State of Rhode Island
Budget Office
Department of Administration

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State Fiscal Note for Bill Number: 2013-H-5196

Date of State Budget Office Approval:	
Date Requested:	**Monday, April 01, 2013**
Date Due:	**Thursday, April 11, 2013**

Impact on Expenditures		***Impact on Revenues***	
FY 2013	n/a	FY 2013	n/a
FY 2014	$65,111,876	FY 2014	$5~~8~~9,498,300
FY 2015	$0	FY 2015	$62,655,030

HFAS correction

Explanation by State Budget Office:

This act would authorize and direct the State Controller to "draw his or her orders upon the general treasurer for the payment of such sums or such portions thereof as may be required from time to time upon receipt by him or her of properly authenticated vouchers provided that general revenue sharing with cities and towns for June 30, 2014 shall not be less than sixty-five million one hundred eleven thousand eight-hundred seventy-six dollars ($65,111,876)."

This act also would amend Rhode Island General Law Chapter 44-30 entitled "Personal Income Tax" by adding a fourth tax bracket to the current three tax bracket personal income tax. For tax year 2012, a marginal tax rate of 3.75 percent is applied to the first $57,150 of taxable income. The next $72,750 of taxable income is taxed at a rate of 4.75 percent and taxable income amounts that exceed $129,900 are taxed at a rate of 5.99 percent.

The fourth bracket provided for in the act would apply a marginal tax rate of 7.99 percent to the amount of taxable income that exceeds $250,000. The $250,000 threshold amount corresponds to the tax brackets that were in place for tax year 2011. Rhode Island General Law subsection 44-30-2.6(c)(3)(E) indexes the tax year 2011 tax bracket amounts for inflation.. If the $250,000 taxable income amount at which the higher tax rate takes effect in the act were indexed for inflation, the tax year 2012 taxable income amount would be $259,800. Under the act, the 5.99 percent rate would apply to taxable income amounts which have been indexed for tax year 2012, greater than $129,900 but not more than $259,800 with the 7.99 percent tax rate applying to taxable income amounts of $259,800 or more.

Comments on Sources of Funds:

All personal income taxes are considered to be general revenues. General revenue sharing appropriations are made from general revenues.

Summary of Facts and Assumptions:

The act takes effect upon passage but the fourth personal income tax bracket provided for in the act would apply to each taxable year beginning on January 1, 2013 and thereafter. The appropriation for general revenue sharing would apply to FY 2014.

The revenue gain figures reported in the fiscal note are based on the TY 2011 personal income tax simulation executed by the Office of Revenue Analysis (ORA). In tax year 2011, a marginal tax rate of 3.75 percent was applied to the first $55,000 of taxable income, the next $70,000 of taxable income was taxed at a rate of 4.75 percent and taxable income amounts that exceeded $125,000 were taxed at a rate of

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5.99 percent. The simulation applied the proposed 7.99 percent marginal tax rate to all taxable income in excess of $250,000 for resident and non resident tax returns that were filed for tax year 2011 and compared the result of this simulation to actual TY 2011 personal income tax revenues 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 7.99 percent indicates that passage of the act would increase personal income tax revenues by 5.27 percent.

Given that the provisions of the act are for tax years beginning on or after January 1, 2013, ORA assumed 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 2013 revenues are assumed to be received in FY 2014 and TY 2014 revenues are assumed to be received in FY 2015.

Applying the 5.27 percent estimated personal income tax revenue gain to the FY 2014 estimate for personal income tax revenues of $1,129,000,000 adopted at the November 2012 Revenue Estimating Conference yields an estimated personal income tax gain of $59,498,300 for FY 2014. Similarly, for FY 2015, the 5.27 percent estimated full year impact of the act's proposed personal income tax change was applied to the Budget Office's estimate for FY 2015 personal income tax collections of $1,188,900,000 to yield a projected revenue gain of $62,655,030.

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 general revenue sharing appropriation contained in the act is $65,111,876 in FY 2014. Thus passage of the act would have a net negative fiscal impact in FY 2014 of $(5,613,576) (i.e., $58,498,300 $65,111,876). The appropriation of monies for general revenue sharing is not carried forward to FY 2015, so passage of the act would have a net positive fiscal impact of $62,655,030 in FY 2015.

The act as written appears to add a 2.0 percentage point surcharge on taxable income above $250,000 for tax years beginning on or after January 1, 2001 and ending on or before December 31, 2010. This language in the act should be stricken so as not to cause problems in administering the personal income tax or cause legal action to be taken against the state.

The Governor's FY 2014 Recommended Budget projects an ending balance of $1.4 million in FY 2014 and a deficit of $170.5 million in FY 2015. Passage of the act would put the Governor's FY 2014 recommended budget out of balance and decrease the FY 2015 projected deficit

Summary of Fiscal Impact:

FY 2013: Not applicable given the effective date in the act.

FY 2014: A net fiscal impact of $(5,613,576) is forecast. The net fiscal impact consists of $58,498,300 of increased general revenues and $65,111,876 of increased general fund appropriations.

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FY 2015: A net fiscal impact of $62,655,030 is forecast. The net fiscal impact consists solely of increased general revenues

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typo correction

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