State Fiscal Note for Bill
Number: 2012-H-7337

Date of State Budget Office Approval: [Stamp]
Date Requested: Wednesday, February 08, 2012
Date Due: Saturday, February 18, 2012

<table>
<thead>
<tr>
<th>FY 2012</th>
<th>n/a</th>
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<tbody>
<tr>
<td>FY 2013</td>
<td>n/a</td>
</tr>
<tr>
<td>FY 2014</td>
<td>n/a</td>
</tr>
</tbody>
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Impact on Expenditures

FY 2012 n/a
FY 2013 n/a
FY 2014 n/a

Impact on Revenues

FY 2012 n/a
FY 2013 $(10,288,867)
FY 2014 $(10,376,399)

Explanation by State Budget Office:

This act would provide an exemption from the tax imposed by Rhode Island General Law Chapter 44-18 entitled “Sales and Use Taxes – Liability and Computation” for the trade-in value of pickup trucks with gross vehicle weights of less than 10,000 lbs. Under Rhode Island General Law Section 44-18-30(23), an exemption from the state sales and use tax is provided for the trade-in value of private passenger automobiles only.

Comments on Sources of Funds:

All sales and use taxes are considered to be general revenue.

Summary of Facts and Assumptions:

The effective date of the act is upon passage but the implementation date is assumed to be July 1, 2012.

The Rhode Island Division of Motor Vehicles reports that 81.71 percent of all trucks registered in the state are trucks that are less than 10,000 pounds in gross vehicle weight. The Office of Revenue Analysis (ORA) used the base gross sales receipts data from the Rhode Island Macro Sales Tax Simulation Model for Tax Year 2012 for all new and used trucks and multiplied it by this percentage to estimate the gross sales receipts for new and used trucks with less than 10,000 lbs gross vehicle weight. According to the sales tax simulation model, the total Rhode Island gross sales receipts of new and used pick-up trucks are $468.282 million. ORA estimates that total Rhode Island gross sales receipts of new and used pick-up trucks with less than 10,000 lbs gross vehicle weight is $382.633 million (i.e., $468.282 million * 81.71 percent).

The Rhode Island Macro Sales Tax Simulation Model assumes that 37.4 percent of the gross sales receipts for new and used private passenger automobiles are exempt from the state's sales and use tax due to the fact that the trade-in value of such vehicles are exempt from the sales and use tax. That is, the sales tax simulation model subjects only 62.6 percent of the gross receipts from the sales of new and used cars to the state's sales and use tax to account for this exemption. ORA assumed that the same percentage of the gross receipts from the sales of new and used pickup trucks with gross vehicle weights of less than 10,000 lbs would also be subject to the
state sales and use tax. ORA estimates the trade-in allowance for new and used pick-up trucks with gross vehicle weights of less than 10,000 lbs is $143.105 million (i.e., $382.633 million * 0.374) thereby lowering the taxable base for new and used pick-up trucks with gross vehicle weights of less than 10,000 lbs to $239.528 million (i.e., $382.633 million - $143.105 million).

Under the act, ORA estimates that total sales and use tax collected from the sales of new and used pick-up trucks with gross vehicle weights of less than 10,000 lbs would be $16.767 million (i.e., $239.528 million * .07). This compares to sales and use tax collections for the same vehicles under current law, where there is no trade-in allowance granted for any pick-up trucks regardless of gross vehicle weight, of $26.784 million. Thus, this act would decrease sales tax revenue by $10.017 million (i.e.; $16.767 million - $26.784 million) in FY 2012. For simplicity ORA assumes that tax year and fiscal year revenue impacts are the same.

According to the November 2011 Revenue Estimating Conference, the annual growth rate of sales and use taxes for FY 2013 is 2.71 percent. Therefore this act would decrease tax revenue by $10.289 million (i.e.; $10.017 million * 1.0271) in FY 2013. For the FY 2014 fiscal impact estimate, the Budget Office’s sales and use taxes projected growth rate (excluding Governor’s sales tax initiatives included in the FY 2013 Budget) of 0.85074 percent was applied. Thus, this act would decrease tax revenue by $10.376 million (i.e.; $10.289 million * 1.0085074) in FY 2014.

Summary of Fiscal Impact:

FY 2012: Not applicable due to the assumed implementation date of the act.

FY 2013: A general revenue loss of $10,288,867 is forecast.

FY 2014: A general revenue loss of $10,376,399 is forecast.

Fiscal Advisor’s Approval: [Signature]

Signature: [Signature]