

**State Fiscal Note for Bill
Number: 2017-H-6005**

Date of State Budget Office Approval:

Date Requested: Tuesday, April 18, 2017

Date Due: Friday, April 28, 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	\$(593,200,000)
FY 2019	n/a	FY 2019	\$(609,222,925)

**Explanation by State
Budget Office:**

This act would amend Rhode Island General Law Chapter 44-18 entitled "Sales and Use Taxes – Liability and Computation" to reduce the sales tax rate to 3.0 percent effective July 1, 2017.

This bill would also amend Rhode Island General Law Section 44-18-19 entitled "Sales and Use Taxes – Collection of sales tax by retailer" to provide a bracket detailing the collection of sales tax for transaction amounts from \$0.01 to \$1.15 as follows:

\$0.01 to \$0.15 inclusive: No Tax;
 \$0.16 to \$0.49 inclusive: The tax is \$0.01;
 \$0.50 to \$0.82 inclusive: The tax is \$0.02;
 \$0.82 to \$1.15 inclusive: The tax is \$0.03;
 More than \$1.15: The amount of the tax is computed at the rate of three percent (3%).

This act would further amend Rhode Island General Law Section 44-18-20 entitled "Sales and Use Taxes – Use Tax Imposed" to reduce the use tax rate to 3.0 percent.

Under current law, sales and use taxes are assessed at a rate of 7.0 percent. Tax computation is set forth in Rhode Island General Law Section 44-18.1-25 entitled "Adoption of the Streamlined Sales and Use Tax Agreement – Rounding Rule, which provides that tax computation must be carried out to the third decimal place and be rounded to the next cent whenever the third decimal place is greater than four.

**Comments on
Sources of Funds:**

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

**Summary of Facts
and Assumptions:**

This act takes effect on July 1, 2017.

Effective January 1, 2007, Rhode Island conformed its Sales and Use Tax Law to the provisions of the Streamlined Sales and Use Tax Agreement (SSUTA). The rounding rule provided in Rhode Island General Law § 44-18.1-25 states that each state shall allow sellers to compute the tax due on a transaction. It further states that no member state of the SSUTA shall require a seller to collect tax based on a bracket system. Pursuant to the doctrine of *pari materia* and the Rule of Statutory Construction that states, if two statutes conflict, the most recently enacted statute prevails over the previously enacted statute, the sales tax collection bracket provided under Rhode Island General Law § 44-18-19 would supersede the SSUTA Rounding Rule if this

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Thursday, May 18, 2017

Page 1 of 2

bill were to pass. Passage of this bill would put Rhode Island out of compliance with the SSUTA because not all of the brackets provided under this bill were constructed in a manner consistent with the rounding rule specified by Rhode Island General Law § 44-18.1-25 and the SSUTA. A potential impact of this non-compliance is that the State will no longer receive voluntary remittances of sales and use tax revenues from remote sellers that are parties to the SSUTA. The Office of Revenue Analysis (ORA) assumed this was done in error and used the rounding rule for the estimate provided in this fiscal note. In addition, ORA recommends changing the brackets as follows:

\$0.01 to \$0.16 inclusive: No Tax
\$0.17 to \$0.49 inclusive: The tax is \$0.01
\$0.50 to \$0.83 inclusive: The tax is \$0.02
\$0.84 to \$1.16 inclusive: The tax is \$0.03
\$1.17 or more: The amount of the tax is computed at the rate of three percent (3%)

The November 2016 Revenue Estimating Conference (REC) estimate for FY 2018 sales and use tax revenues is \$1,038,100,000. ORA applied the proposed sales and use tax rate to this estimate, which resulted in a sales and use tax revenue estimate of \$444,900,000 (i.e., $(\$1,038,100,000 / 0.07) * 0.03$). Therefore, the impact of the proposed change of the sales and use tax rate on revenues is a net loss of \$593.2 million (i.e., $\$444,900,000 - \$1,038,100,000$), or a decrease of 57.14 percent (i.e., $(\$444,900,000 - \$1,038,100,000) / \$1,038,100,000$).

For FY 2019, ORA used the Office of Management and Budget's sales and use tax projected growth rate of 2.7011 percent. Applying this growth rate to the full-year FY 2018 sales and use tax estimate adopted at the November 2016 REC of \$1,038,100,000 yields an estimated sales and use tax revenue of \$1,066,140,119 in FY 2019 (i.e., $\$1,038,100,000 * (1 + 0.027011)$). Lowering the sales and use tax rate to 3.0 percent is estimated to reduce revenues by \$609,222,925 (i.e. $\$1,066,140,119 - (\$1,066,140,119 / 7 * 3)$).

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.

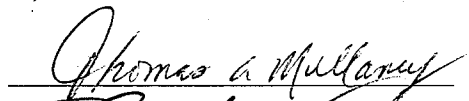
*Summary of Fiscal
Impact:*

FY 2017: Not applicable given the effective date of July 1, 2017.

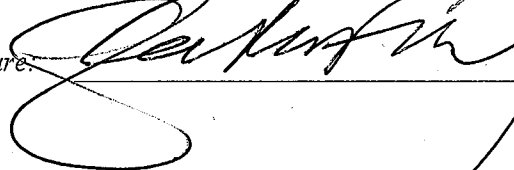
FY 2018: A general revenue loss of \$593,200,000 is forecast.

FY 2019: A general revenue loss of \$609,222,925 is forecast.

Budget Office Signature:



Fiscal Advisor Signature:



House Fiscal Advisor Comments H 6005:

In response to a subsequent request, the following table shows what the impact of this legislation would be if the revenue losses were phased in over four years.

2017-H 6005 - with 4-year phase in					
Sales Tax Rate	Effective	FY 2018	FY 2019	FY 2020	FY 2021
3.0%	Jul-17	\$ (593,200,000)	\$ (609,222,925)	\$ (625,678,646)	\$ (642,578,852)
6.0%	Jul-17	(148,300,000)	(152,305,731)	(156,419,661)	(160,644,713)
5.0%	Jul-18	-	(152,305,731)	(156,419,661)	(160,644,713)
4.0%	Jul-19	-	-	(156,419,661)	(160,644,713)
3.0%	Jul-20	-	-	-	(160,644,713)
Total Fiscal Impact		\$ (148,300,000)	\$ (304,611,463)	\$ (469,258,984)	\$ (642,578,852)
<i>Difference from 100%</i>		<i>\$ 444,900,000</i>	<i>\$ 304,611,463</i>	<i>\$ 156,419,661</i>	<i>\$ -</i>

