STATE OF RHODE ISLAND
GOVERNOR DANIEL J. MCKEE

STATE OF RHODE ISLAND
DEPARTMENT OF REVENUE

Office of Revenue Analysis

State of Rhode Island Revenue Assessment Report
FY 2027 Methodology and Law Changes

Methodology Used to Estimate Expected Monthly and Year-to-Date FY 2027 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 α=50%**	**Solver Determined α, Exponentially Declining Weights**
2026	33⅓%	20%	10%	50%	α
2025	33⅓%	20%	10%	25%	$\alpha(1-\alpha)$
2024	33⅓%	20%	10%	12.5%	$\alpha(1-\alpha)^2$
2023	n/a	20%	10%	6.25%	$\alpha(1-\alpha)^3$
2022	n/a	20%	10%	6.25%	1-sum of others
2021	n/a	n/a	10%	n/a	n/a
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

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

Best Fit Model	**Revenue Items**
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 Realty transfer tax Lottery: traditional games, keno, and video terminals Departmental receipts
5-year moving average exponentially declining weights (α = 50%)	Personal income tax: refunds and adjustments Other tobacco products excise tax Electric nicotine-delivery systems tax Racing and athletics tax

Best Fit Model	Revenue Items
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 Estate and transfer tax Lottery: table games and on-site sports betting
3-year moving average equal weight	Lottery: remote sports betting
2-year moving average equal weight	Lottery: i-gaming

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 two, three, five, or ten fiscal years. The results were added to obtain a single monthly percentage of expected revenue. These percentages were then applied to the enacted FY 2027 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 2027 revenue estimate for each revenue item.

For FY 2027 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 2027 personal income tax final payments expected revenues, which include estimated PTE payments. The monthly distribution of estimated PTE payments was determined through a 4-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 2022 – FY 2026.

Law Changes Enacted in the 2026 Session That Impact General Revenues

In the 2026 session, the General Assembly enacted several changes to the state's general laws that impact general revenues. 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 receipt of revenues with the actual receipt of revenues. Changes in state law that impact revenue accruals only were backed out of the total expected receipts.

Tax Amnesty

The FY 2027 Tax Amnesty program runs from December 2026 – February 2027. The total expected revenues from this program are $22.7 million. The receipts are generally expected during the program period. However, the largest impact for departmental receipts is expected during the quarterly transfer of the interest and penalty on overdue taxes accounts in January and April 2027. The following table shows the revenue estimates by tax type:

Tax Type	**Expected Revenue**
Personal income tax	$8,797,480
Business corporation tax	2,488,348
Public utilities gross premiums tax	15,547
Financial institutions tax	77,224
Insurance company gross premiums tax	99,910
Health care provider tax	1,459,148
Sales and use tax	4,362,121
Cigarette/OTP/ENDS/kratom taxes	169,584
Estate and transfer tax	825,325
Departmental receipts	8,053,306

Personal Income Tax

The creation of a surtax on personal income over $1 million, beginning on January 1, 2027, is expected to increase revenues by $35.2 million in FY 2027. The surtax is set to phase in over the course of three tax years, starting at 1% for tax year 2027. For FY 2027, a revenue increase of $12.6 million is expected in estimated payments in April and June. A revenue increase of $22.7 million is also expected in final payments, which will be seen via the accrual.

The decoupling of Rhode Island from the exclusion of gains on qualified small business stock under I.R.C. § 1202 is expected to increase revenues by $1.9 million in final payments. Additionally, there is an expected decrease of $3.0 million in final payments from the elimination of the age threshold applied to the social security modification. Both items are effective January 1, 2027 and will impact revenues through the accrual.

The creation of a child tax credit, effective January 1, 2027, is estimated to decrease revenues under refunds and adjustments by $23.1 million, also seen via the accrual.

Business Corporations Tax

The permanent decoupling of Rhode Island from provisions in federal bill H.R. 1 is expected to increase revenue by $25.8 million. This impact includes the decoupling from the full expensing of research and development expenditures (effective for January 1, 2026, increasing revenue by $22.6 million) and the decoupling from the enhanced definition of income related to the limitation of business interest expensing under I.R.C. §163(j) (effective January 1, 2027, increasing revenue by $3.2 million).

Public Utilities Gross Earnings Tax

Utility ratepayer savings are expected to reduce revenues by $841,830, beginning January 1, 2027.

Insurance Company Gross Premiums Tax

HMO gross premiums tax is impacted by three enacted changes. Effective July 1, 2026, a rate freeze for substance abuse disorder residential treatment services is expected to decrease revenues by $8,527. Effective October 1, 2026, the biennial rate increase, as recommended by the Office of the Health Insurance Commissioner (OHIC), is expected to increase revenues by $1.1 million, and the introduction of limitations on GLP-1 medications for Medicaid patients is expected to decrease revenues for insurance taxes by $403,920.

Health Care Provider Tax

There is an estimated increase of $39,913 for the health care provider tax rate increase for nursing homes and behavior health facilities, which was included in prior law changes and effective October 1, 2026.

Departmental Receipts

Included in the FY 2027 enacted budget are two items that impact revenues for departmental receipts. An increase in the child support pass-through payments for recipients from $50 to $100 for one child and from $50 to $200 for two or more children is expected to decrease revenues by $167,389. This item is effective July 1, 2026, and will impact revenues via quarterly transfers. The repeal of the primary care assessment, effective October 1, 2026, is expected to decrease revenues by $22.5 million during the January and April quarterly payments.