

Date of State Budget Office Approval:

Date Requested: Friday, January 24, 2014

Date Due: Monday, February 03, 2014

<i>Impact on Expenditures</i>		<i>Impact on Revenues</i>	
FY 2014	n/a	FY 2014	n/a
FY 2015	n/a	FY 2015	\$(6,176,894)
FY 2016	n/a	FY 2016	\$(6,395,067)

Explanation by State Budget Office: This act would provide an exemption from the tax imposed under Rhode Island General Law Chapter 44-18 entitled "Sales and Use Taxes – Liability and Computation" for the trade-in value of pickup trucks that are used exclusively for personal use and for the trade-in value of private operator and passenger motorcycles that are used exclusively for personal use.

Under current law, (see Rhode Island General Law subsection 44-18-30(23)), an exemption is only provided from the sales and use tax for the trade-in value of a private passenger automobile.

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, 2014.

The Rhode Island Department of Revenue's Division of Motor Vehicles reports that 43.08 percent of all trucks registered in the state are trucks that are registered with Combination plates. The Office of Revenue Analysis (ORA) assumed that all pickup trucks that are registered with a Combination plate are used exclusively for personal use. ORA used the base gross sales receipts data from the Rhode Island Macro Sales Tax Simulation Model for Tax Year 2013 for all new and used trucks and multiplied this figure by 43.08 percent to estimate the gross sales receipts for new and used trucks used exclusively for personal use. According to the sales tax simulation model, the total Rhode Island gross sales receipts of new and used pick-up trucks are \$486.88 million. ORA estimated that total Rhode Island gross sales receipts of new and used pick-up trucks used exclusively for personal use is \$209.75 million (i.e., \$486.88 million * 43.08 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 pick-up trucks used exclusively for personal use would also be subject to the state sales and use tax. ORA estimated the trade-in allowance for new and used pick-up trucks used

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exclusively for personal use is \$78.45 million (i.e., \$209.75 million * 0.374) thereby lowering the taxable base for new and used pick-up trucks used exclusively for personal use to \$131.30 million (i.e., \$209.75 million - \$78.45 million).

Under the act, ORA estimated that total sales and use tax collected from the sales of new and used pick-up trucks used exclusively for personal use would be \$9.19 million (i.e., \$131.30 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 or use, of \$14.68 million. Thus, this act would decrease sales tax revenue by \$5.49 million (i.e.; \$14.68 million - \$9.19 million) in TY 2013. For simplicity ORA assumes that tax year and fiscal year revenue impacts are the same.

To estimate the revenue loss from allowing the trade-in value of private operator and passenger motorcycles that are used exclusively for personal use, 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 2013 for all new and used motorcycles. According to the simulation results, total gross sales receipts for all motorcycles is \$13.077 million and total sales tax under the current law from the sales of motorcycles is \$915,421.

The Rhode Island Macro Sales Tax Simulation Model assumed 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 private operator and passenger motorcycles that are used exclusively for personal use would also be subject to the state sales and use tax. ORA estimated the trade-in allowance for new and used private operator and passenger motorcycles that are used exclusively for personal use at \$4.89 million (i.e., \$13.077 million * 0.374) thereby lowering the taxable base for new and used private operator and passenger motorcycles that are used exclusively for personal use to \$8.19 million (i.e., \$13.077 million - \$4.89 million).

Under the act, ORA estimated that total sales and use tax collected from the sales of new and used private operator and passenger motorcycles that are used exclusively for personal use would be \$573,053 (i.e., \$8.19 million * .07). This compares to sales and use tax collections for the same motorcycles under current law, where there is no trade-in allowance granted for any motorcycles, of \$915,421. Thus, the act would decrease sales tax revenue by \$342,367 (i.e.; \$915,421 - \$573,053) in TY 2013. For simplicity ORA assumes that tax year and fiscal year revenue impacts are the same.

To calculate the total FY 2013 fiscal impact, the foregone sales tax revenue from the above calculations for the trade-in allowance of new and used pick-up trucks used exclusively for personal use and for the trade-in allowance for private operator and passenger motorcycles that are used exclusively for personal use is summed to arrive

at a revenue loss of \$5,833,507. According to the November 2013 Revenue Estimating Conference, the estimated growth rate for sales and use taxes in FY 2014 is 2.86 percent. Applying this growth rate to the FY 2013 estimate of the sales tax foregone yields an estimate of \$6.00 million of sales tax revenues foregone from allowing the trade-in allowance provision contained in the act in FY 2014 (i.e., \$5.83 million * 1.0286). Similarly, according to the November 2013 Revenue Estimating Conference, the annual growth rate of sales and use tax revenues for FY 2015 is 2.94 percent. Therefore, the passage of the act would decrease tax revenue by \$6.18 million (i.e.; \$6.00 million * 1.0294) in FY 2015. For the FY 2016 fiscal impact estimate, the Budget Office's sales and use tax revenues projected growth rate (excluding the Governor's sales tax initiatives that are proposed in the FY 2015 Budget) of 3.53 percent was applied. Thus, the act would decrease tax revenue by \$6.40 million (i.e.; \$6.18 million * 1.0353) in FY 2016.

The Governor's FY 2015 Recommended Budget projects a deficit of \$151.5 million in FY 2016. Passage of this act would increase this projected deficit.

*Summary of Fiscal
Impact:*

FY 2014: Not applicable due to the assumed implementation date of July 1, 2014.

FY 2015: A general revenue loss of \$6,176,894 is forecast.

FY 2016: A general revenue loss of \$6,395,067 is forecast.

Budget Office Signature: _____

Thomas A. Mellaney

Fiscal Advisor Signature: _____

J. J. [unclear]

note

"Exclusively for personal use" will be difficult to effectively prove. This may incur loss.