

Revenues Changes

The Governor recommended \$49.1 million less and \$170.6 million more general revenues than estimated at the November 2022 Revenue Estimating Conference for FY 2023 and FY 2024, respectively. The May 2023 Revenue Estimating Conference lowered the FY 2023 estimates by \$61.2 million to \$5,199.2 million and included \$5,101.9 million for FY 2024. The Budget includes total FY 2023 revenues of \$5,199.2 million and \$5,276.3 million for FY 2024. The items are explained in the pages that follow.

Taxes

- **Gross Earnings Tax Suspension.** The Governor had proposed suspending the gross receipts tax on electricity and natural gas paid by consumers between December 2022 and March 2023. Utility companies would show the tax on customer bills with an offsetting credit. The Governor's FY 2023 revised budget lowers revenues by \$35.6 million to account for the estimated impact, of which \$18.3 million would benefit residential customers. The remaining \$17.3 million is estimated to provide relief to commercial customers. Given concerns about logistics of retroactive implementation, the Budget shifts the four-month suspension to next year and adjusts the timing of the revenue loss from FY 2023 to FY 2024.
- **Sales Tax Reduction to 6.85%.** The Budget does not include the Governor's proposal to decrease the current 7.0 percent sales and use tax on items currently taxed to 6.85 percent, effective October 1, 2023. The fiscal impact would have been a revenue loss of \$25.3 million for FY 2024 which would annualize to \$34.7 million in FY 2025. The state's sales tax has been 7.0 percent since 1990.
- **Corporate Minimum Tax.** The Budget does not include the Governor's proposal to reduce the corporate minimum tax from \$400 to \$375 effective January 1, 2024, similar to his proposal last year. This was last decreased from \$450 to \$400 effective January 1, 2017, and had been as high as \$500. This would have reduced FY 2024 revenues by \$1.1 million to account for a half year impact; annualized the loss would be \$2.1 million.
- **EITC to 16%.** The Budget increases the earned income tax credit by 1.0 percent to 16.0 percent of the federal rate, beginning January 1, 2024. Raising the earned income tax credit is estimated to lower revenues by \$1.1 million for FY 2024. This would annualize to \$2.3 million for FY 2025.
- **Scholarship Tax Credit.** The Budget increases the cap on the tax credit allowed for business entities making contributions to scholarship organizations from \$1.5 million to \$1.6 million beginning in tax year 2024. Currently, the funds are awarded on a first-come-first-serve basis. The maximum credit per tax year for a single filer is \$100,000. The fiscal impact is a revenue loss of \$0.1 million.
- **Medicaid Spending Proposals.** The FY 2024 budget contains several proposals that increase Medicaid expenditures delivered through managed care plans by \$20.0 million. The expenditure increases are estimated to produce additional revenue of \$0.4 million because those entities pay a 2.0 percent provider tax on gross premiums.
- **Pawtucket Economic Activity Transfer.** The Budget includes a general revenue loss of \$2.9 million to finance development projects in the economic development district subject to Commerce Corporation Board approval, in accordance with current law. Of the revenues used to finance this development, approximately 54 percent are sales tax, 42 percent are income tax withholding, and 4 percent are business corporation taxes. This is consistent with the May conference estimate.
- **Food Donation Tax Credit.** The Budget does not include the Governor's proposal for a new nonrefundable tax credit of 15.0 percent, capped at \$5,000 of the value of donated food products to a food

bank from local farmers and food producers. The credit would be effective January 1, 2023, and the fiscal impact of the proposal would have been a revenue loss of \$8,895 for FY 2023 and \$17,790 for FY 2024.

- ***Duplicate License Fees.*** The fee for duplicate licenses was increased and retained as general revenues in 2018 to help offset the staffing needs related to timely provision of Real ID compliant credentials to those seeking them. The Assembly included the \$1.0 million estimated from these fees with the Highway Maintenance Account consistent with other similar fees. From that account, 5.0 percent of resources are retained as general revenues to offset the cost of fee collections, therefore the Budget also recognizes a \$50,000 general revenue increase from that.
- ***Trade-In Value of Trucks Exemption.*** The Budget does not include the Governor's proposal to exempt the trade-in value of trucks with a gross weight of 14,000 pounds or less from the sales tax on new truck purchases, effective October 1, 2023. The fiscal impact of this would have been a revenue reduction of \$3.8 million for FY 2024 which would annualize to \$5.0 million for FY 2025. The trade in value of passenger cars has been exempt, and the FY 2023 enacted budget extended this treatment to motorcycles.

Departmental Revenues

- ***Hospital Licensing Fee.*** The Budget extends the annual hospital license fee and replaces the current two-tier structure with a three-tier system with separate rates applicable to revenues generated by inpatient and outpatient services. The tiers are based on the hospital type, including the volume and type of patient served. The new rates are intended to average 5.78 percent. There is also a separate rate for Eleanor Slater Hospital, 5.25 percent rate based on 2022 revenues. The Budget assumes total revenues of \$212.4 million of which \$0.7 million is from state payments for the Eleanor Slater Hospital fee.
- ***Litter Control Permit Repeal.*** The Budget includes the Governor's proposal to eliminate the requirement for businesses that sell to-go food or beverages to obtain and annually renew a litter control participation permit and reduces FY 2024 revenues by \$0.8 million. The enacted budget also includes \$100,000 from general revenues to support a new Litter-Free Rhody initiative to encourage removal of trash and litter from state parks, beaches and management areas through adopt-a-roadway programs, marketing campaign contests and others.
- ***Trainee Trooper Meal Reimbursement.*** The Budget eliminates the requirement that trainees attending the state police and municipal police training academy reimburse the state for the cost of all meals consumed during the respective academies. It reduces FY 2024 revenues by \$88,800.

Other Revenues

- ***Central Falls School Debt Service Local Reimbursement.*** The Budget includes the first year of debt service for a new high school for Central Falls which was authorized in 2021 to be financed directly by the state. The project cost is \$144.0 million, with a state share of \$138.2 million. The first year's annual debt service payment is \$13.4 million and the Budget includes \$0.3 million in revenues from a 2.5 percent reimbursement from the City for its share of cost.
- ***Duplicate License Fees.*** As previously noted, the \$1.0 million shift from general revenues collected for duplicate license fees to the Highway Maintenance Account would yield \$50,000 back to general revenues under the current law provision that recaptures 5.0 percent of Highway Maintenance Account resources as general revenues to offset cost of collections.