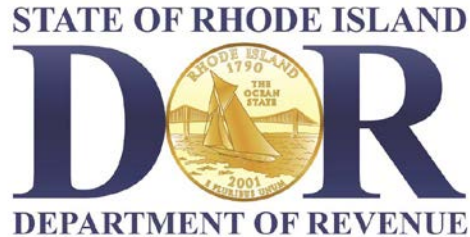


STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
GOVERNOR GINA M. RAIMONDO



Office of Revenue Analysis

State of Rhode Island Revenue Assessment Report  
Monthly and Year-to-Date FY 2019 as of January 2019

The monthly revenue assessment report compares adjusted revenues, on a monthly and fiscal year-to-date basis, to the Office of Revenue Analysis' monthly and fiscal year-to-date estimates of expected revenues based on the current fiscal year revenue estimates. It should be noted that the fiscal year revenue estimates will vary over the course of the fiscal year as the Revenue Estimating Conference (REC) (see Rhode Island General Laws § 35-16-1 et seq.) convenes and modifies the fiscal year revenue estimates as enacted by the General Assembly.

*The purpose of the Revenue Assessment Report is to give readers a sense of how the state's general revenues compare to those that might be expected if the official revenue estimates were being met in a predictable way. Caution should be exercised when interpreting this report as actual revenues may vary significantly from historical patterns. In addition, it is important for the reader to understand that enacted and adopted revenue estimates are made on an accrual basis, not a cash basis. Revenue accruals are not determined until at least one month after the fiscal year-end in June. Thus, even if the assessment of actual fiscal year-to-date revenues trails the fiscal year-to-date revenue estimates, it is possible for the fiscal year-end accrual to make up any shortfall.*

The January monthly revenue assessment report compares adjusted revenues to expected revenues based on the revised revenue estimates adopted at the November 2018 REC. The November 2018 REC revised revenue estimates will remain the basis of comparison for all Revenue Assessment Reports through the April 2019 report. For the May 2019 Revenue Assessment Report, the basis of comparison will be revenue estimates adopted at the May 2019 REC. There is no Revenue Assessment Report issued for the month of June. Instead, a Special Report on Preliminary Revenues for FY 2019 is prepared and issued in September.

**STATE OF RHODE ISLAND REVENUE ASSESSMENT REPORT**  
**Year-to-Date Estimate to Actual**

	YTD January Adjusted Revenues FY 2019		YTD January Estimate of Revised FY 2019 Revenues †		Difference	Variance
<b>Personal Income Tax †</b>	\$ 818,603,792	a, b	\$ 849,260,159		\$ (30,656,367)	-3.6%
<b>General Business Taxes</b>						
Business Corporation †	86,656,264	a, c, d	79,014,980		7,641,284	9.7%
Public Utilities Gross Earnings	45,069,002		49,598,772		(4,529,770)	-9.1%
Financial Institutions	3,321,000	c	8,941,222		(5,620,222)	-62.9%
Insurance Company †	44,295,830	d	55,250,115		(10,954,285)	-19.8%
Bank Deposits	1,372,393		1,186,219		186,174	15.7%
Health Care Provider Assessment	25,948,218		29,329,850		(3,381,632)	-11.5%
<b>Excise Taxes</b>						
Sales and Use †	676,430,300	e	671,232,654		5,197,646	0.8%
Motor Vehicle License and Reg Fees †	582,890	f	986,436		(403,546)	-40.9%
Cigarettes	85,608,057		83,059,660		2,548,397	3.1%
Alcohol	12,534,107		12,536,129		(2,022)	0.0%
Controlled Substances	3,000		-	∴	3,000	n/a
<b>Other Taxes</b>						
Estate and Transfer	27,169,970	g	20,180,009		6,989,961	34.6%
Racing and Athletics	619,478		611,061		8,417	1.4%
Realty Transfer	9,988,637	h, i	10,486,568		(497,931)	-4.7%
<b>Total Taxes</b>	<b>\$ 1,838,202,937</b>		<b>\$ 1,871,673,833</b>		<b>\$ (33,470,896)</b>	<b>-1.8%</b>
<b>Departmental Receipts †</b>	\$ 128,745,535	j, k, l	\$ 118,419,216		\$ 10,326,319	8.7%
<b>Taxes and Departmentals</b>	<b>\$ 1,966,948,472</b>		<b>\$ 1,990,093,049</b>		<b>\$ (23,144,577)</b>	<b>-1.2%</b>
<b>Other General Revenue Sources</b>						
Other Miscellaneous Revenues	849,764		849,764	+	-	0.0%
Lottery Transfer †	195,790,432	m	192,314,188		3,476,244	1.8%
Unclaimed Property	-		-	+	-	n/a
<b>Total Other Sources</b>	<b>\$ 196,640,196</b>		<b>\$ 193,163,952</b>		<b>\$ 3,476,244</b>	<b>1.8%</b>
<b>Total General Revenues</b>	<b>\$ 2,163,588,668</b>		<b>\$ 2,183,257,001</b>		<b>\$ (19,668,333)</b>	<b>-0.9%</b>

PIT Component	YTD January Adj. Revenues		YTD January Revised Estimates		Difference	Variance
Estimated payments	\$ 136,271,767		\$ 163,870,058		\$ (27,598,292)	-16.8%
Final payments †	40,290,269		31,989,412		8,300,856	25.9%
Withholding	702,759,062	b	706,773,863		(4,014,802)	-0.6%
Refunds and Adjustments	(60,717,305)	a	(53,373,175)		(7,344,130)	13.8%
<b>Total</b>	<b>\$ 818,603,792</b>		<b>\$ 849,260,159</b>		<b>\$ (30,656,367)</b>	<b>-3.6%</b>

† Revised FY 2019 estimated revenues for personal income tax final payments, business corporation tax, insurance company gross premium tax, sales and use tax, motor vehicle license and registration fees, departmental receipts, and the lottery transfer are calculated using modified revenue flows to align expected revenues with the actual realization of revenues.

∴ The estimate for controlled substances was set at zero for FY 2019.

+ Set equal to actual amounts received.

*Detailed notes on the following page*

**STATE OF RHODE ISLAND REVENUE ASSESSMENT REPORT**  
**Year-to-Date Estimate to Actual**

- <sup>a</sup> Subtracts \$3.5 million from personal income tax refunds and adjustments and adds \$3.5 million to business corporation tax for transfers between business corporation tax and personal income tax in FY 2019 year-to-date. These revenues were originally received in FY 2017 - FY 2018.
- <sup>b</sup> Personal income tax withholding payments include large payment(s) of \$5.8 million received in January 2019.
- <sup>c</sup> Adds \$3.0 million to business corporation tax and subtracts \$3.0 million from financial institutions tax for transfers from business corporation tax to financial institutions tax in year-to-date FY 2019. Original payments were received in FY 2016 - FY 2018.
- <sup>d</sup> Adds \$164,000 to business corporation tax and subtracts \$164,000 from insurance company gross premiums tax for transfers from business corporation tax to insurance company gross premiums tax in December 2018. These revenues were originally received in March 2017.
- <sup>e</sup> Subtracts \$535,423 from sales and use tax for transfer(s) from meals and beverage tax in October 2018 due to prior period audit(s).
- <sup>f</sup> Subtracts \$36,189 to reconcile actual duplicate license and license update fees with posted duplicate license and license update fees for FY 2019.
- <sup>g</sup> Includes \$5.1 million for large, infrequently occurring estate and transfer tax payment(s) received in November 2018.
- <sup>h</sup> Adds \$27,164 in realty transfer tax revenues that are designated for the Housing Resources Commission. The amount reflects the difference between the June 2018 transfer that occurred in July 2018 and the January 2019 transfer that will occur in February 2019.
- <sup>i</sup> Includes large payment(s) of \$1.6 million received in August 2018.
- <sup>j</sup> Subtracts \$171,243,414 of hospital licensing fee payments received in year-to-date FY 2019 but accrued back to FY 2018.
- <sup>k</sup> Adds \$537,270 for a payment to the City of Providence for the city's share of the Wexford Innovation Center building permit fees that was made in August 2018 but accrued back to FY 2018.
- <sup>l</sup> Adds \$9.1 million for early payment(s) posted to securities license fees in December 2018 but were expected to have been posted in January 2019.
- <sup>m</sup> Subtracts \$27,171,427 from the lottery transfer. This amount reflects the difference between the cash payments made by the Division of Lottery in July through January 2019 and the lottery activity in July 2018 through December 2018.

**STATE OF RHODE ISLAND REVENUE ASSESSMENT REPORT**  
**Monthly Estimate to Actual**

	January Adjusted Revenues FY 2019		January Estimate of Revised FY 2019 Revenues †		Difference	Variance
<b>Personal Income Tax †</b>	\$ 156,579,653	a	\$ 158,454,213		\$ (1,874,560)	-1.2%
<b>General Business Taxes</b>						
Business Corporation †	6,958,826		4,734,469		2,224,357	47.0%
Public Utilities Gross Earnings	422,397		934,145		(511,748)	-54.8%
Financial Institutions	215,320		588,117		(372,797)	-63.4%
Insurance Company †	209,209		536,751		(327,542)	-61.0%
Bank Deposits	598		-		598	n/a
Health Care Provider Assessment	3,864,591		4,795,534		(930,943)	-19.4%
<b>Excise Taxes</b>						
Sales and Use †	104,656,450		100,350,441		4,306,009	4.3%
Motor Vehicle License and Reg Fees †	78,375		403,070		(324,695)	0.0%
Cigarettes	12,053,082		10,784,315		1,268,767	11.8%
Alcohol	2,080,584		1,755,490		325,094	18.5%
Controlled Substances	-		-	⋮	-	n/a
<b>Other Taxes</b>						
Estate and Transfer	2,079,864		1,680,323		399,541	23.8%
Racing and Athletics	107,754		80,300		27,454	34.2%
Realty Transfer	1,077,351	b	1,500,627		(423,276)	-28.2%
<b>Total Taxes</b>	<b>\$ 290,384,054</b>		<b>\$ 286,597,795</b>		<b>\$ 3,786,259</b>	<b>1.3%</b>
<b>Departmental Receipts †</b>	<b>\$ 35,060,854</b>	c, d, e	<b>\$ 28,942,530</b>		<b>\$ 6,118,324</b>	<b>21.1%</b>
<b>Taxes and Departmentals</b>	<b>\$ 325,444,908</b>		<b>\$ 315,540,325</b>		<b>\$ 9,904,583</b>	<b>3.1%</b>
<b>Other General Revenue Sources</b>						
Other Miscellaneous Revenues	82,150	+	82,150	+	-	0.0%
Lottery Transfer †	33,652,084		32,295,843		1,356,241	4.2%
Unclaimed Property	-	+	-	+	-	n/a
<b>Total Other Sources</b>	<b>\$ 33,734,234</b>		<b>\$ 32,377,993</b>		<b>\$ 1,356,241</b>	<b>4.2%</b>
<b>Total General Revenues</b>	<b>\$ 359,179,142</b>		<b>\$ 347,918,318</b>		<b>\$ 11,260,824</b>	<b>3.2%</b>

<b>PIT Component</b>	January Adj. Revenues		January Revised Estimates		Difference	Variance
Estimated payments	\$ 52,430,260		\$ 58,603,063		\$ (6,172,803)	-10.5%
Final payments †	4,279,239		3,667,053		612,186	16.7%
Withholding	110,681,863	a	106,594,207		4,087,656	3.8%
Refunds and Adjustments	(10,811,708)		(10,410,109)		(401,599)	3.9%
<b>Total</b>	<b>\$ 156,579,653</b>		<b>\$ 158,454,213</b>		<b>\$ (1,874,560)</b>	<b>-1.2%</b>

† Revised FY 2019 estimated revenues for personal income tax final payments, business corporation tax, insurance company gross premium tax, sales and use tax, motor vehicle license and registration fees, departmental receipts, and the lottery transfer are calculated using modified revenue flows to align expected revenues with the actual realization of revenues.

⋮ The estimate for controlled substances was set at zero for FY 2019.

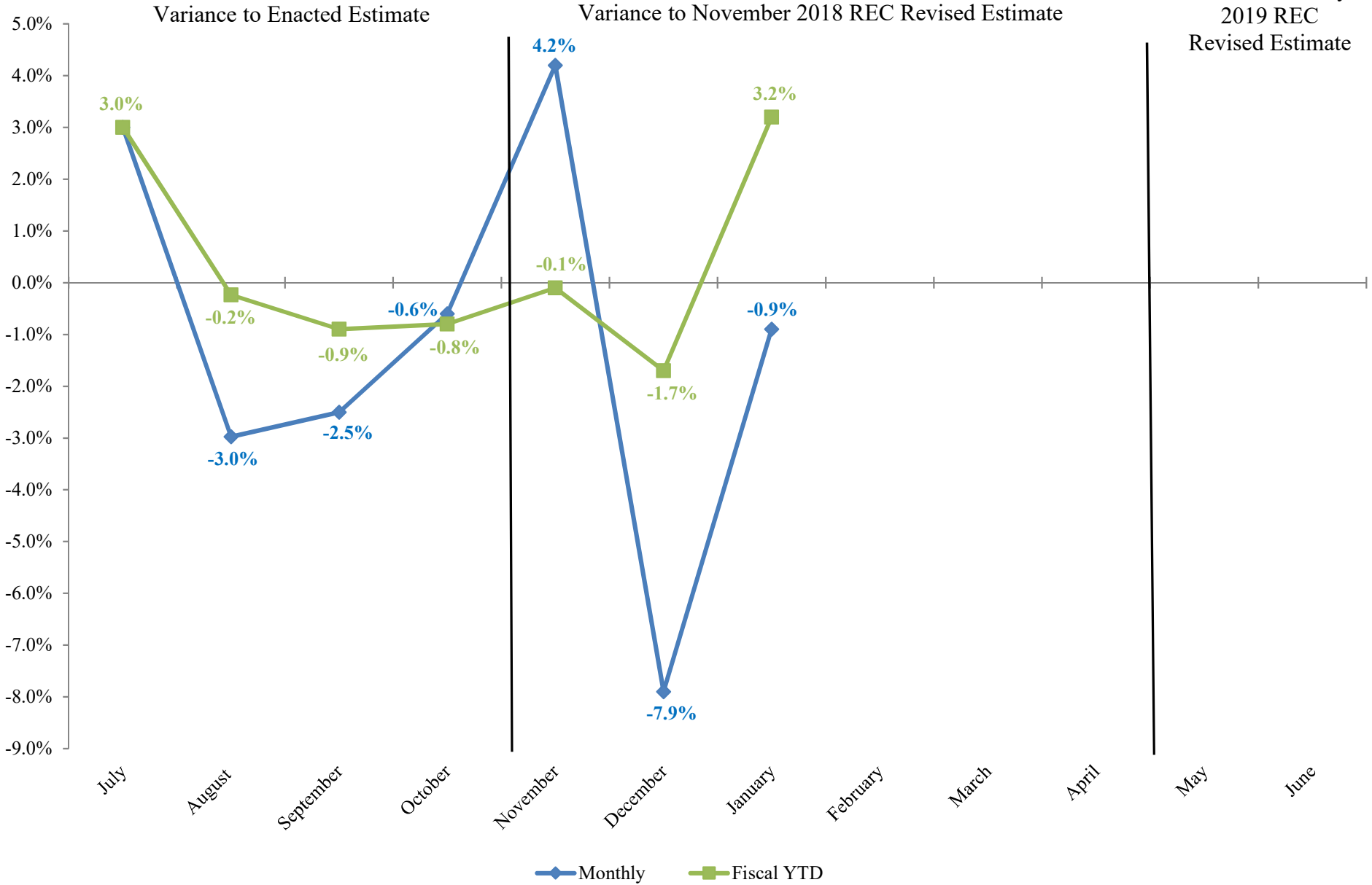
+ Set equal to actual amounts received.

*Detailed notes on the following page*

**STATE OF RHODE ISLAND REVENUE ASSESSMENT REPORT**  
**Monthly Estimate to Actual**

- <sup>a</sup> Personal income tax withholding payments include large payment(s) of \$5.8 million.
- <sup>b</sup> Adds \$99,110 in realty transfer tax revenues that are designated for the Housing Resources Commission. The amount reflects the difference between the December 2018 transfer that occurred in January 2019 and the January 2019 transfer that will occur in February 2019.
- <sup>c</sup> Subtracts \$767,251 of hospital licensing fee payments received in January 2019 but accrued back to FY 2018.
- <sup>d</sup> Adds \$9.1 million for early payment(s) posted to securities license fees in December 2018 but were expected to have been posted in January 2019.
- <sup>e</sup> Adds \$290,284 for a deposit to child support enforcement collections for payment(s) posted in February 2019 that should have been posted in January 2019.

## FY 2019 Variance of Adjusted Revenues to Estimate



## **Law Changes Enacted in the 2018 Session That Impact General Revenues**

In the 2018 session, and earlier sessions, the General Assembly enacted several changes to the state's general laws that impact general revenues. These changes can be categorized as follows: (1) changes that reclassify revenues that were previously considered to be general revenues to other funds; and (2) changes that impact FY 2019 general revenues that will be realized through monthly revenue flows. Those changes in state law that impact monthly revenue flows will generally exhibit seasonality in the receipt of the revenue. The Office of Revenue Analysis (ORA) attempts to model the seasonality in such revenue flows in order to better align the expected receipt of revenues with the actual receipt of revenues. A more specific discussion of these items is provided in the appendix to this report.

## **Estimate of Revised FY 2019 Revenues**

In order to determine the expected monthly and fiscal year-to-date revenues, ORA first calculates the average percentage of total adjusted revenues that occurred in a given month over the previous five fiscal years for each revenue item.<sup>1</sup> For business corporation tax, public utilities gross earnings tax, financial institutions tax, insurance company gross premiums tax, and bank deposits tax revenues, ORA used adjusted FY 2018 percentages to account for the change in the estimated payments schedule for these tax types.<sup>2</sup> For monthly revenues, these percentages are applied to the revised FY 2019 revenue estimate for each revenue item that was adopted at the November 2018 Revenue Estimating Conference (REC). For the fiscal year-to-date revenues, the monthly

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<sup>1</sup> The previous five fiscal years are FY 2014 through FY 2018. In the case of personal income tax refunds and adjustments revenues, FY 2012 through FY 2015 and FY 2018 were used in computing the five-fiscal year average percentage. These fiscal years were selected due to the impact on refund processing in FY 2016 and FY 2017 that resulted from the implementation of the new personal income tax system by the Division of Taxation.

<sup>2</sup> Prior to tax year 2018, these taxpayers paid 100 percent of their projected tax year liability by the sixth month of their tax year. For taxpayers with a tax year that coincided with the calendar year, this meant that 100 percent of their projected tax liability had to be paid by June of the calendar year which was the end of the state fiscal year. As a result, revenue deferrals were posted against these tax types as part of the accrual process effectively pushing one-half of the estimated payments received by the state into the following fiscal year.

Effective for tax year 2018 and beyond, these same taxpayers now pay 50 percent of their projected tax year liability by the sixth month of their tax year. As a result of this change, in FY 2018, the state received significantly less in estimated payments from these taxpayers with the expectation that additional estimated payments will be made in the ninth and twelfth months of their tax year (for a calendar year taxpayer, the ninth and twelfth months of their tax year is September and December). Although the state received less in estimated payments in FY 2018 for these tax types than in previous fiscal years, the reversal of the FY 2017 revenue deferral resulted in comparable total revenue amounts being realized in FY 2018 vis-à-vis FY 2017.

To model the expected receipt of additional estimated payments from these taxpayers in the ninth and twelfth months of their tax year, ORA used the actual revenues received in each month of FY 2018 as a percentage of the total revenues received in FY 2018. This yielded monthly percentages that did not sum to 100 percent as actual revenues received in FY 2018 were less than total revenues realized due to the reversal of FY 2017 revenue deferrals. ORA then subtracted the sum of these monthly percentages from 100 percent and allocated the remaining percentage across September and December to approximate the receipt of the remaining 50 percent of estimated payments due from these taxpayers.

percentages are summed and then applied to the revised FY 2019 revenue estimate for each revenue item. For other miscellaneous revenues, the actual fiscal year-to-date revenues are used in place of an estimate due to the discrete and unpredictable nature in the timing of these receipts.

Table A provides the rounded five-year or ten-year, in the case of estate and transfer tax revenues, average percentages used to determine expected monthly and fiscal year-to-date revenues for January.<sup>3</sup> It should be noted that ORA has made adjustments to these percentages based on the estimated flow of revenues that result from the changes in law enacted by the 2018 General Assembly and included as part of the revenue estimates adopted at the November 2018 REC.<sup>4</sup>

Revenue Item	Percent Received		Revenue Item	Percent Received	
	Jan.	YTD		Jan.	YTD
Personal Income Taxes			Sales and Use Taxes	9.0 %	60.4 %
Estimated Payments	22.4 %	62.5 %	Motor Vehicles Fees	12.9 %	31.5 %
Final Payments	1.7 %	14.7 %	Cigarettes Taxes	7.8 %	59.8 %
Withholding Payments	8.6 %	56.9 %	Alcohol Excise Taxes	8.5 %	60.6 %
Refunds/Adjustments	3.0 %	15.3 %	Estate and Transfer	5.2 %	62.1 %
Business Corporation Taxes	3.1 %	51.4 %	Racing and Athletics	7.3 %	55.6 %
Utilities Gross Earnings Taxes	0.9 %	49.2 %	Realty Transfer	9.0 %	62.8 %
Financial Institutions Taxes	2.5 %	38.4 %	Departmental Receipts	12.9 %	52.8 %
Insurance Co. Gross Premiums	0.4 %	43.4 %	Lottery Transfer	8.1 %	48.1 %
Bank Deposits	0.0 %	39.5 %	Other Misc. Revenues	n/a	n/a
Health Care Provider Assessment	9.2 %	56.4 %	Unclaimed Property	0.0 %	0.0 %

The health care provider assessment consists of an assessment on nursing homes. Motor vehicle fees are comprised of fees paid to issue updated or duplicate operators' licenses. Racing and athletics taxes consist of a tax on wagers placed on out-of-state greyhound and horse races that are broadcast to Rhode Island via closed circuit television. The "Percent Received" for monthly and year-to-date departmental receipts is calculated excluding hospital licensing fee revenues, which are large and generally received once in the fiscal year. Finally, the lottery transfer does not begin in a given fiscal year until August, while the unclaimed property transfer occurs only in June of each fiscal year.

<sup>3</sup> As noted previously, adjusted FY 2018 percentages were used for business corporation tax, public utilities gross earnings tax, financial institutions tax, insurance company gross premiums tax, and bank deposits tax revenues due to the change in the estimated payments schedule for tax year 2018 and beyond.

<sup>4</sup> The passage of the federal Tax Cuts and Jobs Act of 2017 (TCJA) has also impacted the flow of revenues for personal income tax final payments and business corporation tax revenues. ORA has made distinct adjustments to these revenue items to capture the flow of revenues due to the TCJA.



Due to the unusual characteristics of the enacted FY 2019 legislative changes that were included in the estimates adopted at the November 2018 REC for personal income tax final payments, business corporation tax, insurance company gross premiums tax, sales and use tax, motor vehicle license and registration fees, departmental receipts and the lottery transfer, ORA had to adjust the revenue bases against which FY 2019 adjusted revenues would be assessed for these revenue items. As a result, ORA will use modified revenue flows for expected FY 2019 revenues for these revenue items to gauge the sufficiency of adjusted FY 2019 revenues in meeting estimated revenues. The footnotes to Table B detail the breakdown of modified revenue flows and accruals for each of these revenue items.

The revised FY 2019 estimates by revenue item as adopted at the November 2018 REC are as follows:

<b>Table B. FY 2019 Revised Revenue Estimates by Major Revenue Item</b>			
<b>Revenue Item</b>	<b>Nov. 2018 Revised FY 2019 Estimate</b>	<b>Revenue Item</b>	<b>Nov. 2018 Revised FY 2019 Estimate</b>
Personal Income Taxes		Sales and Use Taxes <sup>e</sup>	\$ 1,111,000,000
Estimated Payments	\$ 262,200,000	Motor Vehicles Fees <sup>f</sup>	3,100,000
Final Payments <sup>a</sup>	217,400,000	Cigarettes Taxes	139,000,000
Withholding Payments	1,241,600,000	Alcohol Excise Taxes	20,700,000
Refunds/Adjustments	(348,200,000)	Estate and Transfer	34,500,000
Business Corporation Taxes <sup>b</sup>	154,700,000	Racing and Athletics	1,100,000
Public Utilities Gross Earnings	100,800,000	Realty Transfer	16,700,000
Financial Institutions Taxes	23,300,000	Departmental Receipts <sup>g</sup>	405,000,000
Insurance Co. Gross Premiums <sup>c</sup>	126,100,000	Lottery <sup>h</sup>	399,600,000
Bank Deposits	3,000,000	Other Misc. Revenues	11,700,000
Health Care Provider Assessment <sup>d</sup>	52,000,000	Unclaimed Property	10,100,000
		<b>Total General Revenues *</b>	<b>\$ 3,993,100,000</b>
* Total general revenues estimate includes a personal income tax net accrual of \$7,700,000.			

*Notes to Table B:*

<sup>a</sup> Personal income tax final payments revenues revised estimate includes an estimated revenue impact of \$4,392,630 from the addition of 22 new FTEs to the Division of Taxation. The realization of this law change will not impact FY 2019 revenue flows until January 2019 through June 2019. The revised FY 2019 personal income tax final payments revenues revised estimate also includes \$2,876,200 in repatriation revenues from the Tax Cuts and Jobs Act of 2017 (TCJA). The realization of these revenues is expected to occur unevenly in March 2019 through June 2019. Additionally, \$463,360 of other TCJA-related personal income tax final payments are estimated to occur in FY 2019 in accordance to the general flow of revenues for this revenue item. For the period from July 2018 through December 2018, FY 2019 personal income tax final payments revenues will be assessed against a “base” FY 2019 revised revenue estimate of \$210,131,170. For the period from January 2019 through February 2019, FY 2019 personal income tax final payments revenues will be assessed against a “base” FY 2019 revised revenue estimate

of \$214,523,800. Finally, for the period from March 2019 through June 2019, adjusted FY 2019 personal income tax final payments revenues will be assessed against a revised base of \$217,400,000.

- <sup>b</sup> Business corporation tax revenues revised estimate of \$154,700,000 includes \$17,370,000 in repatriation revenues from the TCJA. The realization of these revenues is estimated to occur unevenly in July 2018 through December 2018. Additionally, \$1,959,040 of other TCJA-related business corporation tax revenues are estimated to occur in FY 2019 in accordance to the general flow of revenues for this revenue item. The revised estimate also includes \$5,870,724 of revenues from the transfer pricing audit project that is estimated to be realized from July 2018 through June 2019. The business corporation tax revenues revised estimate also includes a projected revenue impact of \$1,142,100 from the addition of 22 new FTEs to the Division of Taxation and an estimated revenue impact of \$450,000 from the repeal of the Jobs Training Tax Credit. Both of these items are expected to have a revenue impact from January 2019 through June 2019. As a result, ORA will assess adjusted FY 2019 revenues against a “base” FY 2019 revised revenue estimate of \$153,107,900 for July 2018 through December 2018 and a “base” revised revenue estimate of \$137,330,000 for January 2019 through June 2019. These “bases” will be used instead of the revised estimate.
- <sup>c</sup> Insurance company gross premiums tax revenues revised estimate includes an estimated revenue impact of \$(3,260,047) from the redesign of the dual eligible Medicare/Medicaid program. The realization of these revenues is expected to occur in October 2018 through June 2019. The insurance company gross premiums tax revenues revised estimate also includes a budgetary impact of \$(45,897) from a nursing home revenue maximization initiative. The realization of these revenues is expected to occur in January 2019 through June 2019. Additionally, the insurance company gross premiums tax revenues revised estimate includes \$(110,278) from a reduction in the managed care administrative component, \$(530,927) from a reduction in the managed care medical component, \$47,228 from a 1.5 percent increase in the rate paid to nursing homes, and \$(62,000) from the reallocation of Perry Sullivan funds. These revenue impacts are expected to occur in FY 2019 in accordance to the general flow of revenues for this revenue item. As a result, ORA will assess adjusted FY 2019 insurance company gross premiums tax revenue flows against revised “base” insurance company gross premiums tax revenues of \$129,405,944 for July 2018 through September 2018, \$126,145,897 for October 2018 through December 2018, and \$126,100,000 for January 2019 through June 2019.
- <sup>d</sup> Health care provider assessment revenues revised estimate includes an estimated revenue impact of \$6,770,600 from the redesign of the dual eligible Medicare/Medicaid program and \$(254,307) from the Rhody Health Options program redesign. The realization of these revenues is expected to occur in October 2018 through June 2019. The health care provider assessment revenues revised estimate also includes a budgetary impact of \$26,642 from an initiative to modernize long-term care services and supports (LTSS) eligibility rules. The realization of these revenues is estimated to occur in January 2019 through June 2019. Additionally, the health care provider assessment revenues revised estimate includes \$194,815 from a 1.5 percent increase in the rate paid to nursing homes. These revenues are estimated to occur in FY 2019 in accordance to the general flow of revenues for this revenue item. As a result, ORA will assess adjusted FY 2019 health care provider assessment revenue flows against revised “base” health care provider assessment revenues of \$45,457,065 for July 2018 through September 2018, \$51,973,358 for October 2018 through December 2018, and \$52,000,000 for January 2019 through June 2019.
- <sup>e</sup> Sales and use tax revenues revised estimate of \$1,111,000,000 includes an estimated revenue impact of \$248,157 from allowing residents of Connecticut and Massachusetts that are medical marijuana cardholders to buy medical marijuana at Rhode Island compassion centers. The realization of this revenue item is expected to occur unevenly in July 2018 through June 2019. The revised estimate also includes a sales and use tax exemption for the sale of empty kegs to producers who fill the kegs with alcoholic beverages. The estimated revenue impact for this budgetary item is \$(15,000), and forgone revenues are estimated to occur in FY 2019 in accordance to the general flow of revenues for this revenue item. The

revised FY 2019 sales and use tax revenues estimate includes \$9,715,473 in revenues from the expansion of sales and use taxes on services to security and investigative services. The realization of these revenues is estimated to occur unevenly in August 2018 through June 2019. The sales and use tax expansion also extends to software as a service (SaaS). Revenues from this item are estimated to be \$4,819,500 and to occur unevenly in November 2018 through June 2019. Finally, the revised sales and use tax estimate includes a projected revenue impact of \$4,371,300 from the addition of 22 new FTEs to the Division of Taxation. The realization of this law change will not impact FY 2019 revenue flows until January 2019 through June 2019. As a result, ORA will assess adjusted FY 2019 sales and use tax revenue flows against revised “base” sales and use tax revenues of \$1,092,093,727 for July 2018, \$1,101,809,200 for August 2018 through October 2018, \$1,106,628,700 for November 2018 through December 2018, and \$1,111,000,000 for January 2019 through June 2019.

<sup>f</sup> Motor vehicle license and registration fees revised estimate of \$3,100,000 includes a budgetary impact of \$506,450 for retaining as general revenues duplicate license fees at an increased rate of \$25 per transaction and \$100,540 for retaining as general revenues license update fees also at an increased rate of \$25 per transaction. These fees are estimated to occur in FY 2019 in accordance to the general flow of revenues for this revenue item. The motor vehicle license and registration fees revised estimate also includes the estimated budgetary impact of \$25 duplicate license fees as the result of the issuance of federally compliant Real ID operators’ licenses of \$2,124,450 and \$25 license update fees also as a result of the issuance of federally compliant Real ID operators’ licenses of \$402,160. The realization of these revenues is estimated to occur from December 2018 through June 2019. As a result, ORA will assess adjusted FY 2019 motor vehicle license and registration fees revenue flows against revised “base” motor vehicle license and registration fees revenues of \$573,390 for July 2018 through November 2018 and \$3,100,000 for December 2018 through June 2019.

<sup>g</sup> Departmental receipts revised estimate includes enacted hospital licensing fee revenues of \$180,804,665. These revenues will be booked as an accrual in June. The revised departmental receipts revenues estimate also includes \$3,000,000 from the increase in the insurance claims adjuster license fee from \$150 to \$250 and \$6,850,000 from the increase in the mutual fund registration fee from \$1,000 to \$1,750. The realization of these budgetary items is estimated to occur in FY 2019 based on the five-year monthly average for these individual fees. Finally, the departmental receipts estimate of interest and penalty on overdue taxes includes an estimated revenue impact of \$3,593,970 from the addition of 22 new FTEs to the Division of Taxation. The realization of this law change is not expected to impact FY 2019 revenue flows until April 2019 and June 2019. As a result, ORA will assess adjusted FY 2019 departmental receipts revenue flows against revised “base” departmental receipts revenues of \$220,601,365 for July 2018 through March 2019 and for May 2019 and \$224,195,335 for April 2019 and June 2019.

<sup>h</sup> The lottery transfer revised estimate of \$399,600,000 includes \$11,500,000 of estimated revenues from legalizing sports betting in Rhode Island. The realization of this law change is estimated to impact revenue flows in December 2018 through June 2019. The realization of estimated innovative traditional lottery and monitor games of \$3,000,000 is expected to impact revenue flows in October 2018 through June 2019. As a result, ORA will assess adjusted FY 2019 lottery transfer revenue flows against revised “base” lottery transfer revenues of \$385,100,000 for July 2018 through September 2018, \$388,100,000 for October 2018 through November 2018, and \$399,600,000 for December 2018 through June 2019.

### **Results for FY 2019 through January**

The table, *Year-to-Date Estimate to Actual*, gives the results for FY 2019 through January. As is apparent from the table, the Department of Revenue finds that FY 2019 adjusted total general revenues through January were lower than the revised FY 2019 expected total general revenues estimate through January by \$19.7 million, a variance of -0.9 percent. In total taxes, fiscal year-

to-date through January adjusted revenues were less than the revised FY 2019 year-to-date expected revenues estimate by \$33.5 million, a difference of -1.8 percent. For departmental receipts, fiscal year-to-date adjusted revenues led the revised FY 2019 fiscal year-to-date revenue estimate by \$10.3 million, a variance of 8.7 percent. For other general revenue sources, adjusted FY 2019 through January revenues were \$3.5 million, or 1.8 percent, more than revised FY 2019 expected fiscal year-to-date revenues.

Six revenue items had adjusted revenues in FY 2019 through January that exceeded expected FY 2019 revenue estimates, based on the revenue estimates adopted at the November 2018 REC, by more than \$1.0 million.

- Adjusted revenues for FY 2019 year-to-date departmental receipts were \$10.3 million more than expected fiscal year-to-date departmental receipts based on the revised estimate, a difference of 8.7 percent. The revenues received from interest and penalty on overdue taxes were ahead of estimates by \$3.3 million through January. The revenues received from the increase in the mutual fund registration fee and the insurance claims adjuster license fee appear to be ahead of estimates by \$1.5 million through January.
- Business corporation tax adjusted revenues were \$7.6 million above expected fiscal year-to-date business corporation tax revised revenues, a difference of 9.7 percent. Included in business corporation tax adjusted revenues are \$16,357 of reimbursed Historic Structures Tax Credits (HSTCs).
- Adjusted FY 2019 year-to-date estate and transfer tax revenues were \$7.0 million more than expected fiscal year-to-date estate and transfer tax revenues based on the revised estimate, a difference of 34.6 percent. Adjusted FY 2019 year-to-date estate and transfer tax revenues include large payment(s) of \$5.1 million received in November 2018.
- Sales and use tax adjusted revenues were \$5.2 million ahead of expected fiscal year-to-date sales and use tax revised revenues, a difference of 0.8 percent.
- Lottery transfer adjusted revenues in year-to-date FY 2019 were \$3.5 million, or 1.8 percent, above the expected FY 2019 through January revised revenues estimate of \$192.3 million. The transfer of net income from video lottery terminals (VLTs) was \$3.8 million more than expected through January.
- Cigarettes tax adjusted revenues in year-to-date FY 2019 were \$2.5 million, or 3.1 percent, above the expected FY 2019 through January revised revenues estimate of \$83.1 million.

FY 2019 adjusted revenues through January for bank deposits tax and racing and athletics tax were above the expected FY 2019 through January revised revenue estimates but by less than \$1.0 million each.

On the negative side, five revenue items had adjusted revenues through January that fell short of the expected FY 2019 through January revised revenues estimate by \$1.0 million or more.

- Personal income tax adjusted revenues through January were \$30.7 million less than revised FY 2019 through January personal income tax revenues, a variance of -3.6 percent.
  - Personal income tax estimated payments adjusted year-to-date revenues were \$27.6 million, or 16.8 percent, below expected fiscal year-to-date personal income tax

estimated payments revenues based on the FY 2019 revised estimate. This shortfall accounts for nearly 90 percent of the total deficit in year-to-date personal income tax revenues and is likely attributable to federal tax law changes regarding the deductibility of state and local taxes as a result of the Tax Cuts and Jobs Act (TCJA).

- Adjusted FY 2019 personal income tax refunds and adjustments revenues through January were \$7.3 million more than expected fiscal year-to-date personal income tax refunds and adjustments revenues based on the estimate adopted at the November 2018 REC, a difference of 13.8 percent.
- Adjusted FY 2019 personal income tax withholding payments revenues through January were \$4.0 million less than the \$706.8 million of expected FY 2019 personal income tax withholding payments revenues based on the estimate adopted at the November 2018 REC, a variance of -0.6 percent. Adjusted FY 2019 personal income tax withholding payments include \$5.8 million in large payment(s) received in January 2019.
- Adjusted FY 2019 personal income tax final payments revenues through January were \$8.3 million, or 25.9 percent, more than expected fiscal year-to-date personal income tax final payments revenues based on the FY 2019 revised estimate. Adjusted FY 2019 personal income tax final payments revenues through January include \$2.7 million of reimbursed HSTCs.
- Year-to-date FY 2019 insurance company gross premiums tax adjusted revenues trailed the revised estimate by \$11.0 million, or 19.8 percent. Approximately 2/3 of this shortfall is attributable to property, casualty, and life insurance companies making fewer payments than expected with the remainder attributable to health insurers.
- Financial institutions tax adjusted revenues were \$5.6 million below expected financial institutions tax revised revenues, a difference of -62.9 percent. Approximately 85 percent of this shortfall is attributable to December revenues coming in well below expectations.
- Public utilities gross earnings tax adjusted revenues in year-to-date FY 2019 were \$4.5 million, or 9.1 percent, below expected FY 2019 year-to-date public utilities gross earnings tax revenues of \$49.6 million. Adjusted revenues from September and December, the two months when substantial quarterly payments were received in fiscal year-to-date, were less than the expected revenues for these months.
- Year-to-date health care provider assessment adjusted revenues trailed the revised fiscal year-to-date estimate by \$3.4 million, or 11.5 percent. Approximately \$3.0 million in additional revenues were expected year-to-date through January in FY 2019 from the General Assembly's dual eligible program redesign, and it appears that these revenues have not yet been realized.

FY 2019 adjusted revenues through January for realty transfer tax, motor vehicle license and registration fees, and alcohol excise tax were below their expected FY 2019 through January revised revenue estimates but by less than \$1.0 million each.

## **Results for the Month of January 2019**

The table, *Monthly Estimate to Actual*, gives the results for January 2019. As is apparent from the table, the Department of Revenue finds that January adjusted total general revenues were above the revised FY 2019 expected total general revenues estimate for January by \$11.3 million, or 3.2 percent. In total taxes, January adjusted revenues were more than the revised FY 2019 expected monthly revenue estimate by \$3.8 million, or 1.3 percent. For departmental receipts, January adjusted revenues were ahead of the revised FY 2019 expected monthly revenues estimate by \$6.1 million, or 21.1 percent. For other general revenue sources, adjusted FY 2019 monthly revenues for January were \$1.4 million more than revised FY 2019 expected monthly revenues for January, a variance of 4.2 percent.

Five revenue items had adjusted revenues in January that exceeded the revised FY 2019 expected monthly estimate by \$1.0 million or more.

- January departmental receipts adjusted revenues were \$6.1 million, or 21.1 percent, above the revised FY 2019 expected monthly revenues estimate. The revenues received from interest and penalty on overdue taxes in January were ahead of estimates by \$3.8 million. The revenues received from the increase in the mutual fund registration fee and the insurance claims adjuster license fee appear to be ahead of estimates by \$521,670 in January.
- Sales and use tax adjusted revenues were \$4.3 million, or 4.3 percent, above revised expected monthly sales and use tax revenues for January.
- Business corporation tax adjusted revenues for January were \$2.2 million more than expected revenues for the month, a difference of 47.0 percent.
- January lottery transfer adjusted revenues were \$1.4 million, or 4.2 percent above expected revised monthly revenues.
- Cigarettes tax adjusted revenues for January were \$1.3 million more than expected revenues for the month, a difference of 11.8 percent.

January 2019 adjusted revenues for the estate and transfer tax, alcohol excise tax, racing and athletics tax, and bank deposits tax were above the revised FY 2019 revenue estimates for January, but by less than \$1.0 million each.

On the negative side, one revenue item had adjusted revenues in January that fell short of the revised FY 2019 expected monthly revenues estimate by \$1.0 million or more.

- Personal income tax adjusted revenues in January were \$1.9 million less than revised January personal income tax expected revenues, a variance of -1.2 percent.
  - Personal income tax estimated payments adjusted January revenues were \$6.2 million, or 10.5 percent, below expected January personal income tax estimated payments revenues based on the FY 2019 revised monthly estimate. This shortfall is likely attributable to federal tax law changes regarding the deductibility of state and local taxes.

- Adjusted personal income tax refunds and adjustments revenues in January were \$401,599 more than expected January personal income tax refunds and adjustments revenues based on the estimate adopted at the November 2018 REC, a difference of 3.9 percent.
- Adjusted January personal income tax withholding payments revenues were \$4.1 million more than the \$106.6 million of expected monthly personal income tax withholding payments revenues based on the estimate adopted at the November 2018 REC, a variance of 3.8 percent. Adjusted January personal income tax withholding payments include \$5.8 million in large payment(s).
- Adjusted January personal income tax final payments revenues were \$612,186, or 16.7 percent, more than expected personal income tax final payments revenues based on the FY 2019 revised monthly estimate. Adjusted January personal income tax final payments revenues include \$182,235 of reimbursed HSTCs.

January 2019 adjusted revenues for the healthcare provider assessment, public utilities gross earnings tax, realty transfer tax, financial institutions tax, insurance company gross premiums tax, and motor vehicle license and registration fees were below the revised FY 2019 revenue estimates for January, but by less than \$1.0 million each.



Mark A. Furcolo, Director  
Department of Revenue  
February 15, 2019

## **Appendix: Law Changes Enacted in the 2018 Session of the General Assembly**

### ***Revenue Changes That Reclassify General Revenues***

In the 2014 session, the General Assembly passed legislation that reclassified 100.0 percent of all motor vehicle operator license and vehicle registration fees from general revenues to other funds, effective July 1, 2017. In the 2018 session, the General Assembly enacted a change to reclassify duplicate license fees and license update fees as general revenues in FY 2019. Thus, these motor vehicle license fees will not be transferred to other funds. This increase in general revenue is included in the FY 2019 estimate of motor vehicle license and registration fees adopted at the November 2018 Revenue Estimating Conference (REC).

### ***Revenue Changes That Will Be Realized Through Monthly Revenue Flows***

#### **Personal Income Tax**

The FY 2019 revenue estimates adopted at the November 2018 REC include an estimated revenue impact from the repatriation of foreign derived income as required by the Tax Cuts and Jobs Act of 2017 (TCJA) of \$2,876,200 in personal income tax final payments. The repatriation of the foreign derived income for personal income tax filers is expected to be realized via stock buybacks and special dividends in 2018. Because TY 2018 personal income tax returns will not be filed until after January 1, 2019, most of the revenue impact from this law change is expected to be reflected in FY 2019 personal income tax final payments revenue flows beginning in March. As a result, personal income tax final payments revenue flows will be lower than FY 2019 revised personal income tax final payments revenues for the period July 2018 through February 2019. Additionally, \$463,360 of other TCJA-related personal income tax final payments are expected to occur in FY 2019 but in accordance to the general flow of revenues from personal income tax final payments.

Finally, the 2018 General Assembly added 22 new full-time equivalent positions (FTEs) to the Division of Taxation in FY 2019 as part of an organizational restructuring. The total expected FY 2019 revenue impact from this law change on personal income tax final payments is \$4,392,630. The revenue flows from the addition of these 22 employees is expected to be realized completely in FY 2019 during the months of January 2019 through June 2019.

#### **Business Corporation Tax**

The revised FY 2019 revenue estimates adopted at the November 2018 REC include an estimated revenue impact from the repatriation of foreign derived income as required by the Tax Cuts and Jobs Act of 2017 (TCJA) of \$17,370,000 in business corporation tax. The repatriation of foreign derived income by corporations was a TY 2017 event. Business corporation tax filers generally have until December 2018 to file their final TY 2017 return (if the taxpayer has filed for an extension) and, as a result, the revenue impact from this federal law change is expected to be reflected in FY 2019 business corporation tax revenue flows through December 2018. Thus, business corporation tax revenue flows will be lower than FY 2019 revised business corporation tax revenues for the period January 2019 through June 2019. Additionally, \$1,959,040 of other



TCJA-related business corporation tax revenues are expected to occur in FY 2019 in accordance to the general flow of revenues from business corporation taxes.

The 2016 General Assembly approved the Governor's proposal to have the Division of Taxation undertake a transfer pricing audit project, which was expected to increase business corporation tax revenues by \$6,696,000 in FY 2017. Because of the delayed implementation of this project, most of the expected revenue impact, \$5,870,724, was shifted from FY 2017 to FY 2019. The revised revenue flows from the implementation of this project is expected to be realized completely during FY 2019 and is assumed to be realized in equal monthly amounts over the fiscal year.

Further, the 2018 General Assembly added 22 new FTEs to the Division of Taxation in FY 2019 as part of an organizational restructuring. The total expected FY 2019 revenue impact from this law change for business corporation tax is \$1,142,100. The revenue flows from the addition of these 22 employees is expected to be realized completely in FY 2019 during the months of January 2019 through June 2019.

Finally, the 2018 General Assembly repealed the Jobs Training Tax Credit, a credit for which only C-corporations are eligible. The effective date of the credit repeal was for tax years beginning on or after January 1, 2018. Since TY 2018 business corporation tax returns will not be filed until after December 2018, the positive revenue flows from repeal of this credit will be realized during the TY 2018 filing season of January 2019 through June 2019.

#### Insurance Company Gross Premiums Tax

The 2018 General Assembly enacted legislation that includes a revised revenue impact of \$(3,260,047) from the redesign of the dual eligible Medicare/Medicaid program. The realization of these revenues is expected to occur in October 2018 through June 2019. The insurance company gross premiums tax revenues estimate also includes a budgetary impact of \$(45,897) from a nursing home federal revenue maximization initiative. The realization of these forgone revenues is expected to occur in January 2019 through June 2019. Additionally, the insurance company gross premiums tax revenues revised estimate includes \$(110,278) from a reduction in the managed care administrative component, \$(530,927) from a reduction in the managed care medical component, \$47,228 from a 1.5 percent increase in the rate paid to nursing homes, and \$(62,000) from the reallocation of Perry Sullivan funds. These revenues are expected to occur in FY 2019 in accordance to the general flow of revenues for this insurance company gross premium revenues.

#### Health Care Provider Assessment

The 2018 General Assembly enacted legislation that includes a projected revised revenue impact of \$6,770,600 from the redesign of the dual eligible Medicare/Medicaid program and \$(254,307) from the Rhody Health Options program redesign. The realization of these revenues is expected to occur in October 2018 through June 2019. The health care provider assessment revenues estimate also includes a budgetary impact of \$26,642 from an initiative to modernize long-term care services and supports (LTSS) eligibility rules. The realization of these revenues is expected to occur in January 2019 through June 2019. Additionally, the health care provider assessment revenues revised estimate includes \$194,815 from a 1.5 percent increase in the rate paid to nursing

homes. These revenues are expected to occur in FY 2019 in accordance to the general flow of revenues for this insurance company gross premium revenues.

### Sales and Use Tax

The 2018 General Assembly enacted legislation that allows residents of Connecticut or Massachusetts who are medical marijuana cardholders to buy medical marijuana at Rhode Island compassion centers. This legislation has a revised revenue impact of \$248,157 and the realization of this revenue item is expected to occur unevenly in July 2018 through June 2019.

The 2018 General Assembly also passed legislation that included a sales and use tax exemption for the sale of kegs and barrel containers to alcoholic beverage producers who place the alcoholic beverages in the containers. The revised revenue impact for this budgetary item is \$(15,000), and the forgone revenues are expected to occur in FY 2019 in accordance to the general flow of revenues for this revenue item.

The 2018 General Assembly expanded the sales and use tax base to security and investigative services, as well as vender-hosted prewritten computer software, or software as a service (SaaS). Security and investigative services includes all services listed under NAICS code 56161. Revised revenues from the sales and use taxes on security and investigative services are \$9,715,473, which are expected to occur unevenly in August 2018 through June 2019. Revised revenues from the sales and use taxes on SaaS are \$4,819,500, which are expected to occur unevenly in November 2018 through June 2019.

Finally, the 2018 General Assembly passed legislation that added 22 new FTEs to the Division of Taxation in FY 2019 as part of an organizational restructuring. The total expected FY 2019 revenue impact from this law change for sales and use tax is \$4,371,300. The revenue flows from the addition of these 22 employees is expected to be realized completely during FY 2019 in the months of April and June 2019.

### Motor Vehicle License and Registration Fees

The 2018 General Assembly enacted legislation that increased duplicate license fees and license update fees from \$5 to \$25. The realization of this increase is expected from July 2018 through June 2019 in accordance to the general revenue flows of this revenue item. Also included in the FY 2019 enacted budget was the estimated impact of the implementation of federally compliant Real ID motor vehicle operators' licenses, which were available beginning in December 2018. There is a revised revenue impact of \$2,124,450 from duplicate license fees and \$402,160 from license update fees associated with the implementation of Real ID operators' licenses. These revenues are expected to occur in the months of December 2018 through June 2019.

### Departmental Receipts

The 2018 General Assembly passed legislation that impact the FY 2019 revenue flows for several departmental receipts items. These items include the increase in medical marijuana cardholder license fees of \$141,804 from Connecticut and Massachusetts residents who register with Rhode Island in order to purchase medical marijuana from Rhode Island compassion centers; the

elimination of license fees for frozen dessert processors, \$(80,000), and the chair fees for hair design shops, \$(60,000); the reduction in wholesale food processor license fees of \$(104,200); the extension of food safety licenses to five years, \$(60,000); the increase in vital records fees for Real ID, \$350,351; the increase in fines for child care license violations, \$5,500; delaying the issuance of new motor vehicle license plates to January 2020 reducing sales from motor vehicle license plates by \$1,813,170; and adding new bank examiners in the Department of Business Regulation, \$284,310. The monthly distribution of all of these revenue flows is expected to be the same as departmental receipts revenues in general.

Further, the 2018 General Assembly enacted legislation that increased the mutual fund registration fee from \$1,000 to \$1,750, which is estimated to increase revenues by \$6,850,000. The fee for insurance claims adjusters was also increased from \$150 to \$250, which is estimated to increase revenues by \$3,000,000. The monthly distribution of the revenue flows of these fee increases was estimated using the five-year average of the monthly revenue flows for all registration securities fees and for insurance claims adjuster fees, respectively.

Finally, the 2018 General Assembly passed legislation that added 22 new FTEs to the Division of Taxation in FY 2019 as part of an organizational restructuring. The total expected FY 2019 revenue impact from this law change for the fines and penalties category of departmental receipts is \$3,593,970. The revenue flows from the addition of these 22 employees is expected to be realized completely during FY 2019 in the months of April and June 2019.

#### Other Miscellaneous Revenues

In the 2018 Session, the General Assembly enacted legislation that included \$10,084,463 in FY 2019 other miscellaneous revenues. This revenue consists of \$4,750,000 in transfers of excess reserves from the Rhode Island Infrastructure Bank and the Rhode Island Commerce Corporation as mandated by state law. The Rhode Island Commerce Corporation has already transferred \$750,000 of this total amount. A Department of Revenue Collections Unit was established with \$1,349,463 of estimated revenues in FY 2019. Also included in the FY 2019 revised estimates for other miscellaneous revenues is \$735,000 from the increase in license fees for the three compassion centers that operate in Rhode Island. The Revenue Assessment report accounts for these revenues as they are received.

#### Lottery Transfer

The 2018 General Assembly enacted legislation that legalized sports betting in Rhode Island. The revenue estimate for this new gaming option was revised to \$11,500,000 at the November 2018 REC due to the delay in commencing sports betting at Twin River and the Tiverton Casino Hotel. The realization of this law change is expected to impact revenue flows in December 2018 through June 2019. The principals of the November 2018 Revenue Estimating Conference reallocated the \$4,100,000 in revenues from the addition of the piloting of innovative lottery games, to traditional lottery games, such as scratch tickets, and monitor games, such as Keno Innovative lottery games are estimated to impact FY 2019 revenues in accordance to the general flow of revenues for these revenue items.