

Date of State Budget Office Approval:

Date Requested: 2/4/15 REC'D 3/3/15 (SR)

Date Due: 2/14/15

Impact on Expenditures

FY 2015 n/a
 FY 2016 n/a
 FY 2017 n/a

Impact on Revenues

FY 2015 n/a
 FY 2016 \$(5,632,585)
 FY 2017 \$(5,883,640)

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 to Rhode Island General Law Section 44-18-30 titled "Gross receipts exempt from sales and use taxes" an exemption for the trade-in value of pickup trucks with gross vehicle weights of less than 8,100 lbs. that are used exclusively for personal use.

Under current law, Rhode Island General Law Section 44-18-30(23) provides an exemption only for the trade-in value of private passenger automobiles not used for hire and does not refer to any other type of motor vehicle.

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, 2015.

The Rhode Island Department of Revenue's Division of Motor Vehicles reports that 42.0 percent of all trucks registered in the state are trucks that are less than 8,100 pounds in gross vehicle weight and registered with Combination plates. The Office of Revenue Analysis (ORA) assumed that all pickup trucks that are registered with Combination plates are used exclusively for personal use. ORA used the base gross sales receipts data from the Rhode Island Macro Sales Tax Simulation Model for Fiscal Year 2014 for all new and used trucks and multiplied this figure by the percentage of trucks that have a gross vehicle weight of less than 8,100 lbs. and are registered with a Combination plate to estimate the gross sales receipts for new and used trucks with less than 8,100 lbs. gross vehicle weight 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 \$536.687 million. ORA estimated that total Rhode Island gross sales receipts of new and used pick-up trucks used exclusively for personal use with less than 8,100 lbs. gross vehicle weight is \$225.409 million (i.e., \$536.687 million * 0.42).

The Rhode Island Macro Sales Tax Simulation Model assumes that 32.7 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 67.3 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

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the same percentage of the gross receipts from the sales of new and used pick-up trucks used exclusively for personal use with gross vehicle weights of less than 8,100 lbs. would also be subject to the state sales and use tax. ORA estimated the trade-in allowance for new and used pick-up trucks with gross vehicle weights of less than 8,100 lbs. and used exclusively for personal use is \$73.71 million (i.e., \$225.409 million * 0.327) thereby lowering the taxable base for new and used pick-up trucks used exclusively for personal use with gross vehicle weights of less than 8,100 lbs. to \$151.70 million (i.e., \$225.409 million - \$73.71 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 with gross vehicle weights of less than 8,100 lbs. would be \$10.62 million (i.e., \$151.70 million * 0.07). 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 \$15.78 million (i.e., \$225.409 million * 0.07). Thus, this bill would decrease sales tax revenue by \$5.16 million (i.e.; \$15.78 million - \$10.62 million) in FY 2014.

According to the November 2014 Revenue Estimating Conference, the estimated growth rate for sales and use taxes in FY 2015 is 4.25 percent. Applying this growth rate to the FY 2014 estimate of the sales and use tax foregone on the trade-in allowance for new and used pick-up trucks used exclusively for personal use with gross vehicle weights of less than 8,100 lbs. yields an estimate of \$5.38 million of sales and use tax revenues foregone from allowing the trade-in allowance provision contained in the bill in FY 2015 (i.e., \$5.16 million * 1.0425). Similarly, according to the November 2014 Revenue Estimating Conference, the annual growth rate of sales and use tax revenues for FY 2016 is 4.71 percent. Therefore, passage of the bill would decrease tax revenue by \$5.63 million in FY 2016 (i.e.; \$5.38 million * 1.0471). For the FY 2017 fiscal impact estimate, the Office of Management and Budget's sales and use tax revenues projected growth rate of 4.46 percent was applied. Thus, passage of the bill would decrease tax revenue by \$5.88 million in FY 2017 (i.e.; \$5.63 million * 1.0446).

According to the Office of Management and Budget, the FY 2015 Enacted Budget projects a deficit of \$172.9 million in FY 2016 and \$296.3 million in FY 2017. Passage of the act would increase the FY 2016 and FY 2017 projected deficits.

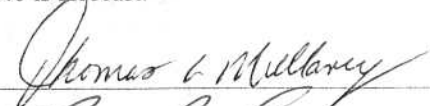
*Summary of Fiscal
Impact:*

FY 2015: Not applicable due to the assumed implementation date of July 1, 2015.

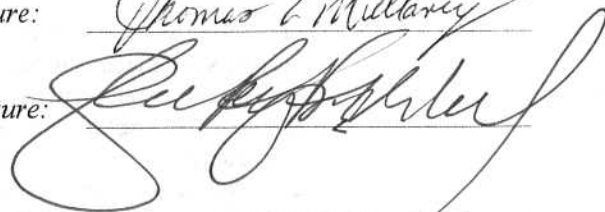
FY 2016: A general revenue loss of \$5,632,585 is forecast.

FY 2017: A general revenue loss of \$5,883,640 is forecast.

Budget Office Signature:



Fiscal Advisor Signature:



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