



State Fiscal Note for Bill Number: 2014-H-7362

Date of State Budget Office Approval:

Date Requested: Wednesday, March 19, 2014

Date Due: Saturday, March 29, 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	\$(365,212)
FY 2016	n/a	FY 2016	\$(375,324)

**Explanation by State
Budget Office:**

This bill would amend Rhode Island General Law Chapter 44-18 entitled "Sales and Use Taxes – Liability and Computation" by adding Rhode Island General Law subsection 44-18-30(65) titled "Trade-in value of motorcycles" which would provide an exemption for the trade-in value of motorcycles. Included in the definition of the trade-in value of motorcycles are "the proceeds applicable only to the motorcycle as are received from an insurance claim as a result of a stolen or damaged motorcycle".

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 and the exemption excludes the proceeds that are received from an insurance claim as a result of a stolen or damaged 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 bill is upon passage but the implementation date is assumed to be July 1, 2014.

The 2011 General Assembly repealed the language that allowed for "the proceeds...from an insurance claim as a result of a stolen or damaged" private passenger automobile to be considered the trade-in allowance and thus exempt from the sales and use tax. For consistency, the language in the bill referring to "the proceeds applicable only to the motorcycle as received from an insurance claim as a result of a stolen or damaged motorcycle" should be stricken from the bill. The foregone revenue estimates contained in this fiscal note assume that a trade-in allowance for insurance proceeds is not allowed for motorcycles. If the insurance proceeds language remains in the bill, then the revenue losses contained in this fiscal note should be considered minimum revenue losses.

To estimate the revenue loss from allowing the trade-in value of motorcycles 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

Prepared by:

Paul Dion / 4015748943 / pdion@revenue.ri.gov

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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 motorcycles would also be subject to the state sales and use tax. ORA also assumed that the motorcycle trade-in exemption would not include the application of insurance proceeds as currently written in the bill, due to the fact that the FY 2012 enacted budget repealed the use of insurance proceeds as the trade-in allowance for a stolen or damaged private passenger automobile. Given these assumptions, ORA estimated the trade-in allowance for new and used motorcycles at \$4.89 million (i.e., \$13.077 million * 0.374) thereby lowering the taxable base for new and used motorcycles to \$8.19 million (i.e., \$13.077 million - \$4.89 million).

Under the bill, ORA estimated that total sales and use tax collected from the sales of new and used motorcycles 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 bill 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.

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 \$352,158 of sales tax revenues foregone from allowing the trade-in allowance provision contained in the bill in FY 2014 (i.e., \$342,367 * 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 bill would decrease tax revenue by \$365,212 (i.e.; \$352,158 * 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 bill would decrease tax revenue by \$375,324 (i.e.; \$365,212 * 1.0353) in FY 2016.

The Governor's FY 2015 Recommended Budget projects a surplus of \$400,000 in FY 2015 and a deficit of \$151.1 million in FY 2016. Passage of the bill would increase the FY 2016 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 \$365,212 is forecast.

FY 2016: A general revenue loss of \$375,324 is forecast.

Budget Office Signature:





State of Rhode Island
Budget
Office
Department of Administration

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Fiscal Advisor Signature:

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