 % |
| Refunds/Adjustments *           | 23.0 %                  | 42.7 % | Estate and Transfer *  | 7.9 %                   | 66.8 % |
| Business Corporations Taxes *   | 1.2 %                   | 19.0 % | Racing and Athletics   | 7.6 %                   | 63.7 % |
| Utilities Gross Earnings Taxes  | 2.1 %                   | 4.4 %  | Realty Transfer        | 6.4 %                   | 69.9 % |
| Financial Institutions Taxes    | 0.6 %                   | 42.8 % | Departmental Receipts  | 6.7 %                   | 60.3 % |
| Insurance Co. Gross Premiums    | 3.9 %                   | 5.3 %  | Lottery Transfer       | 7.7 %                   | 56.5 % |
| Bank Deposits                   | 0.0 %                   | 10.5 % | Other Misc. Revenues   | n/a                     | n/a    |
| Health Care Provider Assessment | 8.2 %                   | 66.5 % | Unclaimed Property     | 0.0 %                   | 0.0 %  |
| Sales and Use Taxes †           | 7.2 %                   | 67.6 % |                        |                         |        |

\* Percentages are a weighted average of the monthly and fiscal year-to-date percentages for the “base” personal income tax refunds and adjustments, business corporations tax, and estate and transfer tax adjusted revenues and the monthly and fiscal year-to-date percentages calculated by ORA incorporating the changes in law affecting these three revenue items effective January 1, 2015. See the body of the report for a more detailed discussion of these methodologies.

† 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 forgone sales and use tax revenues projected from the extension of the sunset date for the exemption of wine and spirits from the sales and use tax and, effective January 1, 2015 the enhanced sales and use tax revenues projected from the utilization of the safe harbor use tax look-up table. 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 operator’s licenses and motor vehicle registrations. Racing and athletics taxes consist of a tax on simulcast wagering. The “Percent Received” for monthly and fiscal 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.

The revised FY 2015 adopted sales and use tax revenue estimate incorporates an enhancement derived from the inclusion of a safe harbor provision for use tax owed on TY 2014 personal income tax returns. In addition, the sunset date for the sales and use tax exemption for wine and spirits sold at package stores was extended from March 31, 2015 to June 30, 2015. ORA has

taken into account the anticipated changes in sales and use tax revenues from the inclusion of the safe harbor sales and use tax look-up table on state personal income tax returns and the extension of the sunset date for the sales and use tax exemption of wine and spirits sold by package stores when determining the average percentages used to calculate expected FY 2015 sales and use tax revenues.

Due to the unusual characteristics of the enacted legislative changes (see Appendix) for the personal income tax refunds and adjustments, the business corporations tax, and the estate and transfer tax revenue streams, ORA had to adjust the revenue bases against which FY 2015 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 based revenue flows for expected FY 2015 revenues to gauge the sufficiency of adjusted revenues in meeting estimated revenues. To do otherwise would result in the understatement of expected FY 2015 revenues on a monthly and fiscal year-to-date basis relative to actual FY 2015 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 based revenue flows against which FY 2015 adjusted revenues will be assessed.

The revised FY 2015 estimates adopted at the November 2014 Revenue Estimating Conference by revenue item are as follows:

| <b>Table B. Revised FY 2015 Revenue Estimates by Major Revenue Item</b>  |  |                                  |  |
|--|--|----------------------------------|--|
| <b>Revenue Item</b>  | <b>Nov 2014 Revised<br/>FY 2015 Estimate</b> | <b>Revenue Item</b>              | <b>Nov 2014 Revised<br/>FY 2015 Estimate</b> |
| Personal Income Taxes  |  | Motor Vehicles                   | \$ 49,900,000                                |
| Estimated Payments   | \$ 204,100,000                               | Motor Carrier Fuel               | 500,000                                      |
| Final Payments   | 175,800,000                                  | Cigarettes Taxes                 | 136,800,000                                  |
| Withholding Payments   | 1,057,200,000                                | Alcohol Excise Taxes             | 19,000,000                                   |
| Refunds/Adjustments †  | (276,300,000)                                | Estate and Transfer *            | 27,000,000                                   |
| Business Corporations Taxes ^  | 112,800,000                                  | Racing and Athletics             | 1,100,000                                    |
| Public Utilities Gross Earnings  | 103,600,000                                  | Realty Transfer                  | 8,800,000                                    |
| Financial Institutions Taxes   | 16,000,000                                   | Departmental Receipts ‡          | 349,300,000                                  |
| Insurance Co. Gross Premiums   | 113,600,000                                  | Lottery                          | 383,300,000                                  |
| Bank Deposits  | 2,500,000                                    | Other Misc. Revenues             | 7,800,000                                    |
| Health Care Provider Assessment  | 43,200,000                                   | Unclaimed Property               | 11,000,000                                   |
| Sales and Use Taxes  | 955,000,000                                  |                                  |  |
|  |  | <b>Total General Revenues **</b> | <b>\$ 3,508,900,000</b>                      |
| <p>† Personal income tax refunds and adjustments revenues estimate includes an estimated revenue accrual of \$(4,293,291) from the restructured Rhode Island earned income tax credit. The realization of this revenue accrual will not occur until the end of FY 2015. As a result, ORA will assess adjusted FY 2015 personal income tax refunds and adjustments revenues against a “base” FY 2015 revenue estimate of \$(272,006,710), instead of the \$(276,300,000) revised FY 2015 revenue estimate adopted at the November Revenue Estimating Conference (REC).</p> <p>^ Business corporations tax revenues estimate of \$112,800,000 includes an estimated increase in revenue from the implementation of combined reporting and the reduction of the business corporations tax rate of \$2,932,858. The estimated increase includes revenues of \$1,759,716 that will be received in FY 2015 but realized in FY 2016. As a result, ORA will assess adjusted FY 2015 revenues against a “base” FY 2015 revenue estimate of \$114,559,716, instead of the \$112,800,000 revised FY 2015 revenue estimate adopted at the November REC.</p> <p>* Estate and transfer tax revenues estimate of \$27,000,000 includes an estimated accrual impact of \$(9,151,910) to account for the filing behavior of decedents who die on or after January 1, 2015. The estimated accrual will not affect FY 2015 revenues until the end of the fiscal year. As a result, ORA will assess adjusted FY 2015 revenues against a “base” FY 2015 revenue estimate of \$36,151,910, instead of the \$27,000,000 revised FY 2015 revenue estimate adopted at the November REC.</p> <p>‡ Departmental Receipts figure includes estimated hospital licensing fee revenues of \$156,071,602.</p> <p>** Total general revenues estimate includes the personal income tax net accrual estimate of \$6,900,000 as adopted at the November REC.</p> |  |                                  |  |

The revised FY 2015 adopted revenue estimate for sales and use taxes is \$955.0 million. ORA estimated that this figure is comprised of \$965.5 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 \$2.2 million of sales and use tax revenues included in the revised FY 2015 adopted revenue estimate for the provision of a safe harbor use tax look-up table on personal income tax returns and the \$12.7 million in forgone sales and use tax revenues due to the exemption of wine and spirits from the sales and use tax. ORA adjusted the methodology for determining the percentages used to calculate revised FY 2015 revenues as adopted at the November 2014 Revenue Estimating Conference to incorporate the timing of these changes.

The revised FY 2015 adopted revenue estimate for alcohol excise taxes is \$19.0 million. ORA estimated that this figure is comprised of \$13.5 million of “base” alcohol excise tax revenues and \$5.5 million of additional alcohol excise tax revenues generated by the full fiscal year impact of the increase in the excise tax rates on beer and malt, still wine and high proof spirits. ORA adjusted the methodology for determining the percentages used to calculate expected FY 2015 revised revenues to incorporate the timing of this change.

### **Results for FY 2015 through February**

The table, *Year-to-Date Estimate to Actual*, gives the results for FY 2015 through February. As is apparent from the table, the Department of Revenue finds that fiscal year-to-date adjusted total general revenues through February exceed the revised FY 2015 expected total general revenues derived from the estimates adopted at the November 2014 Revenue Estimating Conference (REC) through February by \$47.1 million or 2.4 percent. In total taxes, the fiscal year-to-date adjusted revenues through February are greater than the revised FY 2015 expected total taxes derived from the estimates adopted at the November 2014 REC through February by \$41.1 million or 2.5 percent. For departmental receipts, the difference between the fiscal year-to-date adjusted revenues through February and the revised FY 2015 expected departmental receipts derived from the estimate adopted at the November 2014 REC through February is \$5.3 million or 4.5 percent. For other general revenue sources, fiscal year-to-date adjusted revenues through February exceed the revised FY 2015 expected other general revenue sources revenues derived from the estimates adopted at the November 2014 REC through February by \$649,095 or 0.3 percent.

In addition to departmental receipts, three revenue items have fiscal year-to-date adjusted revenues through February that exceed the revised FY 2015 expected revenues derived from the estimates adopted at the November 2014 REC by \$1.0 million or more.

- Personal income tax adjusted revenues of \$770.6 million through February are \$28.4 million or 3.8 percent greater than the revised FY 2015 expected personal income tax revenues through February of \$742.2 million derived from the estimate adopted at the November 2014 REC. Fiscal year-to-date estimated tax payments adjusted revenues are \$15.4 million or 11.9 percent more than the fiscal year-to-date revised FY 2015 expected estimated tax payments revenues of \$129.8 million. The fiscal year-to-date estimated tax payments adjusted revenues include a large infrequently occurring payment of \$10.0

million. Fiscal year-to-date refunds and adjustments adjusted revenues are \$10.4 million or 8.9 percent less than the revised FY 2015 expected refunds and adjustments revenues of \$(116.1 million) through February. In addition, fiscal year-to-date personal income tax final payments adjusted revenues exceed the revised FY 2015 expected personal income tax final payments revenues through February by \$2.6 million or 8.3 percent. Fiscal year-to-date personal income tax final payments adjusted revenues include \$665,861 of reimbursed Historic Structures Tax Credits (HSTCs), and \$722,525 in anticipated HSTC reimbursements that are expected to be made prior to the end of FY 2015. FY 2015 withholding tax adjusted revenues through February are in line with year-to-date revised FY 2015 expected withholding tax revenues.

- Business corporations tax adjusted revenues for FY 2015 through February are \$14.6 million or 67.3 percent more than the year-to-date revised FY 2015 expected business corporations tax revenues of \$21.7 million. FY 2015 business corporations tax adjusted revenues through February include \$823,225 of reimbursed Historic Structures Tax Credits (HSTCs).
- Insurance companies gross premiums tax adjusted revenues for FY 2015 through February are \$4.0 million or 66.4 percent more than the revised FY 2015 expected insurance companies gross premiums tax revenues through February of \$6.0 million. FY 2015 insurance companies gross premiums tax adjusted revenues through February include \$830,611 of reimbursed Historic Structures Tax Credits (HSTCs).

Fiscal year-to-date lottery transfer, motor vehicle operator's license and vehicle registration fee, cigarette excise tax, sales and use tax, the health care provider assessment and realty transfer tax, adjusted revenues are greater than the revised FY 2015 expected revenues through February, but by less than \$1.0 million.

On the negative side, two revenue items' fiscal year-to-date adjusted revenues through February fell short of the revised FY 2015 expected revenues through February by \$1.0 million or more.

- Financial institutions tax adjusted revenues through February are \$5.0 million or 73.5 percent less than the year-to-date revised FY 2015 expected financial institutions tax revenues of \$6.9 million.
- Estate and transfer tax adjusted revenues through February are \$1.9 million or 7.7 percent less than the year-to-date revised FY 2015 expected estate and transfer tax revenues of \$24.2 million.

Fiscal year-to-date motor carrier fuel use tax, bank deposits tax, alcohol excise tax, public utilities gross earnings tax and racing and athletics adjusted revenues through February are below the year-to-date revised FY 2015 expected revenues, but by less than \$1.0 million.

### **Results for the Month of February 2015**

The table, *Monthly Estimate to Actual*, gives the results for February 2015. As is apparent from the table, the Department of Revenue finds that February adjusted total general revenues exceed the revised FY 2015 expected total general revenues for February, by \$3.0 million or 1.7 percent.

In total taxes, February adjusted revenues are greater than revised FY 2015 expected February total taxes revenue, by \$1.6 million or 1.2 percent. For departmental receipts, February adjusted revenues exceed the revised FY 2015 expected departmental receipts revenues for February by \$1.8 million or 13.5 percent. For other general revenue sources, February adjusted revenues trail the revised FY 2015 expected other general revenue sources revenue for February by \$410,654 or -1.4 percent. It should be noted that due to Winter Storm Juno, Governor Raimondo issued a State of Emergency for all of Rhode Island on January 26<sup>th</sup> and January 27<sup>th</sup>, 2015. As a result, the lottery transfer and sales and use tax revenues for February 2015 may be understated by unknown amounts as the receipt of these two revenue sources are lagged one month (i.e. February revenues reflect January activity).

Other than departmental receipts, two revenue items' adjusted revenues for February 2015 exceed the revised FY 2015 expected monthly revenues by \$1.0 million or more.

- Insurance companies gross premiums tax adjusted revenues for February are \$2.1 million or 47.3 percent more than the revised FY 2015 expected monthly insurance gross premiums tax revenues of \$4.4 million.
- Personal income tax adjusted revenues for February are \$1.3 million or 4.0 percent more than the revised FY 2015 expected monthly personal income tax revenues of \$33.9 million. Withholding tax adjusted revenues for February are \$3.5 million or 3.9 percent more than the revised FY 2015 expected monthly withholding tax revenues of \$90.2 million. Personal income tax final payments adjusted revenues for February are \$554,880 or 13.8 percent more than the revised FY 2015 expected monthly final tax payments revenues of \$4.0 million. Personal income tax final payments adjusted revenues for February include \$82,069 in anticipated HSTC reimbursements that are expected to be made prior to the end of FY 2015. Estimated tax payments adjusted revenues for February are \$554,751 or 25.6 percent more than the revised FY 2015 expected monthly estimated tax payments revenues of \$2.2 million. Adjusted personal income tax refunds and adjustments revenues for February are \$3.3 million or 5.2 percent more than the revised FY 2015 expected monthly refunds and adjustments amount of \$(62.5 million).

February adjusted revenues for business corporations taxes, cigarette excise taxes, bank deposits taxes and motor carrier fuel use taxes are greater than the revised FY 2015 expected revenues for February, but by less than \$1.0 million.

On the negative side, only one revenue item has monthly adjusted revenues that fall short of the revised FY 2015 expected revenue for February, by \$1.0 million or more.

- Sales and use tax adjusted revenues for February are \$1.4 million or 2.0 percent less than the revised FY 2015 expected monthly sales and use tax revenues of \$69.0 million. As noted above, the State of Emergency declared by Governor Raimondo for January 26<sup>th</sup> and 27<sup>th</sup>, 2015 may have caused an understatement in sales and use tax revenues by an unknown amount for February 2015.

February adjusted revenues for the lottery transfer, motor vehicle operator's license and vehicle registration fees, estate and transfer taxes, public utilities gross earnings taxes, alcohol excise taxes, financial institutions taxes, realty transfer taxes, the health care provider assessment and racing and athletics taxes are below the revised FY 2015 expected monthly revenues, but by less than \$1.0 million.



Rosemary Booth Gallogly, Director  
Department of Revenue  
March 17, 2015

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

|                                      | YTD February<br>Estimate of Revised<br>FY 2015 Revenues † | YTD February<br>Adjusted Revenues<br>FY 2015 | Difference           | Variance    |
|--------------------------------------|---|--|----------------------|-------------|
| <b>Personal Income Tax</b>           | \$ 742,202,519  | \$ 770,636,993 <sup>a, b, c, d</sup>         | \$ 28,434,474        | 3.8%        |
| <b>General Business Taxes</b>        |   |  |                      |             |
| Business Corporations                | 21,719,462  | 36,334,053 <sup>e</sup>                      | 14,614,591           | 67.3%       |
| Public Utilities Gross Earnings      | 4,508,454   | 4,500,838                                    | (7,616)              | -0.2%       |
| Financial Institutions               | 6,851,998   | 1,812,872                                    | (5,039,126)          | -73.5%      |
| Insurance Companies                  | 6,049,627   | 10,068,509                                   | 4,018,882            | 66.4%       |
| Bank Deposits                        | 263,717   | 29,188                                       | (234,529)            | -88.9%      |
| Health Care Provider Assessment      | 28,747,875  | 29,078,953                                   | 331,078              | 1.2%        |
| <b>Excise Taxes</b>                  |   |  |                      |             |
| Sales and Use                        | 645,202,358   | 645,561,214 <sup>d, f</sup>                  | 358,856              | 0.1%        |
| Motor Vehicle                        | 26,232,653  | 26,818,691 <sup>g</sup>                      | 586,038              | 2.2%        |
| Motor Carrier Fuel Use               | 371,192   | (65,676)                                     | (436,868)            | -117.7%     |
| Cigarettes                           | 92,093,629  | 92,525,908                                   | 432,279              | 0.5%        |
| Alcohol                              | 12,668,787  | 12,584,820                                   | (83,967)             | -0.7%       |
| Controlled Substances                |   |  |                      |             |
| <b>Other Taxes</b>                   |   |  |                      |             |
| Estate and Transfer                  | 24,160,658  | 22,296,186                                   | (1,864,472)          | -7.7%       |
| Racing and Athletics                 | 700,625   | 694,382                                      | (6,243)              | -0.9%       |
| Realty Transfer                      | 6,152,730   | 6,175,801                                    | 23,071               | 0.4%        |
| <b>Total Taxes</b>                   | <b>\$ 1,617,926,284</b>                                   | <b>\$ 1,659,052,732</b>                      | <b>\$ 41,126,448</b> | <b>2.5%</b> |
| <b>Departmental Receipts</b>         | <b>\$ 116,560,596</b>                                     | <b>\$ 121,860,772 <sup>h</sup></b>           | <b>\$ 5,300,176</b>  | <b>4.5%</b> |
| <b>Taxes and Departmentals</b>       | <b>\$ 1,734,486,880</b>                                   | <b>\$ 1,780,913,504</b>                      | <b>\$ 46,426,624</b> | <b>2.7%</b> |
| <b>Other General Revenue Sources</b> |   |  |                      |             |
| Other Miscellaneous Revenues         | 272,651 +   | 272,651                                      | -                    | 0.0%        |
| Lottery Transfer *                   | 216,657,881   | 217,306,976 <sup>i</sup>                     | 649,095              | 0.3%        |
| Unclaimed Property                   | -   | -  | -                    | n/a         |
| <b>Total Other Sources</b>           | <b>\$ 216,930,532</b>                                     | <b>\$ 217,579,627</b>                        | <b>\$ 649,095</b>    | <b>0.3%</b> |
| <b>Total General Revenues</b>        | <b>\$ 1,951,417,412</b>                                   | <b>\$ 1,998,493,131</b>                      | <b>\$ 47,075,719</b> | <b>2.4%</b> |

| PIT Component      | YTD Feb. Estimates    | YTD Feb. Adj. Revenues      | Difference           | Variance    |
|--------------------|-----------------------|-----------------------------|----------------------|-------------|
| Estimated payments | \$ 129,819,841        | \$ 145,209,025 <sup>a</sup> | \$ 15,389,184        | 11.9%       |
| Final payments     | 31,615,365            | 34,238,532 <sup>b</sup>     | 2,623,167            | 8.3%        |
| Withholding        | 696,844,444           | 696,892,848 <sup>c</sup>    | 48,405               | 0.0%        |
| Refunds †          | (116,077,131)         | (105,703,412) <sup>d</sup>  | 10,373,719           | -8.9%       |
| <b>Total</b>       | <b>\$ 742,202,519</b> | <b>\$ 770,636,994</b>       | <b>\$ 28,434,474</b> | <b>3.8%</b> |

† Revised FY 2015 adopted revenues for personal income tax refunds and adjustments, business corporation taxes and estate and transfer taxes are calculated using modified cash based revenue flows to align expected revenues with the actual realization of revenues.

\* Revised FY 2015 adopted lottery transfer revenues are based on the State receiving 16.0 percent of Net Table Game Revenue generated at Twin River.

+ Set equal to actual amounts received.

<sup>a</sup> Includes a large infrequently occurring estimated tax payment of \$10.0 million that was received in December 2014.

<sup>b</sup> Adds \$722,525 in personal income tax revenues for unreimbursed Historic Structure Tax Credits that will be reimbursed prospectively.

<sup>c</sup> Adds \$3,629 for a withholding tax adjustment in February 2015 that was not posted in a timely manner.

<sup>d</sup> Subtracts \$189,209 in personal income tax refunds and adjustments for February 2015 from the use tax safe harbor provision included on personal income tax returns and adds this amount to sales and use tax.

<sup>e</sup> Adds \$5,121,199 for business corporations tax refunds payable that were disbursed in August and accrued back to FY 2014. Deducts \$947,392 for business corporations tax refunds that were not posted in a timely manner.

<sup>f</sup> Subtracts \$797,544 from sales and use taxes for a refund that was issued in February 2015 but not posted in a timely manner.

<sup>g</sup> Deducts \$755,850 for rental vehicle surcharge receipts received in July of FY 2015 that accrued back to FY 2014. Includes \$1,238,369 in Division of Motor Vehicle receipts from IRP Clearinghouse for FY 2010 and FY 2011 that were processed in January 2015.

<sup>h</sup> Deducts \$145.0 million for Hospital Licensing Fees, \$1.1 million for a pharmaceutical settlement, and \$281,280 for emissions control inspection sticker fees that were all received in FY 2015 and accrued back to FY 2014. The fines and penalties component includes remittances for red light camera violations of \$328,980 from participating municipalities.

<sup>i</sup> Deducts \$270,580 for the lottery transfer received in October that accrued back to FY 2014.

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

|                                      | February<br>Estimate of Revised<br>FY 2015 Revenues † | February<br>Adjusted Revenues<br>FY 2015 | Difference          | Variance     |
|--------------------------------------|---|--|---------------------|--------------|
| <b>Personal Income Tax</b>           | \$ 33,906,808   | \$ 35,249,704 <sup>a, b, c</sup>         | \$ 1,342,896        | 4.0%         |
| <b>General Business Taxes</b>        |   |  |                     |              |
| Business Corporations                | 1,388,025   | 2,093,477 <sup>d</sup>                   | 705,452             | 50.8%        |
| Public Utilities Gross Earnings      | 2,165,999   | 1,917,246                                | (248,753)           | -11.5%       |
| Financial Institutions               | 97,168  | -  | (97,168)            | -100.0%      |
| Insurance Companies                  | 4,432,635   | 6,528,145                                | 2,095,510           | 47.3%        |
| Bank Deposits                        | (328)   | 29,188                                   | 29,516              | -8999.5%     |
| Health Care Provider Assessment      | 3,521,051   | 3,462,408                                | (58,643)            | -1.7%        |
| <b>Excise Taxes</b>                  |   |  |                     |              |
| Sales and Use                        | 68,977,826  | 67,592,797 <sup>e</sup>                  | (1,385,030)         | -2.0%        |
| Motor Vehicle                        | 4,347,916   | 4,031,755 <sup>f</sup>                   | (316,161)           | -7.3%        |
| Motor Carrier Fuel Use               | 62,328  | 79,991                                   | 17,663              | 28.3%        |
| Cigarettes                           | 9,173,740   | 9,226,256                                | 52,516              | 0.6%         |
| Alcohol                              | 1,108,160   | 996,274                                  | (111,886)           | -10.1%       |
| Controlled Substances                |   |  |                     |              |
| <b>Other Taxes</b>                   |   |  |                     |              |
| Estate and Transfer                  | 2,865,582   | 2,554,011                                | (311,571)           | -10.9%       |
| Racing and Athletics                 | 83,641  | 74,058                                   | (9,583)             | -11.5%       |
| Realty Transfer                      | 566,237   | 504,339                                  | (61,898)            | -10.9%       |
| <b>Total Taxes</b>                   | <b>\$ 132,696,788</b>                                 | <b>\$ 134,339,649</b>                    | <b>\$ 1,642,861</b> | <b>1.2%</b>  |
| <b>Departmental Receipts</b>         | \$ 12,983,629   | \$ 14,740,082 <sup>g</sup>               | \$ 1,756,453        | 13.5%        |
| <b>Taxes and Departmentals</b>       | <b>\$ 145,680,417</b>                                 | <b>\$ 149,079,731</b>                    | <b>\$ 3,399,314</b> | <b>2.3%</b>  |
| <b>Other General Revenue Sources</b> |   |  |                     |              |
| Other Miscellaneous Revenues         | (40,162) +  | (40,162)                                 | -                   | 0.0%         |
| Lottery Transfer *                   | 29,677,621  | 29,266,967                               | (410,654)           | -1.4%        |
| Unclaimed Property                   | - +   | -  | -                   | n/a          |
| <b>Total Other Sources</b>           | <b>\$ 29,637,459</b>                                  | <b>\$ 29,226,805</b>                     | <b>\$ (410,654)</b> | <b>-1.4%</b> |
| <b>Total General Revenues</b>        | <b>\$ 175,317,876</b>                                 | <b>\$ 178,306,536</b>                    | <b>\$ 2,988,660</b> | <b>1.7%</b>  |

| <b>PIT Component</b> | <b>February Estimates</b> | <b>February Adj. Revenues</b> | <b>Difference</b>   | <b>Variance</b> |
|----------------------|---------------------------|-------------------------------|---------------------|-----------------|
| Estimated payments   | \$ 2,167,014              | \$ 2,721,764                  | \$ 554,751          | 25.6%           |
| Final payments       | 4,013,559                 | 4,568,439 <sup>a</sup>        | 554,880             | 13.8%           |
| Withholding          | 90,186,233                | 93,691,784 <sup>b</sup>       | 3,505,551           | 3.9%            |
| Refunds †            | (62,459,997)              | (65,732,282) <sup>c</sup>     | (3,272,285)         | 5.2%            |
| <b>Total</b>         | <b>\$ 33,906,808</b>      | <b>\$ 35,249,705</b>          | <b>\$ 1,342,896</b> | <b>4.0%</b>     |

† Revised FY 2015 adopted revenues for personal income tax refunds and adjustments, business corporation taxes and estate and transfer taxes are calculated using modified cash based revenue flows to align expected revenues with the actual realization of revenues.

\* Revised FY 2015 adopted lottery transfer revenues are based on the State receiving 16.0 percent of Net Table Game Revenue generated at Twin River.

+ Set equal to actual amounts received.

<sup>a</sup> Adds \$82,069 in personal income tax revenues for unreimbursed Historic Structure Tax Credits that will be reimbursed prospectively.

<sup>b</sup> Adds \$3,629 from a withholding tax adjustment in February 2015 that was not posted in a timely manner.

<sup>c</sup> Subtracts \$189,209 in personal income tax refunds and adjustments for February 2015 from the use tax safe harbor provision included on personal income tax returns and adds this amount to sales and use tax.

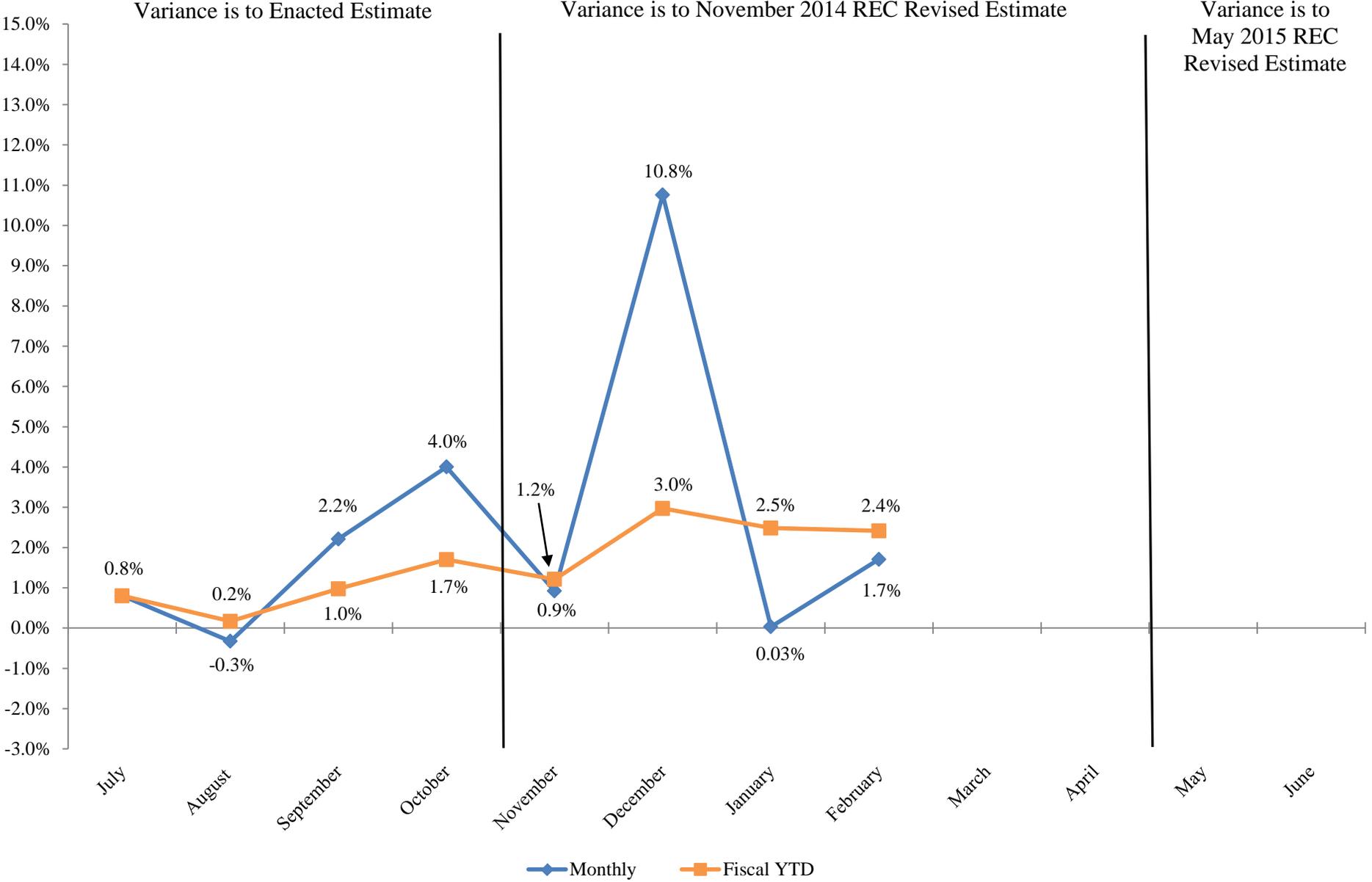
<sup>d</sup> Deducts \$947,392 from business corporations taxes for refunds that were not posted in a timely manner.

<sup>e</sup> Subtracts \$797,544 from sales and use taxes for a refund that was issued in February 2015 but not posted in a timely manner.

<sup>f</sup> Deducts \$355,283 for motor vehicle registration fees and \$28,720 in motor vehicle license fees that were received in January 2015 but were not posted until February 2015.

<sup>g</sup> Deducts \$248,730 for Hospital Licensing Fees received in February from a delinquent taxpayer on a payment plan that accrued back to FY 2014.

# FY 2015 Variance of Adjusted Revenues to Estimate



## Appendix

### **Law Changes Enacted in the 2014 Session That Impact General Revenues**

In the 2014 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 2015 general revenues that will be realized through cash receipts; and (3) changes that impact FY 2015 general revenues that will be realized through fiscal year end accruals. A more specific discussion of each of these items is provided in the paragraphs that follow.

The 2014 General Assembly reclassified three general revenue items to other funds. These general revenue items were the rental vehicle surcharge, emissions control inspection sticker fees, and motor vehicle title fees, each of which were transferred from general revenues to the Rhode Island Highway Maintenance Account in the Intermodal Surface Transportation Fund. The impact of this reclassification on general revenues was effective July 1, 2014. The reclassification of these general revenue items will not have any impact on expected FY 2015 revised general revenues as these revenues are not included in either the adjusted revenue calculations contained in this report or the revised FY 2015 general revenue estimates adopted at the November 2014 Revenue Estimating Conference.

In the 2014 session, the General Assembly approved the Governor's recommendation to include a safe harbor use tax look-up table on TY 2014 Rhode Island personal income tax returns. TY 2014 personal income tax returns will begin to be filed after January 1, 2015 so the expected increase in FY 2015 sales and use tax revenues from the utilization of the safe harbor use tax look-up table by taxpayers will not occur until after January 1, 2015. The revenues generated from the utilization of the safe harbor use tax look-up table will be reflected in increased sales and use tax cash receipts that will also be realized primarily in the months of February through June of 2015.

In addition, the 2014 General Assembly enacted legislation to limit eligibility for the property tax relief credit, which can be taken against personal income tax liabilities and is fully refundable, to only those residents that are age 65 and older and/or disabled. This change is effective for tax years beginning on or after January 1, 2014. The expected reduction in personal income tax refund revenues that result from this change will be reflected in reduced personal income tax refund cash receipts and will be realized primarily in the months of February through June of 2015.

Further, the 2014 General Assembly extended the sunset date for increased excise taxes on beer and malt, still wine, and high proof spirits and the exemption of wine and spirits from the sales and use tax from March 31, 2015 to June 30, 2015. In the 2013 session, the General Assembly had enacted legislation that increased the excise tax rates on beer and malt, still wine, and high proof spirits for the period July 1, 2013 through March 31, 2015. Simultaneously, the 2013 General Assembly exempted all wine and spirits from the state sales and use tax for the period

December 1, 2013 through March 31, 2015. The expected FY 2015 revenues generated from the extension of the sunset date for the increased alcohol excise tax rates will be reflected in alcohol tax cash receipts in April, May and June of 2015. The expected FY 2015 forgone revenues from the extension of the sunset date for the sales and use tax exemption for all wine and spirits will be reflected in sales and use tax revenues cash receipts and will also be realized in the second quarter of 2015.

The 2014 General Assembly enacted new legislation that impacts FY 2015 general revenues primarily through the fiscal year end accrual process. The new legislation enacted during the 2014 session impacts the personal income tax, the business corporation tax, and the estate and transfer tax. The effective date of the new legislation is January 1, 2015. With respect to the personal income tax, the General Assembly enacted legislation that restructured the state's earned income credit (EIC). For tax years beginning on or after January 1, 2015, the state EIC will be equal to 10.0 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 2015 personal income tax refund revenues. Since TY 2015 personal income tax returns will not be filed until after January 1, 2016, which is in FY 2016, little or no impact on FY 2015 personal income tax refund cash receipts is expected. There is expected, however, an increase in the refunds payable portion of the FY 2015 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 cash receipts will be lower than final personal income tax refund revenues until the close of the fiscal year.

In addition, during the 2014 session, the General Assembly passed legislation that requires C-corporations that operate as a unitary business to file their business corporation tax return under combined reporting. The 2014 General Assembly also enacted legislation that reduces the business corporation tax rate from 9.0 percent to 7.0 percent for all C-corporations. These changes commence with tax years beginning on or after January 1, 2015 and are expected to increase FY 2015 business corporation tax revenues. For calendar year business corporation tax filers, final TY 2015 returns are not due until March 15, 2016, which is in FY 2016. State law requires, however, that business corporation tax filers pay 40 percent of their estimated tax year liability in March and pay 60 percent of their estimated tax year liability in June. Due to this requirement, business corporation tax filers generally pay 50.0 percent of their tax liability before the underlying business activity that generates the liability occurs. To account for this, at the fiscal year end close, 50.0 percent of the March and June business corporation tax estimated payment receipts are deferred to the subsequent fiscal year, in this case FY 2016. As a result, business corporation tax cash receipts will be higher than final business corporation tax revenues until the deferred revenues are recorded.

Finally, the 2014 General Assembly enacted a restructuring of the estate and transfer tax that will lower FY 2015 estate and transfer tax revenues. The restructuring 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 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, then the difference is the estate tax due. This change applies to the estates of decedents who die on or after January 1, 2015 and is expected to decrease FY 2015 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 2016 for decedents who die between January 1, 2015 and September 30, 2015. To account for this filing provision, at the fiscal year end close, 75.0 percent of the estimated FY 2016 estate and transfer tax revenues are clawed back to FY 2015. As a result, estate and transfer tax cash receipts 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 2015 will differ from that used in prior fiscal year reports. For most revenue items, the assessment of FY 2015 adjusted revenues will be made vis-à-vis the revised FY 2015 revenue estimates adopted at the November 2014 Revenue Estimating Conference. For some revenue items, however, the assessment of FY 2015 adjusted revenues will be made vis-à-vis revised FY 2015 cash receipts as estimated by the Office of Revenue Analysis.