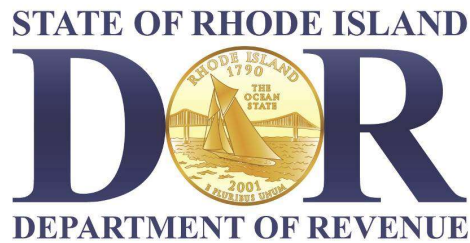


STATE OF RHODE ISLAND
GOVERNOR DANIEL J. MCKEE



Office of Revenue Analysis

State of Rhode Island Revenue Assessment Report
FY 2026 Methodology and Law Changes

Methodology Used to Estimate Expected Monthly and Year-to-Date FY 2026 Revenues

To determine the expected monthly and fiscal year-to-date revenues for the fiscal year, the Office of Revenue Analysis (ORA) first calculated, for each revenue item and fiscal year, the percentage of total fiscal year revenues that each month in the fiscal year comprised. ORA then took the historical revenue data and used different weighting methods to calculate moving averages to find the method that preformed the “best” in predicting the monthly distribution of the historical data. The best method was determined by calculating the standard error for each weighting method.¹ The weighting method that minimized the standard error for the revenue stream was selected. By undertaking this analysis, ORA was able to choose the weighting methodology that most accurately distributes total revenue over the months using history as a guide.

The methods tested included, but were not limited to:²

- A three-year moving average of the monthly share of total revenue, in which each year is weighted equally (i.e., 33⅓% per year).
- A five-year moving average of the monthly share of total revenue, in which each year is weighted equally (i.e., 20% per year).
- A five-year moving average of the monthly share of total revenue, in which each year is weighted using an exponentially decreasing order, with the most recent year (α) weighted at 50%, followed by 25% for the second most recent year, 12.5% for the third most recent year, and 6.25% each for the fourth and fifth most recent years.
- Lastly, a five-year moving average of the monthly share of total revenue, in which the Microsoft Excel Solver add-in program was used to determine alpha (α), which is the weight for the most recent year. The calculation of alpha by Excel Solver was subject to

¹ The standard error was measured as the root mean squared error (RMSE) of the weighting method divided by the average revenue value across all months of history. This statistic measures the average “miss” for each monthly prediction.

² A ten-year moving average, in which each year is weighted equally, was also tested for the estate and transfer tax.

the following constraints: Minimize the sum of squared errors; the value of α must be greater than zero and less than one; and the weight of each year must be lower than the previous year's weight. The weights of the subsequent years were calculated according to the following equations:

- The weight of the second year = $\alpha(1-\alpha)$;
- The weight of the third year = $\alpha(1-\alpha)^2$;
- The weight of the fourth year = $\alpha(1-\alpha)^3$; and
- The weight of the fifth year = $1-(\alpha + \alpha(1-\alpha) + \alpha(1-\alpha)^2 + \alpha(1-\alpha)^3)$.

A table depicting the weights used in each method tested is below:

Fiscal Year	3-year Moving Average, Equal Weights	5-year Moving Average, Equal Weights	10-year Moving Average, Equal Weights	5-year Moving Average, Exponentially Declining Weights Starting with $\alpha=50\%$	Solver Determined α, Exponentially Declining Weights
2025	33 $\frac{1}{3}\%$	20%	10%	50%	α
2024	33 $\frac{1}{3}\%$	20%	10%	25%	$\alpha(1-\alpha)$
2023	33 $\frac{1}{3}\%$	20%	10%	12.5%	$\alpha(1-\alpha)^2$
2022	n/a	20%	10%	6.25%	$\alpha(1-\alpha)^3$
2021	n/a	20%	10%	6.25%	1-sum of others
2020	n/a	n/a	10%	n/a	n/a
2019	n/a	n/a	10%	n/a	n/a
2018	n/a	n/a	10%	n/a	n/a
2017	n/a	n/a	10%	n/a	n/a
2016	n/a	n/a	10%	n/a	n/a

After testing, the best fit models for each revenue item were determined as follows:

Best Fit Model	Revenue Items
4-year moving average equal weight	Lottery transfer: combined games, video lottery terminals, table games, on-site sports betting, and remote sports betting ³
5-year moving average equal weight	Personal income tax: estimated payments, final payments, and withholding payments Health care provider assessment Sales and use tax Cigarette excise tax Alcohol excise tax Racing and athletics tax Realty transfer tax

³ ORA used a 4-year average from FY 2022 – FY 2025 for on-site and remote sports betting due to limited historical data.

Best Fit Model	Revenue Items
5-year moving average exponentially declining weights ($\alpha = 50\%$)	Personal income tax: refunds and adjustments Other tobacco products excise tax Electronic nicotine-delivery Systems tax Racing and athletics tax Realty transfer tax Departmental receipts
5-year moving average exponentially declining weights (α determined by Excel Solver)	Business corporation tax Public utilities gross earnings tax Financial institutions tax Bank deposits tax Insurance company gross premiums taxes
10-year moving average equal weight	Estate and transfer tax

ORA then applied the weights associated with the best fit model for each revenue item to the percentage of adjusted revenues that occurred in each month over the previous three, five, or ten fiscal years.⁴ The results were added to obtain a single monthly percentage of expected revenue. These percentages were then applied to the enacted FY 2026 revenue estimate for each revenue item. For the fiscal year-to-date estimates, the monthly percentages were summed and then applied to the enacted FY 2026 revenue estimate for each revenue item.

For FY 2026 monthly and fiscal year-to-date expected personal income tax final payment revenues, the expected revenues were determined using the above methodology for all revenues except for the pass-through entity (PTE) payments. ORA then added the PTE payments to realized personal income tax final payments to yield adjusted personal income tax final payments revenues. The adjusted personal income tax final payments are then compared to the enacted FY 2026 personal income tax final payments expected revenues, which include estimated PTE payments. The monthly distribution of estimated PTE payments was determined through a 3-year moving average equally weighted.

For electronic nicotine-delivery systems (ENDS) tax, ORA used a 5-year average based on Massachusetts ENDS data from FY 2021 – FY 2025. Similarly, for iGaming, ORA used a 2-year average from Connecticut online gaming data from FY 2023 – FY 2024 to estimate expected revenues due to lack of historical data in Rhode Island.

Law Changes Enacted in the 2025 Session That Impact General Revenues

In the 2025 session, 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 impact FY 2026 general revenues that will be realized through the accrual and (2) changes that impact FY 2026 general revenues that will be realized through monthly revenue flows. The changes in state law that impact monthly revenue flows will generally exhibit seasonality in the receipt of the revenue. ORA attempts to model the seasonality in such revenue flows to better align the expected

⁴ The previous three fiscal years were FY 2023 – FY 2025, the previous five fiscal years were FY 2021 – FY 2025, and the previous ten fiscal years were FY 2016 – FY 2025.

receipt of revenues with the actual receipt of revenues. A more specific discussion of these items is provided below.

Revenue Changes That Will Be Realized Through Accruals

Personal Income Tax

Included in the FY 2026 enacted budget is legislation repeal the research and development facilities deduction, the research and development property credit, the small business capital investment modification/deduction, and credits allowed under the Jobs Growth Act. Together, they are anticipated to increase revenues for personal income tax by \$5,791. The effective date for these repeals is January 1, 2026, so the changes will impact revenues through the accrual only.

Business Corporation Tax

As noted above, enacted in the FY 2026 budget are repeals of several tax incentives. Business corporation tax is expected to increase by \$187,965 via the accrual due to the effective date.

Insurance Company Gross Premiums Tax

As noted above, enacted in the FY 2026 budget are repeals of several tax incentives. Insurance Company Gross Premiums Tax is expected to increase by \$26,118 via the accrual due to the effective date.

Revenue Changes That Will Be Realized Through Monthly Revenue Flows

Personal Income Tax

The budget provisions allow the Division of Taxation to create a Financial Institution Data Matching Program. This program will match financial accounts with non-compliant taxpayers and is expected to increase collection of tax liability for those taxpayers. Personal income tax is expected to increase by \$2.4 million with payments expected to begin starting in November 2025.

Additionally, the budget retroactively adjusts the CY 2022 motion picture production and theatrical production tax credits cap from \$30.0 million to \$35.0 million due to a discrepancy for several productions in the actual completion dates compared to those that were initially estimated. This is estimated to decrease personal income tax final payments by \$726,859 during the typical filing period of February – June 2026.

Business Corporations Tax

As noted above, the budget retroactively adjusts the CY 2022 motion picture production and theatrical production tax credits. This is estimated to decrease business corporation tax revenues by \$2.0 million with payments expected in the months that have final and estimated payment and return due dates. The Financial Institution Data Matching Program is expected to increase business corporation tax by \$1.2 million.

Insurance Company Gross Premiums Tax

Property and casualty gross premiums tax is also impacted by the change in the CY 2022 cap for the motion picture production and theatrical production tax credits. This is estimated to decrease insurance tax revenues by \$520,273 with payments expected in the months that have final and estimated payment and return due dates.

HMO gross premiums tax is impacted by two enacted changes. The establishment of an interprofessional consultation program in the Medicaid fee-for-service and managed care programs that will lower healthcare costs for patients needing a consult with a specialist and the elimination of the inflation adjustment to Home and Home and Community Based Services (HCBS) Medicaid rates are expected to decrease revenues for insurance taxes by \$20,054 and \$168,093, respectively. ORA assumes an effective date of October 1, 2025, with payments coming in during the typical final and estimated payment and due dates.

Health Care Provider Tax

There is an estimated decrease of \$389,815 for the health care provider tax in the enacted budget to reflect the enacted 2.3% rate increase for nursing homes, which is lower than the rate increase under prior law. Additionally, the budget adds a 3% base adjustment related to the safe staffing plan, increasing estimate revenues by \$660,000. Both enacted changes are effective October 1, 2025. ORA assumes the fiscal impact will be in October 2025 – June 2026 and will flow through revenues in a similar manner as historical health care provider tax revenues for these months.

Sales and Use Tax

Short-term parking was added to the list of services required to collect the 7.0% sales and use tax, which is expected to increase revenue by \$1.6 million. The Financial System Data Matching Program is expected to increase sales and use tax collections by \$1.7 million. Effective October 1, 2025, these changes are expected to increase revenue collections starting in November 2025, which is when October sales and use tax activity returns and payments are due.

Cigarette/OTP/ENDS/Kratom Taxes

The definition of the other tobacco products (OTP) tax was expanded to include artificial and natural nicotine products. The tax is calculated at 80% of the wholesale cost of the product. Additionally, a floor stock will be implemented on products in the existing inventory of businesses selling such products. The floor stock tax payment and due date is in October. Thus, the bulk of the tax is expected to be collected in the same month, with small amounts paid in the following months of the fiscal year. The estimated percentage of floor stock collected in October is estimated using prior revenues history from cigarette floor stocks implementations.

The enacted FY 2026 budget includes a new tax on Kratom products at a rate of 15.0%. These products will be legalized in Rhode Island on April 1, 2026, and revenue collections are expected to begin in May 2026 when the monthly payments and returns are due. The enacted budget does not include an estimate of these collections, which are expected to be de minimis in FY 2026.

Realty Transfer Tax

The realty conveyance tax will increase for both tiers on October 1, 2025. The first tier will increase from \$2.30 to \$3.75 per \$500 of value (taxes collected in the second tier of the tax are not general revenues). Revenues are expected to increase by around \$8.4 million starting in October 2025 in a manner like historical realty transfer tax collections.

Departmental Receipts

Included in the FY 2026 enacted budget are eight revenue items that impact revenues for departmental receipts, including:

- an exemption from fees for vital records is granted to incarcerated individuals scheduled for release which is expected to reduce the general revenues by \$8,475;
- a revision of the traffic violation schedule by raising most fines from \$85 to \$100 is expected to increase the revenues by \$511,492;
- all dredge fees are redirected to the Dredge Fund, reducing general revenues by \$100,000, and
- an authorization of \$150,000 in spending on dental health plans and premiums which assumes a \$24,000 revenue reduction in FY 2026.

All four preceding items are effective July 1, 2025, and are expected to impact monthly revenue flows in the general accordance with the revenue flows for departmental receipts.

In addition, ORA expects \$5.9 million of Disproportionate Share Hospital payments to be received in June 2026. Also, the General Assembly created a \$4 per member per month health insurance assessment to raise \$30 million annually for primary care and other healthcare programs which is expected to add \$15 million in revenues for the latter half of FY 2026. Finally, the enacted budget raised the indirect cost recovery charge on restricted receipt accounts from 10% to 15%, aligning with the federal rate and assumes \$3.4 million in additional revenues from this change (while exempting the Workers' Compensation Administration Fund from indirect cost recovery entirely).