

**State Fiscal Note for Bill
Number: 2018-H-7055**

Date of State Budget Office Approval:
Date Requested: Monday, March 05, 2018
Date Due: Thursday, March 15, 2018

*Requested on Feb 1, 2018
 Resent on March 5 when Budget Office reported it was not received*
SD

| Impact on Expenditures | | Impact on Revenues | |
|------------------------|-----|--------------------|---------------|
| FY 2018 | n/a | FY 2018 | \$(1,750,000) |
| FY 2019 | n/a | FY 2019 | \$(3,875,000) |
| FY 2020 | n/a | FY 2020 | \$(4,250,000) |

Explanation by State Budget Office:

This bill would amend Rhode Island General Laws Chapter 44-62, entitled "Tax Credits for Contributions to Scholarship Organizations" to increase the total aggregate amount of tax credits approved to not exceed \$5,000,000 effective in FY 2019 found in Rhode Island General Laws Section 44-62-3(b) titled "Application for the tax credit program." Further, this amendment provides a methodology by which future amounts of the tax credits made available will be increased depending on the demand for the tax credits. In addition, the bill amends Rhode Island General Laws Section 44-62-3 by adding to it subsection (f) which prioritizes the approval process such that approval will be given "first to applications for the continued participation of eligible students already attending qualified schools through the scholarship program." Finally, the bill amends Rhode Island General Laws Section 44-62-6, titled "Definitions", by adding there to the term "eligible business entity" which is defined as "any business entity whose application to make a contribution to the program created by this section would be approved if said approval would not exceed the limit described in §44-62-3(b)."

Under current law, the total aggregate amount of tax credits that can be approved under the Contributions to Scholarship Organizations program is capped at a fixed \$1,500,000 in a fiscal year. There is no designated priority of approval for applicants to the program. Finally, the term "business entity" is defined in the statute as "an entity authorized to do business in this state and subject to 16 taxes imposed under chapters 44-11, 44-13, 44-14, 44-15 and 44-17" and includes subchapter S corporations, limited liability companies, and limited liability partnerships

Comments on Sources of Funds:

All business corporation tax, public utilities gross earnings tax, financial institutions tax, insurance company gross premiums tax and personal income tax revenues are considered to be general revenues.

Summary of Facts and Assumptions:

This bill takes effect upon passage but the increase in the aggregate amount of tax credits for contributions to scholarship organizations does not take effect until July 1, 2018. The Office of Revenue Analysis (ORA) assumed it would be applicable to tax year 2018 and thereafter. 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 Office of Revenue Analysis has used this accrual based methodology to provide the budgetary revenue impacts contained in this fiscal note.

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According to the Department of Revenue's Division of Taxation, the tax credits for contributions to scholarship organizations program is oversubscribed on an annual basis. This means that the amount of tax credits that business entities want to receive for their contributions to scholarship organizations is greater than the \$1,500,000 cap placed on the program. The Division of Taxation indicates that in FY 2018, business entities applied for between \$6,000,000 and \$7,000,000 of tax credits for contributions made to scholarship organizations. It should be noted that multiple business entities controlled by the same individual or shareholders made applications to the program with the tax credits requested exceeding the program's limit of \$100,000 per taxpayer. Thus, it is likely that there is substantive double counting of actual tax credits demanded by applicants and that the current program may not be oversubscribed to the extent indicated.

For simplicity, the Department of Revenue's Office of Revenue Analysis (ORA) assumed that for TY 2018 the demand for tax credits for contributions to scholarship organizations would total \$5.0 million, or \$3.5 million more than allowed under current law. For TY 2019, ORA assumed that the demand for tax credits in TY 2018 exceeded the available amount of tax credits by 10 percent which according to the bill increases the aggregate amount of tax credits available by 15 percent in TY 2019. Thus, for TY 2019, it is assumed that the aggregate amount of tax credits available are \$5.75 million vs. the \$1.5 million allowed under current law yielding a net increase in available tax credits for contributions to scholarship organizations of \$4.25 million. ORA then assumed that this increase in the aggregate amount if tax credits available was enough to meet the demand for tax credits and, as a result, the aggregate amount of tax credits available in TY 2020 was held constant at \$5.75 million. This means that the increase in available credits in TY 2020 is also \$4.25 million more than allowed under current law.

Employing the Office of Accounts and Controls accrual methodology yields budgetary revenue losses for FY 2018 of \$1,750,000 (i.e., $0.5 * \$3,500,000$), for FY 2019 of \$3,875,000 (i.e., $0.5 * \$3,500,000 + 0.5 * \$4,250,000$) and FY 2020 of \$4,250,000 (i.e., $0.5 * \$4,250,000 + 0.5 * \$4,250,000$).

The Governor's FY 2019 Recommended Budget projects a closing surplus of \$268,461 in FY 2018 and \$887,503 in FY 2019. Passage of this bill would put the Governor's FY 2018 and FY 2019 Recommended Budget out of balance and increase the projected deficit for FY 2020.

Summary of Fiscal
Impact:

FY 2018: A revenue loss of \$1,750,000 is forecast.

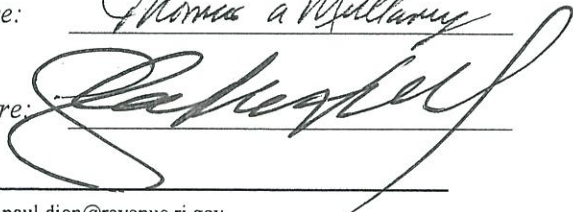
FY 2019: A revenue loss of \$3,875,000 is forecast.

FY 2020: A revenue loss of \$4,250,000 is forecast.

Budget Office Signature:



Fiscal Advisor Signature:



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