



OFFICE OF MANAGEMENT & BUDGET

State Budget Office

One Capitol Hill
Providence, RI 02908-5890

Office: (401) 222-6300
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State Fiscal Note for Bill Number:

2024-H 7996

Date of State Budget Office Approval: Monday, March 25, 2024

Date Requested: Tuesday, March 5, 2024

Date Due: Monday, March 25, 2024

<i>Impact on Expenditures</i>		<i>Impact on Revenues</i>	
FY 2024	\$0	FY 2024	\$0
FY 2025	\$0	FY 2025	\$(359,270)
FY 2026	\$0	FY 2026	\$(879,247)
*		**	

Explanation by State Budget Office:

This bill amends R.I. Gen. Laws § 44-1-7 titled "Interest on delinquent payments" by altering the interest rate to be applied to overdue tax liabilities for trust funds from the current range of eighteen percent (18.0%) to twenty-one percent (21.0%), to the interest rate calculated as the prime rate plus two percent (2%), not to exceed twelve percent (12.0%) for each year. It should be noted that the bill as drafted removes the current paradigm of a floor and ceiling for the range of interest rates, and has a retroactive effective date of January 1, 2023. The Division of Taxation assumes that there is a drafting error and the intent of the bill is to reduce the interest rate applied to overdue tax liabilities for trust funds from the current range of eighteen percent (18.0%) to twenty-one percent (21.0%), to a range of twelve percent (12.0%) to twenty-one percent (21.0%), which is commensurate with current law regarding the interest rate for delinquent non-trust fund taxes. Additionally, the Division of Taxation assumes that the intent was to prospectively change the interest on overdue tax liabilities beginning on January 1, 2025. This fiscal note is drafted with these assumptions. The Division of Taxation recommends that the language in this bill be amended to address these issues and likely will be submitting a letter to document these concerns for any hearing on the bill.

Summary of Facts and Assumptions:

The bill is effective upon passage, but for purposes of this fiscal note it is assumed that the change in the interest rate will start on January 1, 2025, and continue through subsequent tax years. Because the impact on taxpayer behavior is incalculable, this analysis assumes that there is no concurrent change in taxpayer behavior, percentage of debts collected, or percentage of new debts paid in full. However, it should be noted that the higher interest rate on taxes held in trust for the State deters noncompliance and lowering that rate on overdue taxes may have incalculable impacts on tax revenue based on enhanced noncompliance as retailers and/or employers who find themselves in financial distress choose to pay other higher interest debt such as credit cards and other debt, instead of remitting taxes collected from their customers to the Division of Taxation. The revenue from hotel tax and meals/beverage tax are distributed to municipalities, Commerce Corporation, and tourism bureaus in accordance with specific state statutes. The failure to timely remit employees' taxes withheld by employers, payroll companies, and tax professionals negatively impacts employees as a misappropriation of taxes paid by the employees through the withholding. The Division of Taxation reports that it has historically applied only the minimum interest rate required by current law. As such, the interest rate in FY 2023 was 18%, however the interest rate for non-trust funds was lowered to 12%, effective January 1, 2023. In FY 2023, interest on overdue tax



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Budget Office Signature: _____

Fiscal Advisor Signature: _____

Two handwritten signatures in blue ink are present. The first signature, positioned above the Budget Office Signature line, is a cursive signature that appears to be "J.M. G...". The second signature, positioned above the Fiscal Advisor Signature line, is a more complex cursive signature.