

Governor's FY 2016 Budget: Articles

Staff Presentation to the House Finance Committee
April 9, 2015

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Introduction – Article 11

- Section 12 – Personal Income Tax
 - Social Security Exemption
 - Earned Income Tax Credit
- Sections 10 and 11 – Cigarette Tax

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Article 11, Sec. 12 – Social Security Retirement Income

- Current law – Tax on personal income
 - 3 brackets – single and joint filers

RI Taxable Income		RI Income Tax	
Over	But Not Over	Pay+ % on Excess	On the Amount Over
\$ 0	\$ 59,600	\$0 + 3.75%	\$0
\$ 59,600	\$ 135,500	\$2,235 + 4.75%	\$55,000
\$135,500	-	\$5,840 + 5.99%	\$125,000

Tax Year 2014 – numbers indexed to inflation

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Article 11, Sec. 12 – Social Security Retirement Income

- Social Security retirement income
 - May be taxable at federal level
 - Taxed at state level if taxed at federal level – state uses federal AGI

	Single Filers	Joint Filers	% Taxed
Combined Income*	< \$25,000	< \$32,000	0%
	≥ \$25,000 and ≤ \$34,000	≥ \$32,000 and ≤ \$44,000	50%
	> \$34,000	> \$44,000	85%

**Federal AGI plus one half of Social Security benefits*

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Article 11, Sec. 12 – Social Security Retirement Income

- 41 states tax personal income
 - 28 states fully exempt Social Security retirement income from tax
 - 13 states tax social security at some level

Taxed Same as Other Income	Taxed to Same Extent as Federal	Exempt to Specific AGI level
Montana	Minnesota	Colorado
New Mexico	North Dakota	Connecticut
Utah	Rhode Island	Kansas
	Vermont	Missouri
	West Virginia	Nebraska

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Article 11, Sec. 12 – Social Security Retirement Income

New England States	Treatment
Connecticut	Exempt up to \$50,000* AGI
Maine	Exempt
Massachusetts	Exempt
New Hampshire	No income tax
Rhode Island	Same as federal
Vermont	Same as federal

*Single filers

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Article 11, Sec. 12 – Social Security Retirement Income

Federal AGI	Resident Filers with Taxable Soc. Sec. Benefits*
Under \$1	17
\$1 to under \$25,000	6,477
\$25,000 to under \$50,000	17,476
\$50,000 to under \$75,000	13,498
\$75,000 to under \$100,000	8,859
\$100,000 to under \$200,000	9,341
\$200,000 to under \$500,000	1,621
\$500,000 to under \$1,000,000	121
\$1,000,000 and above	66
Total	57,546

*TY 2011 data, Division of Taxation - Statistics of Income

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Article 11, Sec. 12 – Social Security Retirement Income

- FY 2016 Proposal – Exempt taxable Social Security benefits for specific filers
 - Single filers – AGI of \$50,000 or less
 - Joint filers – AGI of \$60,000 or less
 - Over 25,000 filers will benefit
 - Works like a cliff – all benefits taxed for filers with AGI over threshold
 - Same thresholds used in Connecticut

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Article 11, Sec. 12 – Social Security Retirement Income

Federal AGI	FY 2016 Proposal - Resident Filers with Reduced Liability*
Under \$1	0
\$1 to under \$25,000	4,984
\$25,000 to under \$50,000	17,225
\$50,000 to under \$75,000	3,181
Total	25,390

*FY 2011 data, Division of Taxation - Statistics of Income

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Article 11, Sec. 12 – Social Security Retirement Income

- FY 2016 Budget includes \$3.9 million revenue decrease (half-year impact)
 - Annualizes to \$8.1 million for FY 2017
- Other proposals/bills include
 - Exempt all retirement income
 - Exempt all retirement income for filers over 65
 - Exempt all Social Security retirement income

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Article 11, Sec. 12 – Social Security Retirement Income

Proposal	FY 2016*	FY 2017
Exempt all retirement income†	\$(65.9 million)	\$(134.9 million)
Exempt all retirement income – Filers over 65 years old ¹	\$(52.3 million)	\$(106.4 million)
Exempt all Social Security retirement income benefits†	\$(21.7 million)	\$(44.1 million)
Exempt all military retirement income ²	\$(2.9 million)	\$(6.0 million)

*Half-year impact, assuming January 1, 2016 effective date

†Office of Revenue Analysis estimates

1. 2015-H 5000 - Fiscal note available on House Fiscal Advisory Staff website

2. 2015-H 5325 - Fiscal note available on House Fiscal Advisory Staff website

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Article 11, Sec. 12 – Earned Income Tax Credit

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

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Article 11, Sec. 12 – Earned Income Tax Credit

Federal Credit - Single Filer – Tax Year 2015				
	0 Qualifying Children	1 Qualifying Child	2 Qualifying Children	3+ Qualifying Children
Max. Income	\$14,820	\$39,131	\$44,454	\$47,747
Max. Credit	\$503	\$3,359	\$5,548	\$6,242

Federal Credit - Joint Filers – Tax Year 2015				
	0 Qualifying Children	1 Qualifying Child	2 Qualifying Children	3+ Qualifying Children
Max. Income	\$20,330	\$44,651	\$49,794	\$53,267
Max. Credit	\$503	\$3,359	\$5,548	\$6,242

Article 11, Sec. 12 – Earned Income Tax Credit

- 25 states offer a credit against state income tax – including Rhode Island
 - State credit = % of federal credit
- 22 states' credits are refundable
 - If credit is more than amount owed – difference paid to filer
 - 2014 Assembly enhanced value of credit
 - 10% of federal, 100% refundable
 - Was 25% of federal, 15% refundable

Article 11, Sec. 12 – Earned Income Tax Credit

- Governor’s Proposal – Increase value of the credit over two years
 - Tax Year 2016 – Credit raised to 12.5%
 - Tax Year 2017 – Credit raised to 15.0%
 - Remains 100% refundable
- FY 2016 Budget includes \$3.0 million revenue decrease (half-year impact)
 - Annualizes to \$9.4 million for FY 2017
 - FY 2018 loss is \$13.2 million

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Article 11, Sec. 12 – Earned Income Tax Credit

Credit	FY 2016	FY 2017	FY 2018
12.5%	\$(3.0 million)	\$(3.0 million)	-
15.0%	-	\$(6.4 million)	\$(13.2 million)
Total Impact	\$(3.0 million)	\$(9.4 million)	\$(13.2 million)

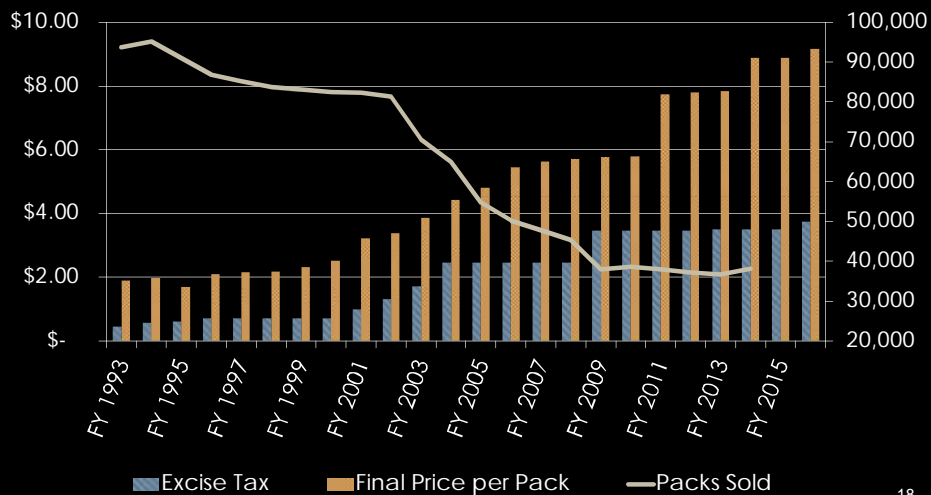
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Article 11, Sec. 10 & 11 – Cigarette Tax

- Current law – Tax on all cigarettes sold or held for sale in the state
 - Tax is evidenced by stamps
 - Current state tax is \$3.50 per pack of 20 cigarettes
- FY 2016 Proposal - Increase cigarette tax by \$0.25 to \$3.75 per pack of 20
 - Effective 12:01am, August 1, 2015

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Article 11, Sec. 10 & 11 – Cigarette Tax



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Article 11, Sec. 10 & 11 – Cigarette Tax

- Federal tax = \$1.01 per pack since 2009
 - President's FY 2016 budget includes increase to \$1.95* per pack
 - Proposed for FFY 2014 and FFY 2015 - not approved
- Each state also has own tax
 - Highest – New York, \$4.35 per pack of 20
 - 2nd highest – Massachusetts, \$3.51 per pack
 - Lowest – Virginia, \$0.30 per pack

* Source: Campaign for Tobacco-Free Kids, Feb. 5, 2015

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Article 11, Sec. 10 & 11 – Cigarette Tax

New England States	Tax	Rank
Connecticut	\$ 3.40	4
Maine	\$ 2.00	12
Massachusetts	\$ 3.51	2
New Hampshire	\$ 1.78	18
Rhode Island	\$ 3.50	3
Vermont	\$ 2.75	8

Source: Campaign for Tobacco-Free Kids, Feb. 5, 2015

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Article 11, Sec. 10 & 11 – Cigarette Tax

- Cigarette tax not only factor in final price
 - Federal cigarette tax
 - Same in every state
 - Minimum markup requirements
 - Wholesaler and/or Retailer
 - Sales tax
 - Some states allow local option

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Article 11, Sec. 10 & 11 – Cigarette Tax

Current Prices	RI	CT	MA
Base price/pack of 20 (<i>incl. fed. Excise tax</i>)	\$ 4.12	\$ 4.12	\$ 3.61
State Cigarette Tax	3.50	3.40	3.51
Total Base Price/pack of 20	\$ 7.62	\$ 7.87	\$ 7.12
Minimum Markup – Wholesaler	2.75%	6.50%	2.75%
Minimum Markup – Retailer	6.00%	8.00%	25.00%
Total Markup/pack of 20	8.92%	15.02%	28.44%
Post Markup Price/pack of 20	\$ 8.30	\$ 8.65	\$ 9.14
Sales Tax Rate	7.0%	6.35%	6.25%
Final Retail Price	\$ 8.88	\$ 9.20	\$ 9.71

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Article 11, Sec. 10 & 11 – Cigarette Tax

Current Prices	Gov. FY 2016	CT	MA
Base price/pack of 20	\$ 4.12	\$ 4.12	\$ 3.61
State Cigarette Tax	3.75	3.40	3.51
Total Base Price/pack of 20	\$ 7.87	\$ 7.52	\$ 7.12
Minimum Markup – Wholesaler	2.75%	6.50%	2.75%
Minimum Markup – Retailer	6.00%	8.00%	25.00%
Total Markup/pack of 20	8.92%	15.02%	28.44%
Post Markup Price/pack of 20	\$ 8.57	\$ 8.65	\$ 9.14
Sales Tax Rate	7.0%	6.35%	6.25%
Final Retail Price	\$ 9.17	\$ 9.20	\$ 9.71

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Article 11, Sec. 10 & 11 – Cigarette Tax

- FY 2016 Proposal – Includes a \$0.25 “floor tax” on existing stock
 - Tax on existing inventory
 - On differential between tax paid for stamps on existing stock and new tax
 - Effective 12:01am, August 1, 2015
- FY 2016 Budget includes \$7.1 million
 - Cigarette tax - \$5.9 million
 - Sales tax - \$0.7 million
 - Floor Tax - \$0.6 million

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