State of Rhode Island
Budget Office
Department of Administration

State Fiscal Note for Bill Number: 2012-H-7379

Date of State Budget Office Approval: Received By House Fiscal FEB 28, 2012

Date Requested: **Thursday, February 09, 2012**

Date Due: **Sunday, February 19, 2012**

Impact on Expenditures		*Impact on Revenues*	
FY 2012	n/a	FY 2012	n/a
FY 2013	n/a	FY 2013	$32,419,618
FY 2014	n/a	FY 2014	$34,352,747

Explanation by State Budget Office: This act would add a fourth tax bracket to the tax imposed under Rhode Island General Law Chapter 44-30 entitled "Personal Income Tax". Under current law, a marginal tax rate of 3.75 percent is applied to the first $55,000 of taxable income. The next $70,000 of taxable income is taxed at a rate of 4.75 percent and taxable income amounts that exceed $125,000 are taxed at a rate of 5.99 percent. Under the act, the 5.99 percent rate would apply to taxable income amounts greater than $125,000 but not more than $250,000. The fourth bracket envisioned in the act would apply a marginal tax rate of 6.99 percent to the amount of taxable income that exceeds $250,000.

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 act is upon passage and applies to tax years beginning January 1, 2012 and thereafter.

The revenue gain figures reported above are based on the TY 2009 personal income tax simulation executed by the Office of Revenue Analysis (ORA). The simulation applied the proposed 6.99 percent marginal tax rate to all taxable income in excess of $250,000 for resident and non resident tax returns that were filed for the 2009 tax year and compared the result of this simulation to expected TY 2009 personal income tax collections generated by the state's TY 2011 personal income tax system with a top marginal tax rate of 5.99 percent for all taxable income greater than $125,000. The result of the simulation with taxable income greater than $250,000 taxed at a marginal rate of 6.99 percent indicates that implementation of the act would increase personal income tax revenues by 3.00 percent.

Given that the provisions of the act are for tax years beginning on or after January 1, 2012, ORA assumes that the increased revenues from the act will be realized in the fiscal year following the tax year to which the proposed change in the personal income tax applies. Thus, TY 2012 revenues are assumed to be received in FY 2013 and TY 2013 revenues are assumed to be received in FY 2014.

Applying the 3.00 percent estimated personal income tax revenue gain to the FY 2013 estimate for personal income tax of $1,081.7 million adopted at the November 2011 Revenue Estimating Conference yields an estimated personal income tax gain of $32,419,618 for FY 2013. For FY 2014, the 3.00 percent full year impact of the act's proposed personal income tax change was applied to the Budget Office's estimate for FY 2014 personal income tax collections of $1,146,200,000 to yield a projected revenue gain of $34,352,747.

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.

It is important to note that, as written, the act increases the marginal tax rate on taxpayers with taxable income amounts in excess of $250,000 on a retroactive basis (i.e., it applies the new higher marginal tax rate to income earned in periods prior to the passage of the act). This will cause problems with the administration of the personal income tax system and likely result in legal action against the state. The act's retroactivity should be eliminated.

Finally, the act amends Rhode Island General Law Section 44-30-2.6(b) by adding 1.0 percentage point to the tax rates for income over $500,000 for tax years beginning on or after January 1, 2001 and ending before January 1, 2007. These tax years do not have any relevance to current law and the amending of Rhode Island General Law Section 44-30-2.6(b) should be eliminated.

Summary of Fiscal Impact:

FY 2012: Not applicable given the assumption that revenues that result from the change in the personal income tax for a given tax year are realized in the following fiscal year.

FY 2013: A maximum revenue increase of $32,419,618 is forecast based on applying the results of the Office of Revenue Analysis' TY 2009 personal income tax simulation.

FY 2014: A maximum revenue gain of $34,352,747 is forecast based on applying the results of the Office of Revenue Analysis' TY 2009 personal income tax simulation.

Fiscal Advisor's Approval:

Signature: Thomas A Mullaney