State of Rhode Island
Budget Office
Department of Administration

State Fiscal Note for Bill Number: 2016-H-7105

Date of State Budget Office Approval:

Date Requested: **Tuesday, January 12, 2016**

Date Due: **Friday, January 22, 2016**

Impact on Expenditures		*Impact on Revenues*	
FY 2016	n/a	FY 2016	$(281,594)
FY 2017	n/a	FY 2017	$(573,985)
FY 2018	n/a	FY 2018	$(599,569)

Explanation by State Budget Office:

This bill would amend Rhode Island General Law Chapter 44-30 entitled "Personal Income Tax" by increasing the modification reducing federal Adjusted Gross Income (AGI) provided for in Rhode Island General Law Section 44-30-12 titled "Rhode Island income of a resident individual" for the amount of contributions made to an account under the tuition savings program including the "contributions carryover" from $500 per taxpayer to $2,500 per taxpayer and from $1,000 to $5,000 if a joint return per taxable year.

Under current law, a taxpayer is allowed a modification reducing federal AGI for the amount of contributions made to an account under the tuition savings program up to $500 per taxpayer and up to $1,000 per joint return per tax year.

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 and is assumed to be applicable to tax years beginning on or after January 1, 2017. 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.

It should be noted that the bill allows for a modification reducing federal AGI for contributions made to an account under the State's tuition savings program of $2,500 per child for a taxpayer that is not filing a joint return and $5,000 in total for a taxpayer filing a joint return. The Department of Revenue's Office of Revenue Analysis (ORA) assumed that the per child reference was in error and that the intent of the bill was to provide a modification reducing federal AGI of $2,500 for a taxpayer that is not filing a joint return and $5,000 for a taxpayer that is filing a joint return.

The revenue figures reported in the fiscal note are based on the TY 2013 personal income tax simulation executed by ORA. ORA requested data on calendar year 2013 contribution amounts made by Rhode Island taxpayers to CollegeBoundfund accounts of Rhode Island beneficiaries from the Office of the General Treasurer (OGT). The CollegeBoundfund is the State's Internal Revenue Code Section 529 tuition savings program. OGT provided ORA with 6,274 taxpayer identification

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numbers (TIN) and the amount contributed by each TIN. In calendar year 2013, the total amount of contributions made by these 6,274 TINs was $30,672,259. ORA then asked the Department of Revenue's Division of Taxation to match the 6,274 TINs against the entity IDs that Taxation maintains for the TY 2013 personal income tax file. Taxation was able to match 6,103 TINs to entity IDs. In calendar year 2013, the total amount of contributions made by these 6,103 TINs was $29,598,391. ORA then used the 6,103 entity IDs provided by Taxation and matched 5,632 to entity IDs contained in the TY 2013 personal income tax simulation model. In calendar year 2013, the total amount of contributions made by these 5,632 TINs was $26,861,790. The estimate contained in this fiscal note is based on this set of matched entity IDs. It should be noted that of the 5,632 matched TINs, ORA found 672 taxpayers whose tax liability remained unchanged under the proposed bill. This was mainly due to smaller contribution amounts which were not expected to increase under the proposed higher limits.

In tax year 2013 a taxpayer that filed an individual return was allowed a modification reducing federal AGI equal to the lesser of the actual amount contributed to the State's tuition savings program or $500. A taxpayer filing a joint return was allowed a modification reducing federal AGI equal to the lesser of the actual amount contributed to the State's tuition savings program or $1,000. ORA estimated that, in tax year 2013, 3,853 resident and part year-resident taxpayers reduced their federal AGI by $3,265,922 using the tuition savings program modification allowed under current law.

The simulation executed by ORA increased the modification reducing federal AGI for all taxpayers who had reported contribution amounts in CY 2013 in excess of the current maximums. For taxpayers' filing an individual return, the modification reducing federal AGI was increased to the lesser of the actual amount contributed by the taxpayer to the State's tuition savings program or $2,500. For taxpayers' filing a joint return, the modification reducing federal AGI was increased to the lesser of the actual amount contributed to the State's tuition savings program or $5,000. For taxpayers in tax year 2013 that had modifications reducing federal AGI for contributions to the State's tuition savings program that were less than the current maximums, no change was made to the modification contained in the TY 2013 personal income tax simulation model. The result of the above personal income tax simulation indicates that implementation of the bill would decrease personal income tax revenues by 0.04913 percent. A Rhode Island resident taxpayer would save on average $100 under the proposed higher modification amounts.

ORA estimated that resident and non-resident TY 2013 personal income tax collections were $1,006,843,088. 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 2013 collections to total personal income tax collections received in calendar year 2013 of $1,111,538,070 to arrive at an estimate of the ratio of total calendar year personal income tax collections that TY 2013 payments comprise of 90.5811 percent (i.e., $1,006,843,088 / $1,111,538,070).

The ratio of TY 2013 personal income tax collections to CY 2013 personal income tax revenues was applied to the November 2015 Revenue Estimating Conference's personal income tax estimate for FY 2017 of $1,265,400,000 to yield TY 2016 personal income tax payments of $1,146,212,872 realized in FY 2017. The percentage of general revenue foregone from increasing the allowable modification reducing federal AGI to $2,500 for a single return and $5,000 for a joint return was applied to the FY 2017 estimate of TY 2016 personal income tax revenues to arrive at an estimate of $563,187 in foregone personal income tax revenue in FY 2017 (i.e., $1,146,212,872 * 0.0004913).

The percentages described above were also applied to the Office of Management and Budget's projection of personal income tax revenues for FY 2018 of $1,313,920,805 to yield an estimated $584,782 in Rhode Island personal income tax revenue foregone from the proposed increase in the tuition savings program modification reducing federal AGI for TY 2017 (i.e., (0.9058 * $1,313,920,805) * 0.0004913). Similarly for FY 2019, the Office of Management and Budget projects personal income tax revenues of $1,380,369,710 which results in estimated personal income tax revenue losses for TY 2018 of $614,356 (i.e., (0.9058 * $1,380,369,710 * 0.0004913).

Employing the Office of Accounts and Controls accrual methodology yields budgetary general revenue losses for FY 2016 of $281,594 (i.e., 0.5 * $563,187), for FY 2017 of $573,985 (i.e., 0.5 * $563,187 + 0.5 * $584,782) and for FY 2018 of $599,569 (i.e., 0.5 * $584,782 + 0.5*$614,356).

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

The Governor's FY 2017 Recommended Budget projects a closing surplus of $81.7 million in FY 2016 and $519,565 in FY 2017. Passage of this bill would reduce the FY 2016 closing surplus and put the Governor's FY 2017 Recommended Budget out of balance.

Summary of Fiscal Impact:

FY 2016: A minimum revenue loss of $281,594 is forecast.

FY 2017: A minimum revenue loss of $573,985 is forecast.

FY 2018: A minimum revenue loss of $599,569 is forecast

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see * on pg 1
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