



State Fiscal Note for Bill Number: 2014-H-7423

Date of State Budget Office Approval:

Date Requested: Tuesday, March 18, 2014

Date Due: Friday, March 28, 2014

Impact on Expenditures

FY 2014 n/a

FY 2015 n/a

FY 2016 n/a

Impact on Revenues

FY 2014 n/a

FY 2015 \$(32,996,220)

FY 2016 \$(34,635,931)

**Explanation by State
Budget Office:**

This bill would amend Rhode Island General Law Chapter 44-30 entitled "Personal Income Tax" by adding Rhode Island General Law Section 44-30-1.3 titled "Exemption for Retirement Income". This new section would allow a taxpayer an exemption for the first \$15,000 per year of retirement income provided that said retirement income is paid by a retirement plan qualified as such under federal law.

Under current law, all retirement income received by a taxpayer that is taxable under the federal income tax is also taxable under the Rhode Island income tax.

**Comments on
Sources of Funds:**

All personal income taxes are considered to be general revenues.

**Summary of Facts
and Assumptions:**

The bill takes effect upon passage but the assumed implementation date is January 1, 2014. It is assumed that revenue changes that result from the passage of the bill would not be realized until the fiscal year following the effective tax year of the bill. That is, the tax year 2014 revenue impact would not be realized until FY 2015, the tax year 2015 revenue impact would not be realized until FY 2016, etc.

According to the United States Internal Revenue Service's, TY 2011 Statistics of Income (SOI) by State there were a total of 93,419 Rhode Island resident returns with taxable pensions and annuities. The TY 2011 SOI reports a total of \$2.072 billion in taxable pensions and annuities from these 93,419 Rhode Island resident returns. The Department of Revenue's Office of Revenue Analysis (ORA) assumed that all of the income received from these pensions and annuities was paid from retirement plans qualified as such under federal law. For each income bracket contained in the TY 2011 SOI report, ORA calculated an average amount of taxable pensions and annuities per taxpayer. If the average amount per taxpayer was less than \$15,000, ORA used the average amount and exempted this amount from Rhode Island income tax otherwise the maximum amount of \$15,000 was exempted from Rhode Island income tax. In each bracket either the average amount or the maximum amount was multiplied by the number of taxpayers in that income bracket to get a total amount of exempt retirement income per tax bracket according to the TY 2011 SOI. Applying this methodology revealed that \$1.232 billion of pension and annuities income would be exempt from the Rhode Island personal income tax under the bill.

ORA calculated effective tax rates for Rhode Island residents ranging from 0.03 percent to 5.01 percent based on taxable income brackets and the individual

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taxpayer's tax liability and Federal Adjusted Gross Income. The effective rates were determined using the personal income tax simulation model developed by ORA applied to TY 2011 Rhode Island resident tax return data. Application of the Rhode Island effective tax rates to the estimated exempt amount of taxable pensions and annuities of \$1.232 billion noted above yielded estimated foregone total personal income tax revenues of \$24,987,349 from the exemption of the first \$15,000 of retirement income received from a qualified retirement plan.

Rhode Island resident personal income tax collections for TY 2011 were \$809,079,063. Thus, foregone personal income tax revenues from the exemption of the first \$15,000 of retirement income received from a qualified retirement plan for Rhode Island residents are estimated to be 3.09 percent of resident personal income tax revenues (i.e. \$24,987,349 / \$809,079,063). ORA could not directly estimate non-resident taxable pensions and annuities the first \$15,000 of which would be exempt from Rhode Island personal income taxes under the bill. As a result, ORA applied the same percentage comprising resident TY 2011 returns to the non-resident personal income tax collections for TY 2011 of \$166,280,859 to arrive at a TY 2011 estimate of \$5.14 million in foregone personal income tax revenues from the exemption of the first \$15,000 of retirement income received from a qualified retirement plan in Rhode Island taxable income. Therefore, if the bill had been in effect in TY 2011, ORA estimates that total foregone revenues from exempting the first \$15,000 of retirement income received from a qualified retirement plan would have been \$30,125,428.

ORA estimated that resident and non-resident TY 2011 personal income tax collections were \$975,359,922. This amount solely represents payments made by taxpayers for that particular tax year. It is important to distinguish between a particular tax year's collections and total personal income taxes received in a given calendar year. Total personal income tax payments received in a given calendar year may include tax payments that are associated with prior tax year liabilities or estimated payments for future tax year liabilities as well as tax payments that are related to current tax year liabilities. To account for the receipt of tax payments not associated with the current tax year, ORA compared the TY 2011 collections to total personal income tax collections received in calendar year 2011 of \$1,053,411,625 to arrive at an estimate of the ratio of total calendar year personal income tax collections that TY 2011 payments comprise of 92.59 percent (i.e., \$975,359,922 / \$1,053,411,625).

The ratio of TY 2011 personal income tax collections to CY 2011 personal income tax revenues was applied to the November 2013 Revenue Estimating Conference's personal income tax estimate for FY 2014 of \$1,120,700,000 to yield \$1,037,622,618 of estimated personal income tax revenues derived solely from TY 2013 personal income tax payments. The percentage of personal income tax revenues foregone from the exemption of the first \$15,000 of retirement income received from a qualified retirement plan in Rhode Island personal income tax revenue was applied to the FY 2014 estimate of TY 2013 personal income tax revenues to arrive at an estimate of \$32.05 million in TY 2013 personal income tax revenues foregone.

Similarly, according to the November 2013 Revenue Estimating Conference, personal income tax revenues for FY 2015 are estimated to be \$1,153,900,000. Applying the same methodology that was used on FY 2014 personal income tax revenues to estimate TY 2013 personal income tax revenues yielded TY 2014 personal income tax payments of \$1,068,402,690 realized in FY 2015 (i.e., $0.9259 * \$1,153,900,000$). Applying the percentage calculated from the exemption of the first \$15,000 of retirement income received from a qualified retirement plan from personal income taxes to TY 2014 total personal income taxes yields an FY 2015 foregone revenue estimate of \$33.0 million in personal income tax revenues from passage of the bill (i.e., $0.0309 * \$1,068,402,690$). The two percentages described above were also applied to the Budget Office's projection of personal income tax revenues for FY 2016 (excluding the Governor's personal income tax initiatives that are proposed in the FY 2015 Budget) of \$1,211,241,789 to yield an estimated \$34.64 million in Rhode Island personal income tax revenue foregone from the exemption of the first \$15,000 of retirement income received from a qualified retirement plan from Rhode Island taxable income for TY 2015 (i.e., $(0.9259 * \$1,211,241,789) * 0.0309$). Thus, allowing the exemption of the first \$15,000 from retirement income from federal AGI prior to the determination of Rhode Island personal income tax liability will result in revenue losses of \$33.0 million in FY 2015 and \$34.6 million in FY 2016.

The Governor's FY 2015 Recommended Budget projects an ending balance of \$400,000 in FY 2015 and a deficit of \$151.1 million in FY 2016. Passage of the bill would put the Governor's FY 2015 Recommended Budget out of balance and increase the FY 2016 projected deficit.

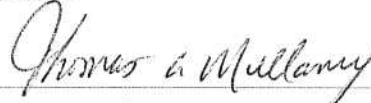
*Summary of Fiscal
Impact:*

FY 2014: Not applicable given the assumption that revenue impacts for a tax year are not realized until the following fiscal year.

FY 2015: A revenue loss of \$32,996,220 is forecast.

FY 2016: A revenue loss of \$34,635,931 is forecast.

Budget Office Signature:



Fiscal Advisor Signature:

