

# SENATE COMMITTEE ON FINANCE HEARINGS

H-6122 April 15, 2021

- Article 3 – Relating to Government Reform and Reorganization  
Sections 3, 4, 7
- Article 6 – Relating to Fees, Section 7
- Article 2 – Relating to the Paycheck Protection Program



# DOR Accomplishments and Ongoing Initiatives

## Division of Motor Vehicles (DMV):

- DMV was totally **closed for only 1 day** throughout the pandemic and has conducted 678,039 live in-person transactions.
- Reservations have received an overwhelmingly positive response from public. Pre-COVID average wait was 70 minutes, but **with reservations wait times reduced to 12 minutes** (84% reduction.)
- **Expansion of online transactions:** pre-COVID customers were able to do 14 different transactions online. Now they can do 22 different transactions.
- The DMV responded quickly to social distancing requirements and cleaning protocols to provide a **safe environment for customers and staff**.
- **Instituted 2 closed course skills-oriented driver road tests** eliminating the need for the examiner to be in the vehicle, protecting the driver and staff from potential COVID exposure.

## Lottery (RILOT):

- Throughout the pandemic, **dedicated staff** manned the customer windows to cash winning Lottery tickets and the sales team engaged retailers to ensure adequate instant tickets/supplies.
- **Casino reopening has been safe**, with no known community spread of COVID.
- **Increased Instant Ticket sales by 9.5%** during FY '20 and 20.5% YTD.
- **Introduced an iLottery product** whereby customers can play certain Lottery games, and purchase Keno tickets, online.

## Central Collections Unit (CCU):

- **Surpassed the \$1.5M threshold for delinquent debts collected** during FY 2021.
- **19 MOUs** with Rhode Island State Agencies, or subdivisions within State Agencies.
- The CCU has **resumed filing** Complaints and other Motions in Court against delinquent debtors.
- The staff's diligence **increased collection letters mailed each week** from 500 to 1,500.

# DOR Accomplishments and Ongoing Initiatives

## Division of Taxation (Taxation):

- **Implemented innovative processes** throughout pandemic: COVID webpage and penalty waiver, digital signatures for some applications/forms, remote services through drop-box processes, emails replies within 24 hours, no backlog, and working with impacted taxpayers facing hardship.
- **Proactive outreach** to all new businesses within ten days of registration to assist with any issues.
- **Improved phone wait times** by over two minutes.
- Letters of Good-Standing application **response in 24 hours, issued within 3 days**, if no issues.
- Implemented remote audit processes and 89% of taxpayers subject to an audit submitted **positive feedback** on their experience to the Division in a 2020 survey.
- Administered **3 grants with relief funds**, distributed \$45M to almost 3,000 businesses/individuals.

## Office of Revenue Analysis (ORA):

- **Completed estimated revenue impacts for exempting** up to \$10,200 of unemployment compensation, taxing forgiven Paycheck Protection Program loan amounts > \$150,000, and the expansion/modification of the federal EITC and Child and Dependent Care Credit (in progress).
- **Provided an estimate of the impact of increasing the gas tax** to pay for transportation improvements.
- Madiha Zaffou, Ph.D., Chief Economic and Policy Analyst, was **selected by the PEW Charitable Trusts** to lead a virtual training session for tax incentive evaluators in Hawaii and Tennessee.
- **Produced and published** an evaluation of the Rhode Island New Qualified Jobs Incentive Act of 2015 and the Motor Vehicle Excise Tax Standardization and Feasibility Report.

## Division of Municipal Finance (DMF):

- Created a **COVID funding resource section** of the DMF website to assist municipalities.
- Administered **distribution of \$136M in CRF funds** to the municipalities.
- **Working to offer zoom licenses** to local governments for purposes of holding public meetings.

# House Bill 6122, Article 3, Section 3

## Plate Reissuance:

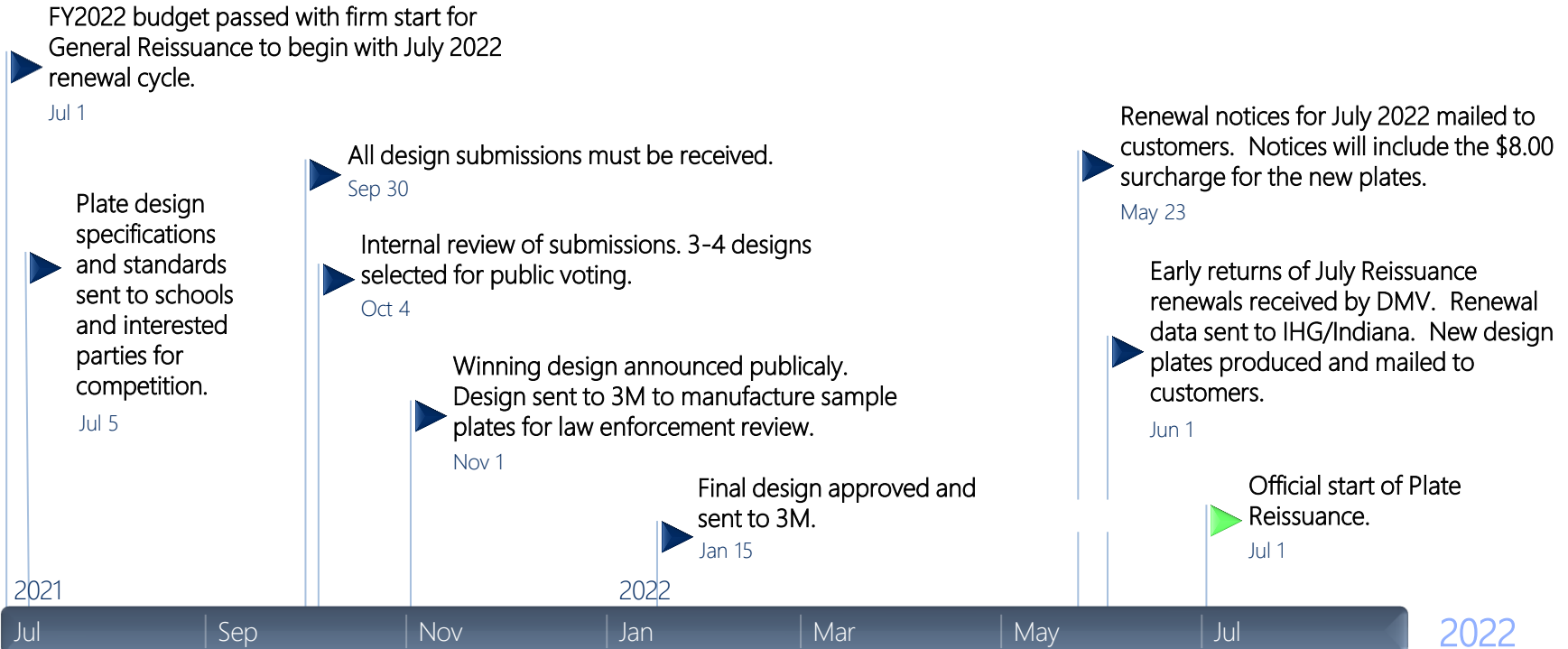
- Additional time is requested to allow for the final selection of the new plate design (see next slide for more timeline detail.)
- This article amends R.I. Gen. Laws § 31-3-33 to delay the mandatory reissuance of fully reflective license plates from June 1, 2020 to July 1, 2022.
  - Section 1: This section amends R.I. Gen. Laws § 31-3-33 to delay the mandatory reissuance of fully reflective license plates from June 1, 2020 to July 1, 2022.
  - Section 2: This section establishes the article shall take effect upon passage.
- In order to meet this timeline, the new plate design must be selected and confirmed by December 1, 2021.

## Summary of Revenue Impacts:

- FY21: \$0
- FY22: \$0
- FY23: (\$1,498,784)
- FY24: (\$1,098,402)

# House Bill 6122, Article 3, Section 3

## Plate Reissuance Timeline



Oct 11 - Oct 29  Public voting on design.

Jan 16 - Apr 30  3M begins producing sheeting material and shipping to IHG production facility in Indiana.

May 1 - May 31  Stock plates shipped to RI DMV and distributed to DMV branch offices and new dealers.

# House Bill 6122, Article 3, Section 4



## **CDL Program Transfer from CCRI to DMV:**

- Currently, CDL applicants must go to the DMV after passing the test to obtain the license.
- This article amends R.I. Gen. Laws § 31-10.3-20 to transfer the administration of the CDL road test program from CCRI to DMV.
  - Section 1: This section amends R.I. Gen. Laws § 31-10.3-20 to transfer the administration of the CDL road test program from CCRI to DMV.
  - Section 2: This section establishes the article shall take effect on January 1, 2022.
- This transfer will allow for greater customer efficiencies – creating a one-stop shop for CDL applicants and holders.
- At \$100.00 per road test, DMV estimates that CDL Road Tests will generate approximately \$94,000 in FY 2022 (approximately a half year of operations).
- The funding generated by this program as well as the additional savings of DMV ceasing to pay CCRI to operate the program will nearly cover the cost of the 3.0 FTEs as well as the administrative costs.
- In order to meet this timeline, the 3.0 required FTEs would need to be hired by 12/1/2021.

## **Summary of Revenue Impacts:**

- FY21: \$0
- FY22: \$100,000
- FY23: \$200,000

# House Bill 6122, Article 3, Section 7

## **Elimination of CCU Sunset Clause:**

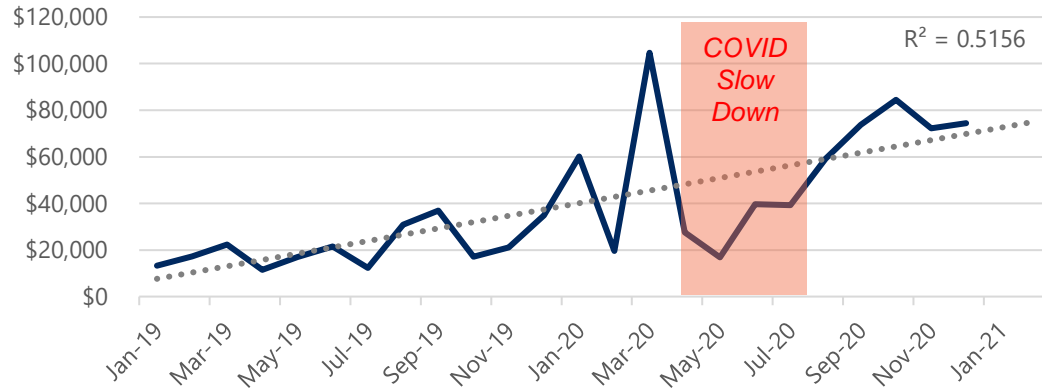
- Created in 2018, the Central Collections Unit (“CCU”) is a separate division from Taxation within the Department of Revenue.
- The mission of the CCU is to monitor and collect delinquent debts owed to RI State agencies in the most cost-effective manner while employing the highest professional standards.
- The CCU was initially established by statute as a pilot program with a sunset date of 6/30/2021 until the unit established its long-term viability as a revenue generator for the state.
- Collections by the CCU have grown steadily over time and are up over 100% compared to last fiscal year (see next two slides for detail).
- The unit is now well established and bringing in more than enough revenue to cover its administrative costs.
- This article amends R.I. Gen. Laws § 42-142-8 to remove the sunset clause currently in law.
  - Section 1: This article amends R.I. Gen. Laws § 42-142-8 to remove the sunset clause currently in law.
  - Section 2: This section establishes the article shall take effect upon passage.

## **Summary of Revenue Impacts:**

- FY22: \$1,377,300
- FY23: \$1,725,150
- FY24: \$1,725,150

# Projected CCU Collections

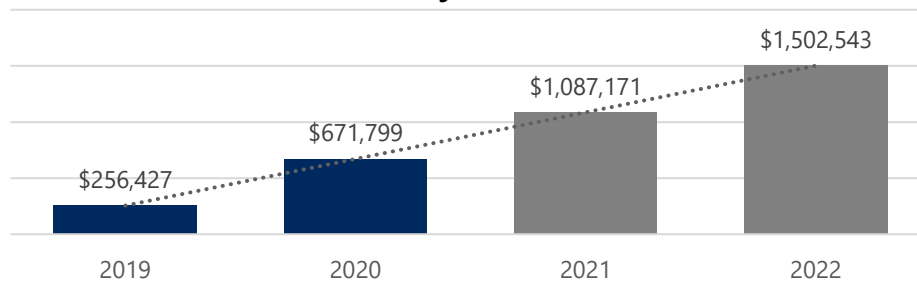
### Monthly Collections Activity



***The CCU's performance continues to improve year over year, even under the constraints posed by COVID.***

*Collections in FY21 are up over 100% relative to FY20.*

### Annual Calendar Year Collections Activity and Projections



Between Jan 2019 and Jan 2020, annual growth in collections was 162%.

CCU collections for FY 2021 have surpassed \$1,000,000.

Month over month collections have increased by 34% on average since Jan 2019.

**Note:** projections were calculated at the time of the Governor's budget submission, based on available data through January 2021. The CCU has since surpassed collections targets built into these projection assumptions. The charts below reflect the data and projections utilized in the Governor's budget.

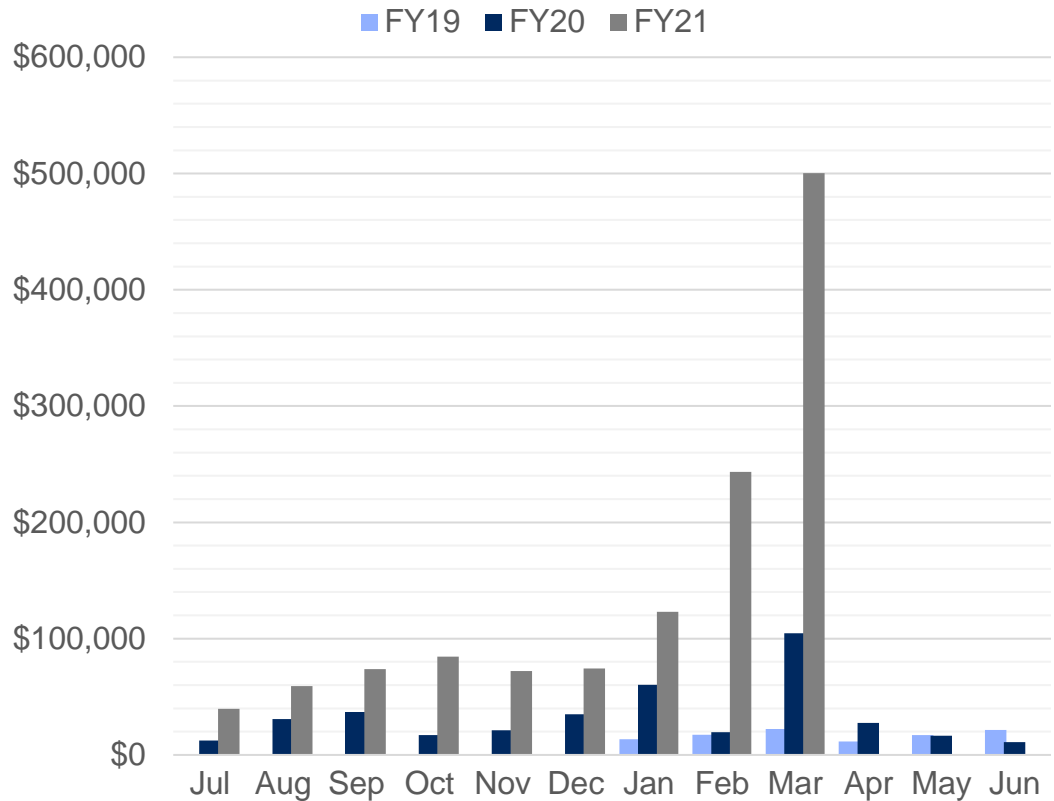


# CCU Performance Over Time



**Collections by the CCU have grown steadily over time and are up over 100% compared to last fiscal year.**

Collection volume has ramped up nicely from FY19 through FY20 until disruptions from COVID-19 interrupted collections activity in April. Collections resumed in mid-July and are now ramping up nicely again.



*Data as of 4-2-2021*

# House Bill 6122, Article 6, Section 7

## **Sales Tax Permit Fee Elimination:**

- A sales tax permit is a requirement of the state for the collection of sales tax.
- Currently the fee is \$10 and is required annually.
- The current renewal cycle for next year's sales tax permits are already underway, authorizing sales tax collection by businesses from July 1, 2021 to June 30, 2022. This revenue is realized in FY21, meaning there will be no fiscal impact from this change in FY21.
- This section amends § 44-19-1 and 44-19-2 to eliminate the fee for the permit required for any business making retail sales in the state.
- This section would also:
  - Change the expiration for the permit from annually to at the discretion of the Tax Administrator
  - Eliminate the \$10 fee to reinstate a permit after it had been suspended or revoked.
- Over 30,000 businesses who conduct retail sales in the state currently pay this fee and would save businesses over \$300,000 annually.

## **Summary of Revenue Impacts:**

- FY21: \$0
- FY22: \$(331,585)
- FY23: \$(331,585)

# House Bill 6122, Article 2

## Paycheck Protection Program (PPP) – Tax Treatment of Forgiven Loans:

- The Consolidated Appropriations Act (CAA) and American Rescue Plan Act (ARPA) introduced several provisions that impact the taxability and expense deductibility of PPP loans/expenditures.
  - At the federal level, forgiven PPP loans are not counted as taxable income and taxpayers can deduct expenses paid with PPP loan dollars, creating a “double tax benefit.”
  - Under normal circumstances, the forgiveness of a debt is taxable income.
- As the state’s tax code is coupled to the federal tax code on these provisions, these changes would cause a flow-through revenue loss to the state if no action is taken.
- Article 2 changes RI statutes to add the amount forgiven in PPP loans to RI taxable income, but only to the extent that the loan forgiveness exceeds \$150,000.
- Under this proposal:
  - Qualified expenses paid with PPP loan funds would still be deducted from other taxable income in TY 2020 and TY 2021.
  - This provision would count PPP forgiveness above \$150,000 as taxable income, impacting 2,242 businesses.

## Summary of Revenue Impacts:

Revenue Impact	Tax Year 2021	Tax Year 2022	Total
Changes from REC	\$86.3 million loss	\$47.0 million loss	\$133.3 million loss
Changes to RI Statute	\$43.8 million gain	\$23.9 million gain	\$67.7 million gain
Net Impact to RI	\$42.5 million loss	\$23.1 million loss	\$65.6 million loss

# House Bill 6122, Article 2

## Examples:

- CRP passes and nullifies IRS regulations regarding the deductibility of expenses paid with forgiven PPP loan (tax exempt income):

<b>With PPP Loan &amp; CRP Expense Deductibility</b>	<b>Pandemic TY 2020</b>	<b>Pandemic TY 2020</b>	<b>Explanation</b>
Gross Sales	\$50.00	\$50.00	COVID-19 pandemic impact reduces sales by 50%
Total Expenses	[90.00]	90.00	Business can deduct expenses paid with PPP loan against other taxable income
<b>Net Income</b>	<b>\$50.00</b>	<b>\$(40.00)</b>	Business net income decreases

- Under CRP nullification, business that took out a PPP loan that is forgiven has reduced net income (a loss in this example) that may be less than the net income realized without the PPP loan

# House Bill 6122, Article 2

This is the table that shows the ranges of total PPP loans taken in TY 2020 for those borrowers with PPP loan amounts greater than \$150,000 as of January 26, 2021.

Range of Total PPP Loan Amount	Number of Businesses	Total PPP Loan Amounts
\$150,000 < x <= \$225,000	762	\$138,677,021
\$225,000 < x <= \$300,000	382	99,353,209
\$300,000 < x <= \$450,000	395	143,888,072
\$450,000 < x <= \$600,000	217	112,415,629
\$600,000 < x <= \$750,000	126	84,285,127
\$750,000 < x <= \$900,000	85	69,908,434
\$900,000 < x <= \$1,050,000	56	54,736,463
\$1,050,000 < x <= \$1,300,000	72	83,976,437
\$1,300,000 < x <= \$1,450,000	29	39,968,964
\$1,450,000 < x <= \$1,600,000	12	18,226,329
\$1,600,000 < x <= \$1,750,000	14	23,222,434
\$1,750,000 < x <= \$1,900,000	14	25,558,101
\$1,900,000 < x <= \$2,450,000	20	42,294,686
\$2,450,000 < x <= \$3,000,000	20	54,786,061
\$3,000,000 < x <= \$4,000,000	14	49,182,982
\$4,000,000 < x <= \$5,000,000	10	44,902,193
\$5,000,000 < x <= \$6,000,000	6	32,495,721
\$6,000,000 < x <= \$7,000,000	5	33,486,529
\$7,000,000 < x <= \$10,000,000	3	24,643,433
<b>Total</b>	<b>2,242</b>	<b>\$1,176,007,825</b>

# House Bill 6122, Article 2

The data immediately below is for **TY 2020** first round PPP loans as of January 26, 2021. This is not equal to the fiscal year revenues to the state that are in the budget, but is the underlying tax year data on which the fiscal year revenues are based.

Range of Tax Owed on PPP Loan Forgiveness	Number of Businesses	Total Tax Owed on PPP Loan Forgiveness	Average Tax Owed on PPP Loan Forgiveness
\$0 < x <= \$500	158	\$38,294	\$242.37
\$500 < x <= \$1,000	125	\$94,569	\$756.55
\$1,000 < x <= \$2,500	301	\$500,741	\$1,663.59
\$2,500 < x <= \$5,000	350	\$1,264,582	\$3,613.09
\$5,000 < x <= \$10,000	386	\$2,763,556	\$7,159.47
\$10,000 < x <= \$15,000	224	\$2,750,693	\$12,279.88
\$15,000 < x <= \$25,000	254	\$4,976,334	\$19,591.87
\$25,000 < x <= \$35,000	149	\$4,422,186	\$29,679.10
\$35,000 < x <= \$50,000	105	\$4,349,387	\$41,422.74
\$50,000 < x <= \$100,000	116	\$7,895,548	\$68,065.07
\$100,000 < x <= \$150,000	31	\$3,749,409	\$120,948.68
\$150,000 < x <= \$250,000	26	\$4,803,756	\$184,759.85
\$250,000 < x <= \$750,000	17	\$6,142,307	\$361,312.16
<b>Total</b>	<b>2,242</b>	<b>\$43,751,362</b>	<b>\$19,514.43</b>