State of Rhode Island
Budget
Office
Department of Administration

State Fiscal Note for Bill Number: 2014-H-7751

Date of State Budget Office Approval:

Date Requested: **Thursday, April 10, 2014**

Date Due: **Sunday, April 20, 2014**

Impact on Expenditures		*Impact on Revenues*	
FY 2014	n/a	FY 2014	n/a
FY 2015	n/a	FY 2015	$(28,081,419)
FY 2016	n/a	FY 2016	$(29,476,894)

Explanation by State Budget Office:

This bill would amend Rhode Island General Law Chapter 44-30 entitled "Personal Income Tax" by amending Section 44-30-2.6 titled "Rhode Island taxable income – Rate of tax". Specifically, the bill would allow a taxpayer entitled to a federal earned income credit a Rhode Island earned income credit equal to 20.0 percent of the federal earned income credit. The bill would also provide for a refund of 100.0 percent of the amount of the Rhode Island earned income credit that exceeds the amount of Rhode Island income tax liability.

Under current law, a taxpayer entitled to a federal earned income credit is allowed a Rhode Island earned income credit equal to 25.0 percent of the federal earned income credit. In addition, under current Rhode Island law, only 15.0 percent of the amount of excess Rhode Island earned income credit is refunded.

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 bill is upon passage and is assumed to be 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 is important to note that, as written, the bill appears to reduce the percentage allowance for the federal earned income credit and increase the percentage allowance for the refund of the excess amount of Rhode Island earned income credit on a retroactive basis. That is, the changes to the Rhode Island General Law subsection 44-30-2.6(N) can be interpreted as being applicable to tax years beginning on or after January 1, 2011 as contained in Rhode Island General Law subsection 44-30-2.6(c)(3). The bill's retroactivity should be eliminated.

The fiscal impact analysis of the bill is based on the TY 2011 personal income tax simulation executed by the Office of Revenue Analysis (ORA). The simulation applied a 20.0 percent of federal earned income credit percentage allowance and a 100.0 percent refund of excess Rhode Island earned income credit for resident and non resident tax returns that were filed for TY 2011. The result of this simulation was compared to the estimated TY 2011 personal income tax collections that would be generated by the state's TY 2011 personal income tax system. The TY 2011

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personal income tax law allows for a Rhode Island earned income credit of 25.0 percent of the federal earned income credit and a refund of 15.0 percent of the excess amount of Rhode Island earned income credit. The result of the simulation indicates that implementation of the bill would decrease personal income tax revenues by 2.63 percent.

ORA estimated that resident and non-resident TY 2011 personal income tax collections were $975,359,922. This amount solely represents payments made by taxpayers for that particular tax year. It is important to distinguish between a particular tax year's collections and total personal income taxes received in a given calendar year. Total personal income tax payments received in a given calendar year may include tax payments that are associated with prior tax year liabilities or estimated payments for future tax year liabilities as well as tax payments that are related to current tax year liabilities. To account for the receipt of tax payments not associated with the current tax year, ORA compared the TY 2011 collections to total personal income tax collections received in calendar year 2011 of $1,053,411,625 to arrive at an estimate of the ratio of total calendar year personal income tax collections that TY 2011 payments comprise of 92.59 percent (i.e., $975,359,922 / $1,053,411,625).

The ratio of TY 2011 personal income tax collections to CY 2011 personal income tax revenues was applied to the November 2013 Revenue Estimating Conference's personal income tax estimate for FY 2014 of $1,120,700,000 to yield $1,037,622,618 in estimated personal income tax revenues derived solely from TY 2013 personal income tax payments. Applying the 2.63 percent estimated personal income tax revenue loss to the FY 2014 estimate of TY 2013 personal income tax revenues yields an estimated personal income tax loss of $27,273,460 in TY 2013 personal income tax revenues attributable to increasing the amount of excess earned income credit which is refunded to the taxpayer and decreasing the amount of federal earned income credit allowed.

Similarly, according to the November 2013 Revenue Estimating Conference, personal income tax revenues for FY 2015 are estimated to be $1,153,900,000. Applying the same methodology that was used on FY 2014 personal income tax revenues to estimate TY 2013 personal income tax revenues yielded TY 2014 personal income tax payments of $1,068,402,690 realized in FY 2015 (i.e., 0.9259 * $1,153,900,000). Applying the percentage change in personal income tax revenues calculated from increasing the refundable portion of the excess earned income credit to 100.0 percent and decreasing the amount of allowable federal credit to 20.0 percent to TY 2014 total personal income taxes yields a FY 2015 revenue estimate of $28.1 million in personal income tax revenue foregone (i.e., 0.0263 * $1,068,402,690). The two percentages described above were also applied to the Budget Office's projection of personal income tax revenues for FY 2016 (excluding the Governor's personal income tax initiatives that are proposed in the FY 2015 Budget) of $1,211,241,789 to yield an estimated $29.5 million in reduced Rhode Island personal income tax revenue from decreasing the amount of allowable federal earned income credit and increasing the amount of excess earned income credit which is refunded to the taxpayer (i.e., (0.9259 * $1,211,241,789) * 0.0263).

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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 2015 Recommended Budget projects an ending balance 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 $28,081,419 is forecast.

FY 2016: A revenue loss of $29,476,894 is forecast.

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Fiscal Advisor Signature:

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