State of Rhode Island
Budget Office
Department of Administration

State Fiscal Note for Bill Number: 2012-H-7336

Date of State Budget Office Approval: House Fiscal Received on Feb 28, 2012

Date Requested: **Wednesday, February 08, 2012**

Date Due: **Saturday, February 18, 2012**

Impact on Expenditures		*Impact on Revenues*	
FY 2012	n/a	FY 2012	$(275,100)
FY 2013	n/a	FY 2013	$(565,110)
FY 2014	n/a	FY 2014	$(569,918)

Explanation by State Budget Office: This act would provide an exemption from the sales tax for the trade-in value of motorcycles. Under current law, see R.I.G.L. 44-18-30(23), an exemption is provided from the sales tax for the trade-in value of a private passenger automobile only.

Comments on Sources of Funds: All sales and use taxes are considered to be general revenue.

Summary of Facts and Assumptions: The effective date of the act is upon passage. The act is retroactive to January 1, 2012.

The Office of Revenue Analysis (ORA) used the base gross sales receipts data from the Rhode Island Macro Sales Tax Simulation Model for Tax Year 2012 for all new and used motorcycles of $21.02 million. The Rhode Island Macro Sales Tax Simulation Model assumes that 37.4 percent of the gross sales receipts for new and used private passenger automobiles are exempt from the state's sales and use tax due to the fact that the trade-in value of such vehicles are exempt from the sales and use tax. That is, the sales tax simulation model subjects only 62.6 percent of the gross receipts from the sales of new and used cars to the state's sales and use tax to account for this exemption. ORA assumed that the same percentage of the gross receipts from the sales of new and used motorcycles would also be subject to the state sales and use tax. ORA estimates the trade-in allowance for new and used motorcycles is $7.86 million (i.e., $21.02 million * 0.374) thereby lowering the taxable base for new and used motorcycles to $13.16 million (i.e., $21.02 million - $7.86 million).

Under the act, ORA estimates that total sales and use tax collected from the sales of new and used motorcycles would be $921,200 (i.e., $13.16 million * .07). This compares to sales and use tax collections for the same vehicles under current law, where there is no trade-in allowance granted for motorcycles, of $1,471,400. Thus, this act would decrease sales tax revenue by $550,200 (i.e.; $921,200 - $1,471,400) in TY 2012. For simplicity ORA assumes that tax year and fiscal year revenue impacts are the same. Given the act's retroactivity to January 1, 2012, one-half of the $550,200 TY 2012 revenue loss is estimated as the revenue loss for FY 2012.

According to the November 2011 Revenue Estimating Conference, the annual growth rate of sales and use taxes for FY 2013 is 2.71 percent. Therefore this act would decrease tax revenue by $565,110 (i.e.; $550,200 * 1.0271) in FY 2013. For the FY 2014 fiscal impact estimate, the Budget Office's sales and use taxes projected growth rate (excluding Governor's sales tax initiatives included in the FY 2013 Budget) of 0.85074 percent was applied. Thus, this act would decrease tax revenue by $569,918 (i.e.; $565,110 * 1.0085074) in FY 2014.

It is important to note that, as written, the act exempts the trade-in value of motorcycles from the sales and use tax on retroactive basis (i.e., it exempts the trade in value of motorcycles from the sales and use tax prior to the passage of the act). This will cause problems with the administration of the sales tax system and require the state to issue sales tax refunds for motorcycles registered between January 1, 2012 and the date the act is passed. The act's retroactivity should be eliminated.

In addition, the act does not amend current law. The act amends Rhode Island General Law Section 44-18-30(61) by eliminating the sales tax exemption for prewritten computer software delivered electronically or by load and leave. This exemption was repealed by the General Assembly in the 2011 session effective October 1, 2011 and thus is no longer part of current law. As a result, it is not necessary to include the repeal of this exemption in the act.

Summary of Fiscal Impact:

FY 2012: A general revenue loss of $275,100 is forecast.

FY 2013: A general revenue loss of $565,110 is forecast.

FY 2014: A general revenue loss of $569,918 is forecast.

Fiscal Advisor's Approval: Sharon Reynolds Ferland

Signature: Thomas A Mullaney