



State Fiscal Note for Bill Number: 2014-H-7087

Date of State Budget Office Approval:

Date Requested: Tuesday, January 21, 2014

Date Due: Friday, January 31, 2014

Impact on Expenditures

FY 2014 n/a
FY 2015 n/a
FY 2016 n/a

Impact on Revenues

FY 2014 n/a
FY 2015 \$(5,008)
FY 2016 \$(5,147)

**Explanation by State
Budget Office:**

This bill would amend Rhode Island General Law Chapter 44-18 titled "Sales and Use Taxes – Liability and Computation" by adding Rhode Island General Law subsection 44-18-30(65) titled "Service animals" which would exempt grooming and boarding services provided to service, guide or companion animals in use by a blind or otherwise disable person from the sales and use tax.

Under current law, pet care services, except veterinary and laboratory testing services, as defined in North American Industrial Classification System (NAICS) code 812910 are subject to the state's sales and use tax. NAICS code 812910 defines pet care services as services provided by establishments engaged in providing pet care services, including but not limited to boarding, grooming, sitting, and training pets.

**Comments on
Sources of Funds:**

All sales and use taxes are considered to be general revenues.

**Summary of Facts
and Assumptions:**

The effective date of this bill is upon passage, but the implementation date is assumed to be July 1, 2014. For simplicity, the Office of Revenue Analysis (ORA) assumes that tax year and fiscal year revenue impacts are the same.

ORA used the gross sales receipts data from the Rhode Island Macro Sales Tax Simulation Model for Tax Year 2013 for veterinary and other services for pets. ORA estimated that 22.39 percent of this category is pet care services excluding veterinary and testing laboratory services. According to the sales tax simulation model, the total Rhode Island gross sales receipts of veterinary and other services for pets is \$76.19 million. Thus, the taxable base for pet care services (except veterinary and testing laboratories services) is \$17.06 million (i.e., \$76.19 million * 0.2239). Therefore, ORA estimated that sales tax revenue generated by all purchasers of pet care services to be \$1.19 million (i.e., \$17.06 * 0.07) in TY 2013.

According to the Rhode Island Department of Human Services, there are 12,287 blind residents within the State. According to www.guidedogs.com, there are approximately 10,000 guide dogs in use in the US and Canada currently. ORA assumed that one percent (1%) of Rhode Island's blind population would have a service dog indicating that there are currently 122 service dogs in the State is use by blind persons. ORA could not determine the number of service animals used by non-blind disabled persons. Based on a survey of local governments by ORA, it was determined that there are 31,035 licensed dogs in Rhode Island. Therefore, the

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Monday, March 03, 2014

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number of service dogs used by blind persons comprises 0.3931 percent of licensed dogs (i.e., 122 / 31,035). The percentage of service dogs out of total licensed dogs was applied to the total pet care services estimate to arrive at a TY 2013 estimate of revenue foregone of \$4,694 (i.e., $0.003931 * \$1.19$ million).

According to the November 2013 Revenue Estimating Conference, the estimated growth rate for sales and use taxes in FY 2014 is 2.86 percent. Applying this growth rate to the FY 2013 estimate of the sales tax collected from pet care services provided to service dogs used by blind persons yields an estimate of \$4,829 of sales taxes from pet care services supplied to service dogs in FY 2014 (i.e., $\$4,694 * 1.0286$). Similarly, according to the November 2013 Revenue Estimating Conference, the annual growth rate of sales and use taxes adopted for FY 2015 was 2.94 percent. Therefore, the passage of the bill would decrease tax revenue by \$5,008 (i.e.; $\$4,829 * 1.0294$) in FY 2015. For the FY 2016 fiscal impact estimate, the Budget Office's sales and use tax revenues projected growth rate (excluding the Governor's sales tax initiatives that are proposed in the FY 2015 Budget) of 3.53 percent was applied. Thus, the bill would decrease tax revenue by \$5,147 (i.e.; $\$5,008 * 1.0353$) in FY 2016.

It should be noted that pet care services (except veterinary and laboratory testing services) were included in the taxable base of sales and use tax by the Rhode Island General Assembly in the 2012 session.

The Governor's FY 2015 Recommended Budget projects a surplus of \$400,000 in FY 2015 and a deficit of \$151.1 million in FY 2016. Passage of the bill would put the Governor's FY 2015 Recommended Budget out of balance and increase the FY 2016 projected deficit.

*Summary of Fiscal
Impact:*

FY 2014: Not applicable given the assumed implementation date.

FY 2015: A revenue loss of \$5,008 is forecast.

FY 2016: A revenue loss of \$5,147 is forecast.

Budget Office Signature:



Fiscal Advisor Signature: