State of Rhode Island
Budget Office
Department of Administration

State Fiscal Note for Bill Number: 2013-H-5805

Date of State Budget Office Approval:

Date Requested: **Wednesday, April 03, 2013**

Date Due: **Saturday, April 13, 2013**

Impact on Expenditures		*Impact on Revenues*	
FY 2013	n/a	FY 2013	n/a
FY 2014	n/a	FY 2014	$161,898,600
FY 2015	n/a	FY 2015	$170,488,260

Explanation by State Budget Office:

This act would amend Rhode Island General Law Chapter 44-30 entitled "Personal Income Tax" by adding a fourth tax bracket to the current three tax bracket personal income tax. For tax year 2012, a marginal tax rate of 3.75 percent is applied to the first $57,150 of taxable income. The next $72,750 of taxable income is taxed at a rate of 4.75 percent and taxable income amounts that exceed $129,900 are taxed at a rate of 5.99 percent.

The fourth bracket provided for in the act would apply a marginal tax rate of 10.0 percent to the amount of taxable income that exceeds $200,000 for all head of household, single and married separate filers. For married joint filers and qualifying widow(ers) the fourth bracket would apply the marginal tax rate of 10.0 percent to the amount of taxable income that exceeds $250,000. The $200,000 and $250,000 threshold amounts correspond to the tax brackets that were in place for tax year 2011. Rhode Island General Law subsection 44-30-2.6(c)(3)(E) indexes the tax year 2011 tax bracket amounts for inflation.. If the $200,000 and $250,000 taxable income amounts at which the 10.0 percent tax rate takes effect in the act were indexed for inflation, the tax year 2012 taxable income amount would be $207,840 and $259,800, respectively.

Under the act, the 5.99 percent rate would apply to taxable income amounts which have been indexed for tax year 2012, greater than $129,900 but not more than $207,840 or $259,800 depending upon the taxpayer's filing status. The 10.0 percent tax rate would apply to taxable income amounts of more than $207,840 or more than $259,800 again depending upon the taxpayer's filing status.

Comments on Sources of Funds:

All personal income taxes are considered to be general revenues.

Summary of Facts and Assumptions:

The effective date of the act is upon passage. It is important to note that, as written, the act updates the personal income tax brackets on a retroactive basis (i.e., it applies the tax rates to income earned in periods prior to the passage of the act). This will cause problems with the administration of the personal income tax system and could result in legal action against the state. The act's retroactivity should be eliminated. Due to the infeasibility of the retroactivity of the act, the Office of Revenue Analysis (ORA) assumed the act was applicable to tax years beginning January 1, 2013 and thereafter.

The revenue gain figures reported in the fiscal note are based on the TY 2011

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applying the results of the Office of Revenue Analysis' TY 2011 personal income tax simulation to the FY 2014 personal income tax revenue estimate adopted at the November 2012 Revenue Estimating Conference.

FY 2015: A maximum revenue gain of $170,488,260 is forecast based on applying the results of the Office of Revenue Analysis' TY 2011 personal income tax simulation to the Budget Office's FY 2015 personal income tax revenue projection.

Budget Office Signature: Thomas A Mullaney

see attached comments

Fiscal Advisor Signature: [signature]

Prepared by: Paul Dion / 4015748943 / pdion@revenue.ri.gov personal income tax simulation executed by ORA. In tax year 2011, a marginal tax rate of 3.75 percent was applied to the first $55,000 of taxable income, the next $70,000 of taxable income was taxed at a rate of 4.75 percent and taxable income amounts that exceeded $125,000 were taxed at a rate of 5.99 percent. The simulation applied the proposed 10.0 percent marginal tax rate to all TY 2011 taxable income in excess of $200,000 for resident and nonresident tax returns with filing statuses of single, head of household and married filing separate and to all TY 2011 taxable income in excess of $250,000 for resident and non resident tax returns with married joint and qualifying widow(er) filing statuses. The result of the simulation with the fourth tax bracket was compared to actual TY 2011 personal income tax revenues generated by the state's TY 2011 personal income tax system with a top marginal tax rate of 5.99 percent for all taxable income greater than $125,000. The TY 2011 simulation under the provisions provided for in the act yielded an increase in personal income tax revenues of 14.34 percent when compared to actual TY 2011 personal income tax returns.

Given ORA's assumption that the provisions of the act are for tax years beginning on or after January 1, 2013, ORA assumed that the increased revenues from the act will be realized in the fiscal year following the tax year to which the proposed change in the personal income tax applies. Thus, TY 2013 revenues are assumed to be received in FY 2014 and TY 2014 revenues are assumed to be received in FY 2015.

Applying the 14.34 percent estimated personal income tax revenue gain under the act to the FY 2014 estimate for personal income tax revenues of $1,129,000,000 adopted at the November 2012 Revenue Estimating Conference yields an estimated personal income tax revenue increase of $161,898,600 for FY 2014 (i.e., $1,129,000,000 * 0.1434). Similarly, for FY 2015, the 14.34 percent estimated full year impact of the act's proposed personal income tax change was applied to the Budget Office's estimate for FY 2015 personal income tax collections of $1,188,900,000 to yield a projected revenue gain of $170,488,260 in FY 2015 (i.e., $1,188,900,000 * 0.1434).

The revenue estimates provided above are static estimates and do not include any behavioral responses that might be engendered from the act. As a result, these estimates should be interpreted as being the maximum revenue impacts from the passage of the act.

The Governor's FY 2014 Recommended Budget projects an ending balance of $1.4 million in FY 2014 and a deficit of $170.5 million in FY 2015. Passage of the act would increase the Governor's FY 2014 recommended ending balance and decrease the FY 2015 projected deficit.

The act as written does not amend current law. The act should be redrafted to amend current law and specify that the act's proposed changes apply to personal income tax returns filed after a date certain in the future.

Summary of Fiscal Impact:

FY 2013: Not applicable given the assumption that revenues that result from the change in the personal income tax for a given tax year are realized in the following fiscal year.

FY 2014: A maximum revenue increase of $161,898,600 is forecast based on

House Fiscal Advisor Comments H 5805:

As presented, the Fiscal Note does not identify potential issues with change in tax rate after the tax year has begun including taxes owed on transactions that have already occurred. Previous years' fiscal notes have included the information quoted below:

"It is important to note that as written, the act increases the marginal tax rate on taxpayers with taxable income amounts over $250,000 on a retroactive basis (i.e., it applies the new higher marginal tax rates to income earned in periods prior to the passage of the act). This will cause problems with the administration of the personal income tax system and likely result in legal action against the state. The act's retroactivity should be eliminated".