

Governor's FY 2017 Budget: Articles

Staff Presentation to the House Finance
Committee
March 10, 2016

Introduction

- Article 13 – Making Work Pay
 - Minimum Wage
 - Earned Income Tax Credit
- Article 16 – Making it Easier to do Business in Rhode Island
 - Unemployment Insurance
 - Temporary Disability Insurance

Article 13 – Minimum Wage

- Increases minimum wage from \$9.60 to \$10.10 per hour
 - Effective January 1, 2017
- 2015 Assembly increased from \$9.00 to \$9.60/hour
 - Effective January 1, 2016
- DLT reports estimated 40,000 RI workers who are paid hourly earn between \$9.00 and \$9.99
 - Approx. 13% of those with hourly wages

Article 13 – Minimum Wage

State	Minimum Wage
Connecticut*	\$9.60
Maine	\$7.50
Massachusetts*	\$10.00
New Hampshire	\$7.25
Rhode Island	\$9.60
Vermont*	\$9.60
U.S. Average	\$8.12

Data from United States Department of Labor as of 1/1/16

*Scheduled to go up Jan 1, 2017: MA \$11, CT \$10.10, VT \$10

Article 13 – Minimum Wage

- Minimum wage laws vary across the United States
- Rhode Island currently has 4th highest minimum wage (incl. DC)
 - \$9.60
 - Tied with Vermont and Connecticut
- States w/ higher minimum wage
 - California and Massachusetts - \$10.00
 - D.C. - \$10.50

Article 13 – Minimum Wage

State Minimum Wage Cohorts		
\$7.25	21	41%
\$7.26 - \$8.49	14	27%
\$8.50 - \$9.50	9	18%
> \$9.51	7	14%
	51	100%

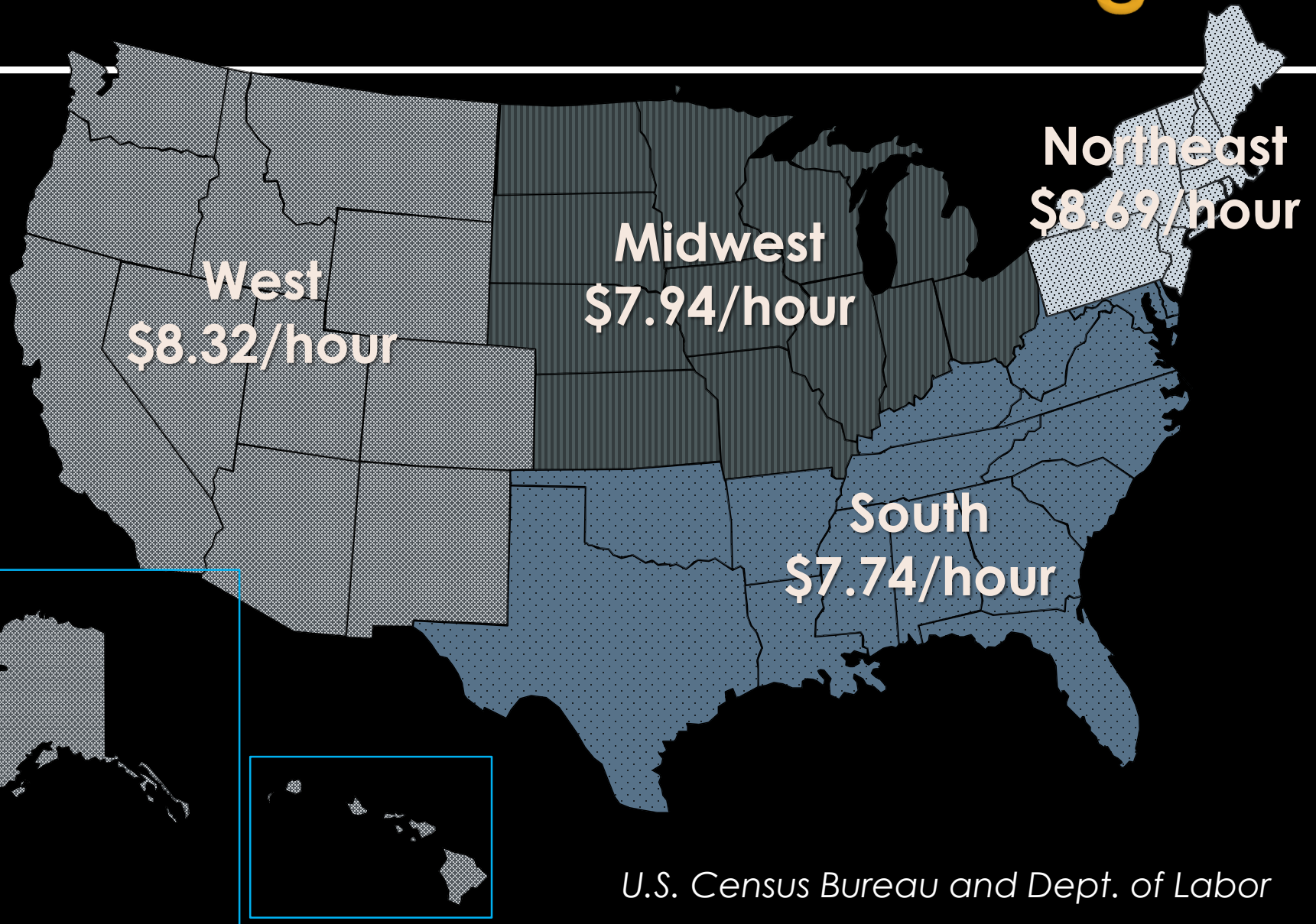
Includes Washington D.C.

Data from United States Department of Labor as of 1/1/16

Article 13 – Minimum Wage

- 11 states index minimum wage to cost-of-living formula
- 7 states have two-tiers
- 5 states have no statutory minimum
- 2 states are below federal minimum
 - Federal minimum of \$7.25 applies
 - Last raised in 2009

Article 13 – Minimum Wage



U.S. Census Bureau and Dept. of Labor

Article 13 – Minimum Wage

- Direct state budget expenditure impact relates only to the Department of Environmental Management
 - Certain seasonal workers
 - Estimated FY 2017 impact ~\$70,000
 - Annual impact roughly twice that
 - Not included in the Governor's budget

Article 13 – Earned Income Tax Credit

- Credit against personal income taxes
 - To assist low/moderate income filers
 - Must have earned income to qualify
- Credit issued at federal level
 - Income level
 - Filing status
 - Number of dependent children

Article 13 – Earned Income Tax Credit

Federal Credit - Single Filer – Tax Year 2016

	No Qualifying Children	1 Qualifying Child	2 Qualifying Children	3+ Qualifying Children
Max. Income	\$14,880	\$39,296	\$44,648	\$47,955
Max. Credit	\$506	\$3,373	\$5,572	\$6,269

Federal Credit - Joint Filers – Tax Year 2016

	No Qualifying Children	1 Qualifying Child	2 Qualifying Children	3+ Qualifying Children
Max. Income	\$20,330	\$44,651	\$49,794	\$53,267
Max. Credit	\$506	\$3,373	\$5,572	\$6,269

Article 13 – Earned Income Tax Credit

- 26 states offer a credit against state income tax – including Rhode Island
 - State credit = % of federal credit
- 23 states' credits are refundable – including Rhode Island
 - If credit is more than amount owed – difference paid to filer

Article 13 – Earned Income Tax Credit

- Comparison of credit impact between states is difficult
- Percent of federal credit & refundability not only factors
 - Marginal tax rates – tiered system more progressive than flat rate; ranges of income within brackets
 - Deductions and exemptions
 - Other credits allowed

Article 13 – Earned Income Tax Credit

State	State Credit % of Federal	Marginal Tax Rate	Other Factors
Rhode Island	12.5%	Progressive 3.75% - 5.99%	standard deduction; personal & dependent exemptions; childcare credit
Connecticut	27.5%	Progressive 3.0% - 6.70%	standard deduction; personal exemption
Massachusetts	23.0%	Flat 5.10%	Personal & dependent exemptions; childcare deduction; renters deduction

Article 13 – Earned Income Tax Credit

- 2014 Assembly enhanced value of credit for tax year 2015
 - 10% of federal, 100% refundable
 - Was 25% of federal, 15% refundable
- Governor's FY 2016 budget proposed increasing credit over 2 years
 - To 12.5% of federal credit for TY 2016
 - To 15% of federal credit for TY 2017

Article 13 – Earned Income Tax Credit

- 2015 Assembly concurred with increase to 12.5% of credit for TY 2016
- Governor's FY 2017 Proposal – Increase value of the credit to 15.0% of federal
 - Remains 100% refundable
- FY 2017 Budget includes \$2.7 million revenue decrease (half-year impact)
 - Annualizes to \$5.5 million for FY 2018

Article 16 – Unemployment Insurance

- Article 16 makes 2 changes affecting unemployment insurance taxes
 - Reduces reserve ratios
 - Expands tax rates in each schedule
 - Expected to save employers ~ \$30 million in 2017

Article 16 – Unemployment Insurance

- Unemployment insurance taxes paid by employers
 - Federal and state component
 - Federal tax used for:
 - Administrative expenses
 - Loans to states when needed to pay benefits
 - Partially reimburse states for extended benefits
 - State tax used solely for benefits

Article 16 – Unemployment Insurance

2015	Effective Rate	Wage Base	Tax per Employee
Federal	0.6%	\$7,000	\$42
State*	1.69%-9.79%	\$21,200	\$358 - \$2,075
		\$22,700	\$384 - \$2,222
Total			\$400 - \$2,264

**Does not include Job Development Assessment of 0.21%*

Article 16 – Unemployment Insurance

- During recession, many states borrowed from federal trust fund to pay claims
- Rhode Island's trust fund became insolvent in March 2009
- State had negative fund balances for a number of years
 - 2010 Assembly enacted 0.3% increase in Job Development Fund to pay loans

Article 16 – Unemployment Insurance

- Federal loan repaid in 2015
 - Federal assessment ended when loan was repaid
 - Additional state assessment ended
- As of September 30, 2015, state's trust fund reserves total \$116.5 million

Article 16 – Unemployment Insurance

- 2011 Changes effective Jan. 1, 2012
 - Increased taxable wage base
 - Changed method of determining taxable wage base
 - Increased from \$19,000 to 46.5% of 2010 wages and all future wages
 - Estimated to be \$19,600 in CY 2012
 - Increased base by \$1,500 for employers with highest negative reserve account balances

Article 16 – Unemployment Insurance

- 2011 Changes effective July 1, 2012
- Modified benefit rates & eligibility
 - Reductions to
 - % of wages used to determine benefits
 - % of wages replaced
 - Maximum weekly benefit
 - Increased earnings needed to overcome disqualifications
 - Delayed benefits by any amount received from severance pay

Article 16 – Unemployment Insurance

- State has 9 tax schedules: A - I
 - Each schedule has 25 tax rate groups
- Schedules based on reserve ratio of fund as of September 30 of prior year
 - Trust Fund balance divided by total wages paid during year = reserve ratio
- Individual rates based on each employers' level of reserves

Article 16 – Unemployment Insurance

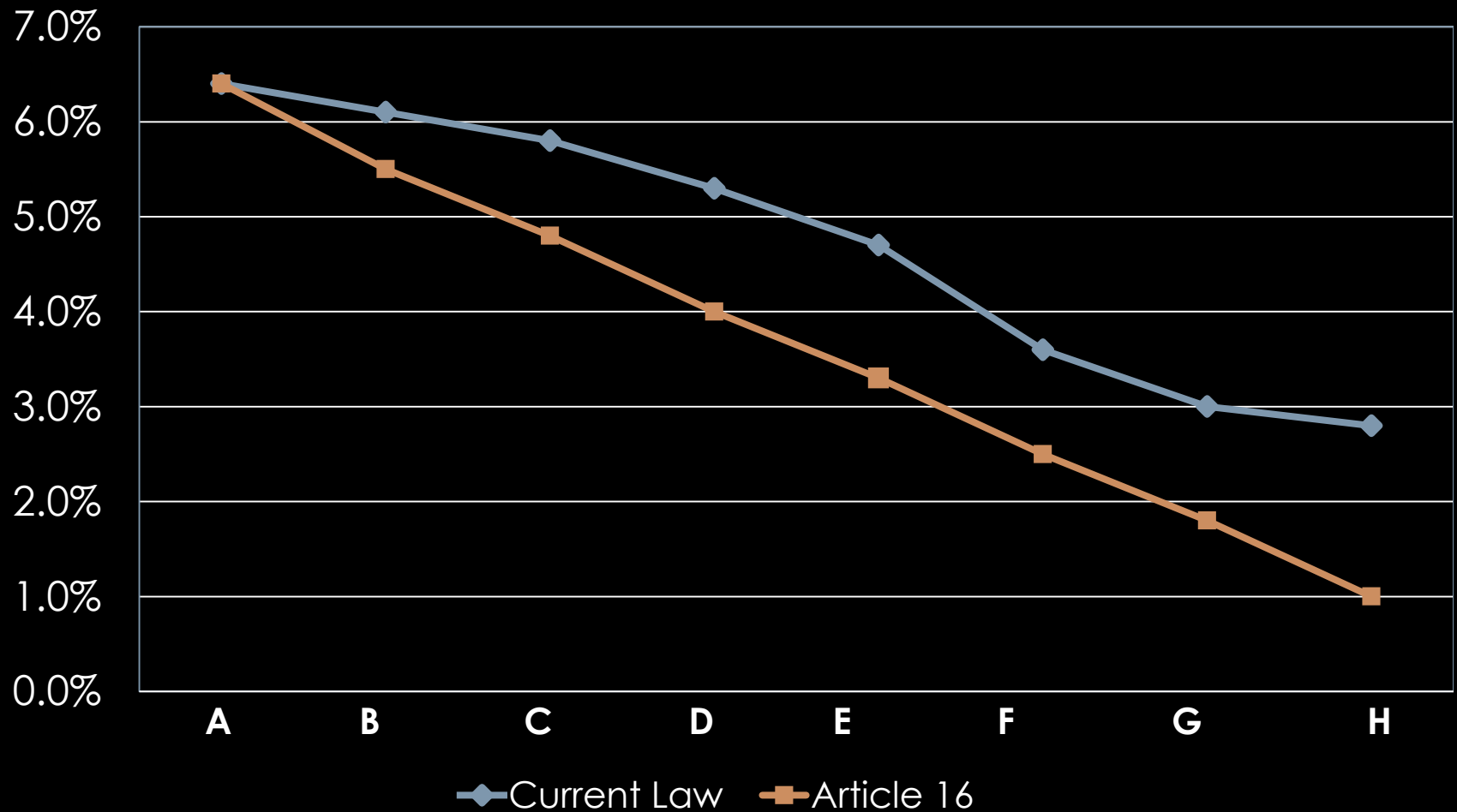
- Using Schedule I since 1992
 - Schedule I has the highest tax rates
 - Expected to stay on Schedule I until 2021
- Article 16 lowers reserve ratios
 - Allows move to Schedule H in FY 2017
 - Lower tax schedules and lower tax rates

Article 16 – Unemployment Insurance

Tax Rate Schedules		
	Current Law	Article 16
2017	I	H
2018	I	H
2019	I	G
2020	I	G
2021	H	G
2022	H	G
2023	H	G
2024	H	F

Article 16 – Unemployment Insurance

Tax Schedule by Reserve Ratio



Article 16 – Unemployment Insurance

- Based on RI's experience, U.S. Dept. of Labor recommends minimum reserve ratio of 3% prior next recession
 - Equates to 1 year's benefits at average payout over highest 3 years of last 20
- Article 16 would reach 2.6% in 2023
 - Currently 0.25%
 - Mass 0.27%; CT 0.02%
- As of January 1, 2016, 32 states below federal target

Article 16 – Unemployment Insurance

- Article 16 expands tax rates
 - Adds 3 new rates within each schedule
 - Lowest rate falls below 1%
 - Adjusts other rates up to maintain overall contributions at current level
 - Employers with few layoffs will move to lower minimum rates
 - Those with frequent layoffs will move to higher rates
 - No change to 0.21% Job Dev. Assessment

Article 16 – Unemployment Insurance

Employer Tax Per Employee			
Employer Reserves	Current Law	Article 16	Difference
20%	\$403	\$276	\$(127)
10%	\$700	\$615	\$(85)
5%	\$827	\$763	\$(64)
-5%	\$1,272	\$1,230	\$(42)

Article 16 – Unemployment Insurance

State Unemployment Tax Rates, 2015

State	Wage Base	Minimum Rate	Maximum Rate
Connecticut	\$15,000	1.9%	6.8%
Maine	\$12,000	0.74%	6.86%
Massachusetts	\$15,000	0.73%	11.13%
New Hampshire	\$14,000	0.05%	6.0%
Rhode Island	\$21,200 or \$22,700	1.69%	9.79%
Vermont	\$16,400	1.3%	8.4%

Article 16 – TDI

- RI & 4 other states have a temporary disability insurance program
- Protects workers against wage loss from non-work related illness or injury
- Temporary caregiver program provides 4 weeks to care for family member
- Paid for by employees
 - 1.2% on first \$66,300 or \$795.60

Article 16 – TDI

- Article 16 establishes task force on temporary disability insurance fraud & program integrity
 - Director of Labor and Training - chair
 - Secretary of Health and Human Services
 - Director of Health
 - Director of Office of Management & Budget
 - Attorney General

Article 16 – TDI

- Coordinate joint efforts to combat fraud and abuse
- Foster appropriate use of the program by both claimants and healthcare providers
 - Educate about program's intent & benefits
- Perform joint investigations into fraudulent activities

Article 16 – TDI

- Article 16 reduces length of time claimants have to apply for benefits
 - from 52 weeks to 90 days
 - Allows DLT director to extend claim filing period up to 26 weeks
 - If individual can show good medical reason for delay in filing

Article 16 – TDI

State	Claim Reporting Deadline
California	49 days
Hawaii	90 days
New Jersey	30 days
New York	30 days
Rhode Island (current law)	52 weeks
Aflac (private)	52 weeks

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