State of Rhode Island
Budget Office
Department of Administration

State Fiscal Note for Bill Number: 2014-H-7424

Date of State Budget Office Approval:

Date Requested:	**Thursday, April 03, 2014**
Date Due:	**Sunday, April 13, 2014**

Impact on Expenditures		*Impact on Revenues*	
FY 2014	n/a	FY 2014	n/a
FY 2015	n/a	FY 2015	$(5,112,906)
FY 2016	n/a	FY 2016	$(5,112,906)

Explanation by State Budget Office:

This bill would amend Rhode Island General Law Chapter 44-30 entitled "Personal Income Tax" by adding Rhode Island General Law Section 44-30-100 titled "Credit for Educators". This section would allow a credit against the Rhode Island personal income tax for "educators" that purchase supplies and equipment for use in the performance of their teaching duties. The credit is not to exceed $250 in total.

Under current law, the Rhode Island personal income tax system starts at federal Adjusted Gross Income (AGI). The determination of federal AGI includes a deduction of up to $250 per year from gross income for teachers that purchase supplies and equipment for use in the performance of their teaching duties. Thus, under current law, the Rhode Island personal income tax system already allows a deduction of up to $250 for the purchase of supplies and equipment by teachers for use in the performance of their teaching duties.

Comments on Sources of Funds:

All personal income taxes are considered to be general revenues.

Summary of Facts and Assumptions:

The bill takes effect upon passage. For simplicity, the Office of Revenue Analysis (ORA) assumed the bill would be applicable beginning January 1, 2014 making it applicable to tax years beginning on or after January 1, 2014. It is assumed that revenue changes that result from the passage of the bill would not be realized until the fiscal year following the effective tax year of the bill. That is, the tax year 2014 revenue impact would not be realized until FY 2015, the tax year 2015 revenue impact would not be realized until FY 2016, etc.

It should be noted that the bill as written does not include a definition of "educator." This should be clarified to allow a clear definition of who is eligible for the credit. It is also not clear if the credit limit of $250 is a per taxpayer limit or a per return limit. In its analysis, ORA interpreted the credit limit to be a per return limit of $250.

According to the United States Internal Revenue Service's, TY 2011 Statistics of Income (SOI) by State there were a total of 16,965 Rhode Island resident returns that took a federal deduction for expenses relating to the purchase of supplies and equipment used in the performance of teaching duties. The TY 2011 SOI reports a total of $4.3 million in teacher expenses that were deducted on these returns or an average deduction of $256 per tax return. ORA assumed a $250 credit per return for a total resident credit amount of $4.24 million (i.e., 16,965 * $250).

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Rhode Island resident personal income tax collections for TY 2011 were $809,079,063. Thus, under the bill, forgone income tax revenues for Rhode Island residents are estimated to comprise 0.52 percent of resident personal income tax revenues (i.e. $4,241,250 / $809,079,063). ORA could not directly estimate non-resident educator expenses that would be eligible for the proposed credit. As a result, ORA applied the same percentage that the proposed credit comprised of resident TY 2011 returns to the non-resident personal income tax collections for TY 2011 of $166,280,859 to arrive at a TY 2011 non-resident estimate of $871,656 in personal income tax credit used by non-residents from the allowance of the credit for educator expenses proposed in the bill. Therefore, if the bill had been in effect for TY 2011, ORA estimates that total foregone revenues from allowing a credit of up to $250 per return for educator expenses would have been $5,112,906. ORA projected no growth in use of the credit as the total number of educators taking the credit each year is assumed to remain relatively constant.

The Governor's FY 2015 Recommended Budget projects a surplus of $400,000 in FY 2015 and a deficit of $151.1 million in FY 2016. Passage of the bill would put the Governor's FY 2015 Recommended Budget out of balance and increase the FY 2016 projected deficit.

Summary of Fiscal Impact:

FY 2014: Not applicable given the assumption that revenue impacts for a tax year are not realized until the following fiscal year.

FY 2015: A revenue loss of $5,112,906 is forecast.

FY 2016: A revenue loss of $5,112,906 is forecast.

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