



State Fiscal Note for Bill Number: 2017-H-5370

Date of State Budget Office Approval:

Date Requested: Wednesday, May 10, 2017

Date Due: Saturday, May 20, 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	\$(1,133,180)
FY 2019	n/a	FY 2019	\$(2,282,457)

Explanation by State Budget Office:

This bill would amend Rhode Island General Law Chapter 44-33 entitled "Property Tax Relief" by expanding the definition of "Disabled" contained in Rhode Island General Law Section 44-33-3 titled "Definitions" to include persons who receive a veterans' affairs disability benefit paid by the federal government.

Under current law, the definition of "Disabled" contained in Rhode Island General Law Section 44-33-3 means only persons who receive a Social Security disability benefit.

Comments on Sources of Funds:

All personal income taxes are considered to be general revenues.

Summary of Facts and Assumptions:

The bill takes effect upon passage and is assumed to be applicable to tax years beginning on or after January 1, 2018. Based upon the accrual methodology employed by the Office of Accounts and Controls, tax law changes that take effect in the middle of a fiscal year have a current fiscal year revenue impact equal to one-half of the succeeding fiscal year's revenue impact. The Department of Revenue's Office of Revenue Analysis (ORA) has used this accrual based methodology to provide the budgetary revenue impacts contained in this fiscal note.

The United States Department of Veterans Affairs (VA) has two programs offering veteran's disability benefits, disability compensation benefits and disability pension benefits. VA pension benefits are benefits given to low-income wartime veterans either above the age of 65 or totally and permanently disabled. Rhode Island taxpayers over the age of 65 already qualify for the property tax relief credit under this chapter and are not included in this estimate. The VA utilizes the Department of Veterans Affairs Schedule of Rating Disabilities (VASRD), which is a combined disability rating system ranging from 0 percent to 100 percent. This disability rating system is used to determine a veteran's total level of disability from one or more service-connected disabilities. A veteran with a minimum rating of 10 percent is able to receive VA disability compensation benefits and, therefore, is included in the number of Rhode Island disabled veterans less than 65 years old used in this estimate. According to the VA National Center for Veterans Analysis and Statistics, a total of 13,535 veterans living in Rhode Island received disability compensation or pension benefits from the VA in federal fiscal year (FFY) 2015. Of those 13,535 veterans, 6,462 Rhode Island veterans were below the age of 65.

VA disability compensation monthly benefit payments are based on the level of

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disability. Those veterans who are considered to be 100 percent disabled and receive benefits under the disability compensation program would receive an annual amount greater than the \$30,000 maximum annual income threshold under this chapter, which would disqualify them for this program. ORA was unable to find reliable data as to the number of veterans receiving VA disability compensation with a combined rating of 100 percent and thus, these disabled veterans may be included in this estimate.

Additionally, disability compensation monthly payments are adjusted based on the number of qualifying dependents a veteran is able to claim. Therefore, veterans with a lower disability rating, but with qualifying dependents, may receive monthly payments which yield an annual income greater than the maximum income threshold. ORA could not find reliable data as to the number of veterans with dependents receiving disability compensation monthly payments that meet this annual threshold, and therefore these disabled veterans may be included in this estimate.

Further, the VA disability compensation program is not means-tested and does not prevent an individual from earning income in addition to disability compensation, and thus this estimate includes an unknown number of veterans who may have an annual income level above the maximum annual threshold due to non-VA disability benefit income. The VA pension program is means-tested, with an annual maximum pension rate below \$30,000 except in the case of two married veterans, both receiving an aid and attendance monthly allowance. Veterans receiving disability benefits from this program, who do not have another source of income, would likely not be disqualified from the property tax relief credit based on annual level of income.

Finally, it should be noted that veterans receiving VA disability benefits are not prevented from also collecting Social Security disability benefits. Those veterans receiving Social Security disability benefits would already be eligible for the property tax relief credit. ORA could not find reliable data as to the number of veterans receiving disability benefits from both the VA and the Social Security Administration, if any, and thus these dual eligible disabled veterans may be included in this estimate. Because of the unknown number of veterans receiving both types of disability benefits and the above mentioned unknown number of veterans receiving an annual income above \$30,000, this estimate should be considered a maximum revenue loss.

Since 2007, the property relief tax credit has increased in increments of five dollars from the maximum of \$300 in 2006 based on income derived from video lottery games and will continue to do so until a maximum credit of \$500 is reached. In January 2016, the credit maximum increased from \$320 to \$335. ORA assumed no growth in the credit maximum. As a result, an estimated total of \$2,164,770 (i.e. 6,462 * \$335) would have been granted as a credit to reduce a filer's personal income tax liability or increase an individual tax filer's refund. It should be noted that the property tax relief credit is one of three Rhode Island personal income tax credits that is fully refundable up to the maximum value of the credit in any given tax year.

For FFY 2010 through FFY 2014, the number of Rhode Island resident veterans less than 65 years of age that received VA disability benefits was 6,031 in FFY 2010, 5,982 in FFY 2011, 5,947 in FFY 2012, 5,925 in FFY 2013, 6,223 in FFY 2014. ORA calculated the growth rate of the number of Rhode Island veterans less than 65 receiving VA disability benefit payments to be 0.8125 percent in FFY 2011 (i.e.; $(5,982 / 6,031) - 1$); 0.5851 percent in FFY 2012 (i.e.; $(5,947 / 5982) - 1$); 0.3699 percent in FFY 2013 (i.e.; $(5,925 / 5,947) - 1$); 5.0295 percent in FFY 2014 (i.e.; $(6,223 / 5,925) - 1$); and 3.8406 percent in FFY 2015 (i.e., $(6,462 / 6,223 - 1)$). ORA used these figures to calculate a five-year average growth rate of 1.4205 percent (i.e., $(-0.008125 + -0.005851 + -0.003699 + 0.050295 + 0.038406) / 5$).

ORA applied the five-year average growth rate of 1.4205 percent to the 6,462 Rhode Island resident veterans less than 65 years of age receiving VA disability benefits in FFY 2015 to yield an estimated total of 6,554 Rhode Island resident veterans less than 65 years of age having received VA disability benefits in FFY 2016 (i.e., $6,462 * (1 + 0.014205)$). ORA used the same methodology to yield an estimated number of Rhode Island resident veterans who will receive VA disability benefits of 6,647 in FFY 2017 (i.e., $6,554 * (1 + 0.014205)$), 6,741 in FFY 2018 (i.e., $6,647 * (1 + 0.014205)$), 6,837 in FFY 2019 (i.e., $6,741 * (1 + 0.014205)$), and 6,934 in FFY 2020 (i.e., $6,837 * (1 + 0.014205)$).

Federal fiscal years run from October 1 of a given calendar year to September 30 of the next calendar year. For example, FFY 2015 ran from October 1, 2014 to September 30, 2015. To account for this, ORA adjusted the data to reflect tax year data. The estimated number of Rhode Island veterans receiving disability benefits in TY 2018 includes three-quarters of the number of Rhode Island veterans receiving disability benefits in FFY 2018 and one-quarter of the number of Rhode Island veterans receiving disability benefits in FFY 2019 to yield 6,765 veterans (i.e., $0.75 * 6,741 + 0.25 * 6,837$). Using the same method, the estimated number of Rhode Island veterans receiving disability benefits for TY 2019 is 6,861 (i.e. $0.75 * 6,837 + 0.25 * 6,934$).

Under the proposed bill, ORA estimated that up to a total of \$2,266,360 in additional property tax relief credit would be issued for TY 2018 (i.e., $6,765 * \$335$). The comparable figure for TY 2019 is \$2,298,554 (i.e., $6,861 * \$335$).

Employing the Office of Accounts and Controls accrual methodology yields budgetary revenue losses for FY 2018 of \$1,133,180 (i.e., $0.5 * \$2,266,360$) and for FY 2019 of \$2,282,457 (i.e., $0.5 * \$2,266,360 + 0.5 * \$2,298,554$).

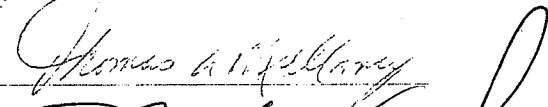
The Governor's FY 2018 Recommended Budget projects a closing surplus of \$78.0 million in FY 2017 and \$654,736 in FY 2018. Passage of this bill would have no impact on the FY 2017 closing surplus, but it would put the Governor's FY 2018 Recommended Budget out of balance and increase the FY 2019 projected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

*Summary of Fiscal
Impact:*

FY 2017: Not applicable due to the implementation date of January 1, 2018.

FY 2018: A maximum revenue loss of \$1,133,180 is forecast.

FY 2019: A maximum revenue loss of \$2,282,457 is forecast.

Budget Office Signature: 

Fiscal Advisor Signature: 