

**Date of State Budget Office Approval:**

**Date Requested:** Monday, February 20, 2017

**Date Due:** Thursday, March 02, 2017

<i>Impact on Expenditures</i>		<i>Impact on Revenues</i>	
FY 2017	n/a	FY 2017	n/a
FY 2018	n/a	FY 2018	\$(809,176)
FY 2019	n/a	FY 2019	\$(831,001)

*Explanation by State Budget Office:*

This bill would amend Rhode Island General Law Chapter 44-18 entitled "Sales and Use Taxes – Liability and Computation" by adding Rhode Island General Law subsection 44-18-30(65) titled "Trade-in value of motorcycles" which would provide an exemption for the trade-in value of motorcycles. Included in the definition of the trade-in value of motorcycles are "the proceeds applicable only to the motorcycle as are received from the manufacturer of motorcycles for the repurchase of the motorcycle, whether the repurchase was voluntary or not, towards the purchase of a new or used motorcycle by the buyer". Also included in the definition of the trade-in value of motorcycles are proceeds received from an insurance claim as a result of a stolen or damaged motorcycle provided that the proceeds from an insurance claim or repurchase is in lieu of the benefit described in Rhode Island General Law subsection 44-18-21(c) for the total loss or destruction of the motorcycle and provided further that the tax has not been reimbursed as part of the insurance claim or repurchase.

Currently under Rhode Island General Law subsection 44-18-30(23) titled "Trade in value of motor vehicles" an exemption is only provided from the sales and use tax for the trade-in value of a private passenger automobile not used for hire and does not refer to any other type of motor vehicle. In addition, current law allows "the proceeds applicable only to the automobile as are received from the manufacturer of automobiles for the repurchase of the automobile whether the repurchase was voluntary or not" to qualify as the trade-in allowance if said proceeds are used "towards the purchase of a new or used automobile by the buyer." Current law does not, however, allow "proceeds received from an insurance claim as a result of a stolen or damaged automobile" to qualify as the trade-in allowance if said proceeds are used towards the purchase of a new or used automobile by the buyer."

*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 bill is upon passage but the implementation date is assumed to be July 1, 2017.

To estimate the revenue loss from allowing the trade-in value of motorcycles the Department of Revenue's Office of Revenue Analysis (ORA) used the base gross sales receipts data from the Rhode Island Macro Sales Tax Simulation Model for Fiscal Year 2016 for all new and used motorcycles. According to the simulation results, total gross sales receipts for all motorcycles is \$33.301 million and total sales tax under the current law from the sales of motorcycles is \$2.331 million.

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The Rhode Island Macro Sales Tax Simulation Model assumed that 32.5 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 67.5 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 estimated the trade-in allowance for new and used motorcycles at \$10.823 million (i.e., \$33.301 million \* 0.325). Thus, passage of the bill would decrease sales tax revenue by \$757,595 (i.e.; \$10.823 million \* 0.07) in FY 2016 from allowing the trade-in allowance for new and used motorcycles.

According to the November 2016 Revenue Estimating Conference, the growth rate for sales and use taxes in FY 2017 was 4.349 percent. Applying this growth rate to the FY 2016 estimate of the sales tax collected from the trade-in value of new and used motorcycles yields an estimate of \$790,546 of sales taxes in FY 2017 (i.e., \$757,595 \* 1.04349). Similarly, according to the November 2016 Revenue Estimating Conference, the annual growth rate of sales and use tax revenues adopted for FY 2018 is 2.357 percent. Therefore, passage of the bill would decrease tax revenue by \$809,176 (i.e.; \$790,546 \* 1.02357) in FY 2018. For the FY 2019 fiscal impact estimate, the Office of Management and Budget's sales and use tax revenues projected growth rate of 2.697 percent was applied. Thus, passage of the bill is projected to decrease tax revenue by \$831,001 in FY 2019 (i.e.; \$809,176 \* 1.02697) from allowing a trade-in allowance for new and used motorcycles.

The Governor's FY 2018 Recommended Budget projects a closing surplus of \$78.0 million in FY 2017 and \$654,736 in FY 2018. Passage of this bill would have no impact on the FY 2017 closing surplus, but it would put the Governor's FY 2018 Recommended Budget out of balance and increase the projected deficit for FY 2019.

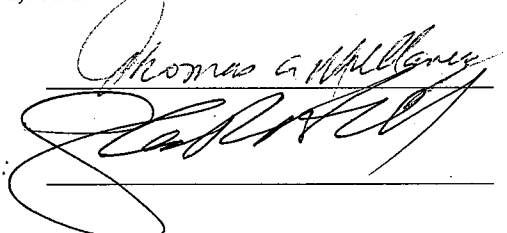
*Summary of Fiscal  
Impact:*

FY 2017: Not applicable due to the assumed implementation date of July 1, 2017.

FY 2018: A general revenue loss of \$809,176 is forecast.

FY 2019: A general revenue loss of \$831,001 is forecast.

Budget Office Signature:



Fiscal Advisor Signature: