



State Fiscal Note for Bill
Number: 2015-H-5059

Date of State Budget Office Approval:

Date Requested: Monday, January 26, 2015

Date Due: Thursday, February 05, 2015

<i>Impact on Expenditures</i>		<i>Impact on Revenues</i>	
FY 2015	n/a	FY 2015	n/a
FY 2016	n/a	FY 2016	\$(10,359,500)
FY 2017	n/a	FY 2017	\$(21,061,000)

Explanation by State Budget Office:

This act would reduce the minimum tax owed under Rhode Island General Law Chapter 44-11, entitled "Business Corporation Tax" from \$500 to \$100 if the gross receipts of an entity subject to the state's business corporation minimum tax for the taxable year are between \$0 and \$100,000; from \$500 to \$200 if the entity's gross receipts for the taxable year are between \$100,000.01 and \$200,000; from \$500 to \$300 if the entity's gross receipts for the taxable year are between \$200,000.01 and \$300,000; and from \$500 to \$400 if the entity's gross receipts for the taxable year are between \$300,000.01 and \$400,000. For business entities that are subject to the business corporation minimum tax with gross receipts for the taxable year that are between \$400,000.01 and \$500,000, the minimum tax remains \$500.

C-corporations, subchapter S corporations, limited liability companies (LLC), limited partnerships (LP), and limited liability partnerships (LLP) would be affected by this change as Rhode Island General Law Chapter 44-12, entitled "Franchise Tax" was repealed effective January 1, 2015.

Comments on Sources of Funds:

All business corporation taxes are considered to be general revenues.

Summary of Facts and Assumptions:

***** Revised February 12, 2015 by ORA

This act takes effect upon passage but has an assumed implementation date of January 1, 2016, or the beginning of tax year 2016 to avoid complications of administering the tax change.

Based upon the accrual methodology employed by the Office of Accounts and Controls, tax law changes that take effect in the middle of a fiscal year have a current fiscal year revenue impact equal to one-half of the succeeding fiscal year's revenue impact. The Office of Revenue Analysis has used this accrual based methodology to provide the budgetary revenue impacts contained in this fiscal note.

The Department of Revenue's Office of Revenue Analysis (ORA) assumed that the bill's reference to gross receipts in the determination of the minimum tax owed was a reference to gross receipts generated by business activity in Rhode Island.

It should be noted that under the proposed bill any C-corporations (C-corps), subchapter S-corporations (S-corps), limited liability companies (LLCs), limited partnerships (LPs), and limited liability partnerships (LLPs) with Rhode Island gross

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Thursday, February 12, 2015

Page 1 of 4

receipts that are greater than or equal to \$500,000.01 would not owe the minimum tax under Rhode Island General Law Chapter 44-11, entitled "Business Corporation Tax". ORA assumed for this analysis that any C-corps, S-corps, LLCs, LLPs, or LPs with Rhode Island gross receipts that are greater than or equal to \$500,000.01 would continue to owe the current minimum tax of \$500 under Rhode Island General Law Chapter 44-11. ORA assumes that the proposed bill would be amended to include the 5,510 C-corps, S-corps, LLCs, LLPs, or LPs with Rhode Island gross receipts in tax year 2012 that were greater than or equal to \$500,000.01.

According to the Division of Taxation, Statistics Corporate of Income (SCOI) a total of 53,968 C corps, S corps, LLCs, LLPs and LPs paid either the minimum corporate or the minimum franchise tax of \$500 for tax year 2012. For tax year 2011, a total of 49,353 C corps, S corps, and LLCs paid the minimum corporate or the minimum franchise tax of \$500. For tax year 2010, a total of 47,472 C corps, S corps, and LLCs paid the minimum corporate or the minimum franchise tax of \$500. For tax year 2009, a total of 46,281 C corps, S corps, and LLCs paid the minimum corporate or the minimum franchise tax of \$500. For tax year 2008, a total of 45,063 C corps, S corps, and LLCs paid the minimum corporate or the minimum franchise tax of \$500. For tax year 2007, a total of 46,143 C corps, subchapter S corps, and LLCs paid the minimum corporate or the minimum franchise tax of \$500.

According to the tax year 2012 SCOI, of the total of 53,968 C corps, S corps, LLCs, LLPs and LPs that paid the minimum business corporation or minimum franchise tax, 14,452 were C corps and 39,516 were S corps, LLCs, LLPs and LPs. For tax year 2011 of the total of 49,353 minimum tax filers, C-corps totaled 12,069 and S corps and LLCs totaled 37,284. For tax year 2010 of the 47,478 minimum tax filers, C-corps totaled 11,878 and S corps and LLCs totaled 35,600. For tax year 2009 of the 46,294 minimum tax filers, C-corps totaled 12,145 and S corps and LLCs 34,149. For tax year 2008 of the 45,063 minimum tax filers, C-corps totaled 12,233 and S corps and LLCs 32,830. For tax year 2007 of the 46,143 minimum tax filers, C-corps totaled 12,661 and S corps and LLCs 33,482.

Beginning January 1, 2012 and for each tax year thereafter, LLPs and LPs became subject to the business corporation minimum tax. The Rhode Island Department of Revenue's Division of Taxation originally estimated that 3,177 LLPs and LPs would be subject to the minimum tax of \$500. As a result of the significant growth in minimum filers between TY 2012 and TY 2011, the Department of Revenue's Office of Revenue Analysis (ORA) calculated the five year average growth rate for C corps separately from subchapter S corps, LLCs, LLPs and LPs.

The total number of C corps who filed the minimum tax in TY 2012 increased by 19.7 percent over the TY 2011 total of 12,069 (i.e.; $14,452 / 12,069 - 1$). The total number of C corps who filed the minimum tax in TY 2011 increased by 1.6 percent over the TY 2010 total of 11,878 (i.e.; $12,069 / 11,878 - 1$). The total number of C corps who filed the minimum tax in TY 2010 decreased by 2.2 percent over the TY 2009 total of 12,145 (i.e.; $11,878 / 12,145 - 1$). The total number of C corps who filed the minimum tax in TY 2009 decreased by 0.7 percent over the TY 2008 total of 12,233 (i.e.; $12,145 / 12,233 - 1$). The total number of C corps who filed the minimum tax in TY 2008 decreased by 3.4 percent over the TY 2007 total of 12,661

(i.e.; $12,233 / 12,661 - 1$). The five year average growth rate for C corporation minimum tax filers between TY 2007 and TY 2012 is 3.01 percent (i.e.; $(0.197 + 0.016 - 0.022 - 0.007 - 0.034) / 5$).

The total number of all other minimum tax filers in TY 2012 increased by 6.0 percent over the TY 2011 total of 37,284 (i.e.; $39,516 / 37,284 - 1$). The total number of all other minimum tax filers in TY 2011 increased by 4.7 percent over the TY 2010 total of 35,600 (i.e.; $37,284 / 35,600 - 1$). The total number of all other minimum tax filers in TY 2010 increased by 4.2 percent over the TY 2009 total of 34,149 (i.e.; $35,600 / 34,149 - 1$). The total number of all other minimum tax filers in TY 2009 increased by 4.0 percent over the TY 2008 total of 32,830 (i.e.; $34,149 / 32,830 - 1$). The total number of all other minimum tax filers in TY 2008 decreased by 1.9 percent over the TY 2007 total of 33,482 (i.e.; $32,830 / 33,482 - 1$). The five year average growth rate for S corporation, LLC, LLP and LP minimum tax filers between TY 2007 and TY 2012 is 3.41 percent (i.e.; $(0.060 + 0.047 + 0.042 + 0.040 - 0.019) / 5$).

Based on these five year average growth rates, ORA estimated that for tax year 2013 the total number of C-corporation minimum tax filers to be 14,887 (i.e., $14,452 * (1 + 0.0301)$); for tax year 2014, the total number of C-corporation minimum tax filers are estimated to be 15,335 (i.e., $14,887 * (1 + 0.0301)$); for tax year 2015, the total number of C-corporation minimum tax filers are estimated to be 15,797 (i.e., $15,335 * (1 + 0.0301)$); and for tax year 2016, the total number of C-corporation minimum tax filers are estimated to be 16,273 (i.e., $15,797 * (1 + 0.0301)$).

Using a similar methodology, ORA estimated that for tax year 2013, total number of S-corporation, LLC, LLP and LP minimum tax filers to be 40,862; for tax year 2014, the total number of S-corporation, LLC, LLP and LP minimum tax filers are estimated to be 42,254; for tax year 2015, the total number of S-corporation, LLC, LLP and LP minimum tax filers are estimated to be 43,694; for tax year 2016, the total number of S-corporation, LLC, LLP and LP minimum tax filers are estimated to be 45,183.

Based on the above estimates for the total number of minimum tax filers in each fiscal year, ORA estimated the amount of revenue generated from these minimum tax filers for tax year 2015 at \$29,745,500, $((15,797 + 43,694) * \$500)$ and for tax year 2016 at \$30,728,000 $((16,273 + 45,183) * \$500)$. ORA, assumed that TY 2015 minimum filers pay the minimum tax in the following fiscal year. More specifically, the minimum corporate or the minimum franchise tax of \$500 for tax year 2015 is realized in FY 2016. Thus, ORA estimates \$29,745,500 in minimum corporate or minimum franchise tax revenues in FY 2016 and \$30,728,000 in minimum corporate or minimum franchise tax revenues in FY 2017.

According to data provided by the Rhode Island Department of Revenue's Division of Taxation, in tax year 2012 a total of 53,968 C corps, S corps, LLCs, LLPs, and LPs filed and paid the minimum tax. The 53,968 minimum filer entities breakdown as follows based on their Rhode Island gross receipts: a total of 108 minimum filer entities had Rhode Island gross receipts in tax year 2012 of less than zero dollars; 42,327 minimum filer entities had Rhode Island gross receipts in tax year 2012 of

between \$0 and \$100,000; 2,630 minimum filer entities had Rhode Island gross receipts in tax year 2012 of between \$100,000.01 and \$200,000; 1,559 minimum filer entities had Rhode Island gross receipts in tax year 2012 of between \$200,000.01 and \$300,000; 1,088 minimum filer entities had Rhode Island gross receipts in tax year 2012 of between \$300,000.01 and \$400,000; 746 minimum filer entities had Rhode Island gross receipts in tax year 2012 of between \$400,000.01 and \$500,000; and 5,510 minimum filer entities had Rhode Island gross receipts in tax year 2012 of at least \$500,000.01.

In tax year 2012, a total of \$26,984,000 in minimum tax was paid by the 53,968 C-corps, S-corps, LLCs, LLPs, and LPs regardless of their gross receipts. If the proposed legislation had been in effect in tax year 2012 a total of \$8,789,600 in minimum tax would have been paid by the 53,968 minimum filer entities (i.e.; $108 * \$0 + 42,327 * \$100 + 2,630 * \$200 + 1,559 * \$300 + 1,088 * \$400 + 746 * \$500 + 5,510 * \$500$). Under the proposed legislation, this represents a decrease of \$18,194,400 in minimum tax payments received in tax year 2012. The \$18.2 million decrease in minimum tax payments represents 67.4 percent of all minimum tax payments received in TY 2012 from all 53,968 minimum filers (i.e.; $\$18,194,400 / (53,968 * 500)$).

Under current law, ORA estimated \$30,728,000 in corporate minimum tax revenues in FY 2017 and \$31,742,500 in corporate minimum taxes in FY 2018. Applying the 67.4 percent estimate above to the FY 2017 and FY 2018 estimates respectively and applying the Office of Accounts and Controls revenue accrual methodology yields estimated budgetary revenue losses of \$10,359,500 in FY 2016 (i.e., $(\$30,728,000 * 0.674) * 0.5$) and \$21,061,000 in FY 2017 (i.e., $(\$30,728,000 * -0.674) * 0.5 + (\$31,742,500 * -0.674) * 0.5$).

According to the Office of Management and Budget, the FY 2015 Enacted Budget projects a deficit of \$172.9 million in FY 2016 and \$296.3 million in FY 2017. Passage of the act would increase the FY 2016 and FY 2017 projected deficits.

Summary of Fiscal Impact:

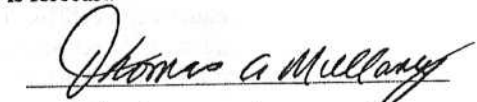
***** Revised February 12, 2015 by ORA

FY 2015: Not applicable given the assumed applicability of the act to all tax years beginning on or after January 1, 2016.

FY 2016: A revenue loss of \$10,359,500 is forecast.

FY 2017: A revenue loss of \$21,061,000 is forecast.

Budget Office Signature:



Fiscal Advisor Signature:

