



OFFICE OF MANAGEMENT & BUDGET

State Budget Office

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State Fiscal Note for Bill Number:

2024-H 7588

Date of State Budget Office Approval: Wednesday, May 22, 2024

Date Requested: Friday, February 9, 2024

Date Due: Sunday, May 5, 2024

<i>Impact on Expenditures</i>		<i>Impact on Revenues</i>	
FY 2024	\$0	FY 2024	\$0
FY 2025	\$0	FY 2025	\$(4,431,822)
FY 2026	\$0	FY 2026	\$(13,949,034)

Explanation by State Budget Office:

This bill would amend Rhode Island General Laws (R.I. Gen. Laws) Chapter 44-30 titled "Personal Income Tax" by adding §§ 44-30-12(c)(8)(vi)-(xi), which would phase-in a modification reducing federal adjusted gross income (AGI) by the amount of Social Security income over the course of four fiscal years. For tax year (TY) 2025, the modification would be 20% of Social Security income; for TY 2026, the modification would be 40% of Social Security income; for TY 2027, the modification would be 60% of Social Security income; and for TY 2028 and thereafter, the modification would be 80% of Social Security income.

Under current law, a modification is allowed for Social Security benefits includible in federal AGI provided that the taxpayer has reached the age used for calculating full or unreduced Social Security retirement benefits and has federal AGI of \$80,000 or less in 2016 dollars for an individual filer or has federal AGI of \$100,000 or less in 2016 dollars for joint filers. The federal AGI limitations for tax year (TY) 2023 were \$101,000 for single filers whereas the eligible income limit for joint and widow(er) tax filers was \$126,250.

Summary of Facts and Assumptions:

The bill takes effect upon passage, but the proposed changes start with tax years beginning on or after January 1, 2025.

It should be noted that, although this modification reducing federal AGI is provided for in R.I. Gen. Laws § 44-30-12 titled "Rhode Island income of a resident individual," said modification reducing federal AGI is extended to non-resident taxpayers via subsection (c) of R.I. Gen. Laws § 44-30-32 titled "Rhode Island income of a nonresident individual."

The bill, as written, states that an individual may subtract from federal AGI a percentage of Social Security income and does not require that Social Security benefits be includible in federal AGI. Some Social Security benefits are not taxable at the federal level and thus would not be included in taxable federal AGI. Further, the bill would reduce the Social Security modification for taxpayers who are already eligible from 100% of taxable Social Security income under current law to 20% of Social Security income in TY 2025, 40% in TY 2026, and 60% in TY 2027. The Office of Revenue Analysis (ORA) assumed these were done in error and only included taxable Social Security income in producing



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this revenue estimate and allowed all current takers of the modification to continue reducing their federal AGI by their entire amount of taxable Social Security benefits. The Department of Revenue, Division of Taxation also noted several potential technical concerns with the bill as drafted, and sent a letter of concern to document these concerns for the hearing on the bill in the House Finance Committee on April 25, 2024.

The fiscal impact analysis of the bill is based on a personal income tax simulation executed by ORA. The simulation took the TY 2021 personal income tax return file adjusted to reflect TY 2023 law and applied the proposed phase-in of taxable Social Security benefits for taxpayers not eligible under current law. The results of this simulation were compared to the application of TY 2023 law on the TY 2021 personal income tax return file. ORA estimates that total TY 2021 personal income tax collections adjusted to reflect TY 2023 law total \$1,720,715,676.

It should be noted that ORA's estimate of TY 2023 personal income tax law includes the increase in the pension and annuities modification amount from \$15,000 to \$20,000, effective for TY 2023, but does not include the modification to reduce federal AGI by taxable military service pension benefits applicable for TYs 2023 and beyond. ORA has no way to determine who will benefit from this tax change and by how much on the individual level. The ability to reduce federal AGI by taxable military service pension benefits was estimated to reduce personal income taxes by \$6.1 million in TY 2023. It is worth noting that not being able to update the model to reflect this tax change potentially overstates the revenue impact of the proposed bill.

The results of the simulation indicate that implementation of the bill would reduce personal income tax collections for TY 2021 under TY 2023 law for Rhode Island residents and nonresidents by \$7,536,433 at 20%, \$15,635,258 at 40%, \$23,635,172 at 60%, and \$31,496,798 at 80%. ORA made several adjustments to the results of this simulation model. The first adjustment was to account for taxpayers who filed paper tax returns and are not part of the simulation model dataset. ORA estimates that 92% of returns are included in the model, and thus increased the revenue loss estimates by 8% to account for these paper filers. To account for paper filers, ORA divided the estimated revenue loss by the percentage of electronic filers to yield an estimated revenue loss from the bill from electronic and paper filers of \$8,191,775 at 20% (i.e., \$7,536,433 / 0.92), \$16,994,846 at 40% (i.e., \$15,635,258 / 0.92), \$25,690,404 at 60% (i.e., \$23,635,172 / 0.92), and \$34,235,650 at 80% (i.e., \$31,496,798 / 0.92). Thus, the provisions of the bill indicate that implementation of the bill would decrease personal income tax revenues by 0.4761% at 20% (i.e., \$8,191,775 / \$1,720,715,676), 0.9877% at 40% (i.e., \$16,994,846 / \$1,720,715,676), 1.4930% at 60% (i.e., \$25,690,404 / \$1,720,715,676), and 1.9896% at 80% (i.e., \$34,235,650 / \$1,720,715,676).

The next step of the analysis is to convert the estimate from a tax year (representing the results of the modeling) to a fiscal year (which is how budgeted revenue is expressed). Using a 3-year average, ORA estimated that tax year personal income tax liability represents 93.28% of the following year's total fiscal year personal income tax collected (that is, some fiscal year revenue is due to prior tax years). The Office of Management and Budget's (OMB) projection of personal income tax revenues for FY 2026 are \$1,995,869,070. ORA applied 93.28% ratio calculated earlier to the FY 2026 revenue projection to yield TY 2025 personal income tax payments of \$1,861,844,636 realized in FY 2026



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(i.e., $\$1,995,869,070 * 0.9328$). ORA then applied the decrease of 0.4761% estimated TY 2025 personal income tax revenue loss from passage of the bill to the estimate of TY 2025 personal income tax revenues to yield estimated forgone personal income tax revenue of $\$8,863,645$ in TY 2025 attributable to the phase-in of 20% taxable Social Security income for those not currently eligible for the modification (i.e., $-0.004761 * \$1,861,844,636$). The 93.28% and -0.9877%, as noted above, were applied to OMB's projection of personal income tax revenues for FY 2027 of $\$2,065,952,059$ to yield an estimated $\$19,034,424$ in personal income tax revenue forgone from the phase-in of 40% taxable Social Security income for those not currently eligible for the modification (i.e., $\$2,065,952,059 * 0.9328 * -0.009877$). The comparable figures calculated using the same methodology are $\$29,849,630$ for TY 2027 (i.e., $\$2,143,214,986 * 0.9328 * -0.014930$) and $\$41,099,237$ for TY 2028 (i.e., $\$2,214,383,868 * 0.9328 * -0.019896$).

Employing the Office of Accounts and Control's accrual methodology yields budgetary revenue losses for FY 2025 of $\$4,431,822$ (i.e., $0.5 * \$8,863,645$) and for FY 2026 of $\$13,949,034$ (i.e., $0.5 * \$8,863,645 + 0.5 * \$19,034,424$).

Comments on Sources of Funds:

All personal income taxes are general revenues.

Summary of Fiscal Impact:

FY 2024: Not applicable due to the implementation date of the bill.

FY 2025: A revenue loss of $\$4,431,822$ is forecast.

FY 2026: A revenue loss of $\$13,949,034$ is forecast.

FY 2027: A revenue loss of $\$24,442,027$ is forecast.

FY 2028: A revenue loss of $\$35,474,434$ is forecast.

FY 2029: A revenue loss of $\$41,932,632$ is forecast.

Budget Office Signature: _____

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Date: 2024.05.23 12:13:26 -04'00'

Fiscal Advisor Signature: _____

