State of Rhode Island
Budget
Office
Department of Administration

State Fiscal Note for Bill Number: 2013-H-5227

Date of State Budget Office Approval:

Date Requested: **Tuesday, February 19, 2013**

Date Due: **Friday, March 01, 2013**

Impact on Expenditures		*Impact on Revenues*	
FY 2013	n/a	FY 2013	$(170,601)
FY 2014	n/a	FY 2014	$(350,791)
FY 2015	n/a	FY 2015	$(359,175)

Explanation by State Budget Office:

This act would provide an exemption from the tax imposed under Rhode Island General Law Chapter 44-18 entitled "Sales and Use Taxes – Liability and Computation" for the trade-in value of motorcycles. Included in the definition of the trade-in value of motorcycles are "the proceeds applicable only to the motorcycle as are received from an insurance claim as a result of a stolen or damaged motorcycle".

Under current law, (see Rhode Island General Law subsection 44-18-30(23)), an exemption is only provided from the sales and use tax for the trade-in value of a private passenger automobile and the exemption excludes the proceeds that are received from an insurance claim as a result of a stolen or damaged private passenger automobile.

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 and applies to tax years beginning January 1, 2013.

The Office of Revenue Analysis (ORA) used the base gross sales receipts data from the Rhode Island Macro Sales Tax Simulation Model for Tax Year 2012 for all new and used motorcycles. According to the simulation results, total gross sales receipts of motorcycles is $12.617 million and total sales tax under the current law from the sales of motorcycles is $883,160.

The Rhode Island Macro Sales Tax Simulation Model assumed that 37.4 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 62.6 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 the same percentage of the gross receipts from the sales of new and used motorcycles would also be subject to the state sales and use tax. ORA also assumed that the motorcycle trade-in exemption would not include the application of insurance proceeds as currently written in the bill, due to the fact that the FY 2012 enacted budget repealed the use of insurance proceeds as the trade-in allowance for a stolen or damaged private passenger automobile.

Given these assumptions, ORA estimated the trade-in allowance for new and used

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motorcycles at $4.72 million (i.e., $12.62 million * 0.374) thereby lowering the taxable base for new and used motorcycles to $7.90 million (i.e., $12.62 million - $4.72 million).

Under the act, ORA estimated that total sales and use tax collected from the sales of new and used motorcycles would be $552,857 (i.e., $7.90 million * .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 motorcycles, of $883,160. Thus, the act would decrease sales tax revenue by $330,303 (i.e.; $883,160 - $552,857) in TY 2012. For simplicity ORA assumes that tax year and fiscal year revenue impacts are the same.

Since the act's proposal applies to the tax years beginning January 1, 2013, a half a year fiscal impact from this act will be realized in FY 2013. It is important to note that, as written, the act exempts the trade-in value of motorcycles from the sales and use tax on a retroactive basis (i.e., it exempts the trade in value of motorcycles from the sales and use tax prior to the passage of the act). This will cause problems with the administration of the sales tax system and require the state to issue sales tax refunds for motorcycles registered between January 1, 2013 and the date the act is passed. The act's retroactivity should be eliminated.

To calculate the FY 2013 fiscal impact, the foregone sales tax revenue is grown by the growth in sales and use tax revenues adopted at the November 2012 Revenue Estimating Conference of 3.33 percent. Applying this percentage to the estimated foregone revenue for FY 2012 yields a decrease in sales and use tax revenue of $341,203 (i.e., $330,303 * 1.033). The act as written, however, is applicable to only one-half of FY 2013 so the realized foregone sales and use tax revenue in FY 2013 is $170,601 (i.e., $341,203 / 2) According to the November 2012 Revenue Estimating Conference, the annual growth rate for sales and use tax revenues for FY 2014 is 2.81 percent. Therefore, the act would decrease tax revenue by an estimated $350,791 (i.e.; $341,203 * 1.0281) in FY 2014 when a full year's impact of the act would be realized. For the FY 2015 fiscal impact estimate, the Budget Office's sales and use taxes projected growth rate (excluding Governor's enhanced sales tax compliance program included in the FY 2014 Budget) of 2.39 percent was applied. Thus, the act would decrease tax revenue by $359,175 (i.e.; $350,791 * 1.0239) in FY 2015.

The Governor's FY 2014 Recommended Budget projects a deficit of $170.5 million in FY 2015. Passage of this act would increase this projected deficit.

Summary of Fiscal Impact:

FY 2013: A general revenue loss of $170,601 is forecast.
FY 2014: A general revenue loss of $350,791 is forecast.
FY 2015: A general revenue loss of $359,175 is forecast.

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Fiscal Advisor Signature:

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