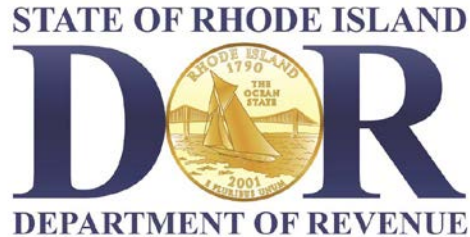


STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
GOVERNOR GINA M. RAIMONDO



Office of Revenue Analysis

State of Rhode Island Revenue Assessment Report
Monthly and Year-to-Date FY 2017 as of September 2016

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 estimate of expected revenues based on the current fiscal year revenue estimate. It should be noted that the fiscal year revenue estimate 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 estimate 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.

Changes to the Structure of the Revenue Assessment Report

In an effort to make the Revenue Assessment Report more accessible to readers, the Office of Revenue Analysis has restructured the report so that the fiscal year-to-date and monthly tables that display adjusted revenues vs. expected revenues appear immediately following this page. Details on the report's methodology and revenue adjustments are contained in the text that follows the tables.

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

| | YTD September Adjusted Revenues FY 2017 | | YTD September Estimate of Enacted FY 2017 Revenues † | | Difference | Variance |
|--------------------------------------|---|---|--|---|---------------------|-------------|
| Personal Income Tax | \$ 321,707,943 | a | \$ 315,575,145 | | \$ 6,132,798 | 1.9% |
| General Business Taxes | | | | | | |
| Business Corporations † | 22,941,518 | b | 24,243,539 | | (1,302,021) | -5.4% |
| Public Utilities Gross Earnings | 1,078,448 | | 1,212,058 | | (133,610) | -11.0% |
| Financial Institutions | 543,305 | b | 1,467,417 | | (924,112) | -63.0% |
| Insurance Companies | 396,701 | c | 262,284 | | 134,417 | 51.2% |
| Bank Deposits | (779) | | 16,562 | | (17,341) | -104.7% |
| Health Care Provider Assessment | 10,434,073 | | 11,372,783 | | (938,710) | -8.3% |
| Excise Taxes | | | | | | |
| Sales and Use | 274,077,919 | | 272,771,725 | | 1,306,194 | 0.5% |
| Motor Carrier Fuel Use | - | | - | | - | 0.0% |
| Motor Vehicle | 2,575,344 | | 2,692,439 | | (117,095) | -4.3% |
| Cigarettes | 38,356,454 | | 38,399,698 | | (43,244) | -0.1% |
| Alcohol | 5,335,117 | | 5,135,547 | | 199,570 | 3.9% |
| Controlled Substances | | | | | | |
| Other Taxes | | | | | | |
| Estate and Transfer | 8,505,678 | | 5,384,409 | | 3,121,269 | 58.0% |
| Racing and Athletics | 300,966 | | 276,908 | | 24,058 | 8.7% |
| Realty Transfer | 3,312,611 | d | 3,100,723 | | 211,888 | 6.8% |
| Total Taxes | \$ 689,565,298 | | \$ 681,911,236 | | \$ 7,654,061 | 1.1% |
| Departmental Receipts | \$ 37,711,626 | e | \$ 36,211,380 | | \$ 1,500,246 | 4.1% |
| Taxes and Departmentals | \$ 727,276,924 | | \$ 718,122,616 | | \$ 9,154,308 | 1.3% |
| Other General Revenue Sources | | | | | | |
| Other Miscellaneous Revenues | 30,548 | | 30,548 | + | - | 0.0% |
| Lottery Transfer | 62,247,688 | | 62,050,372 | | 197,316 | 0.3% |
| Unclaimed Property | - | | - | + | - | n/a |
| Total Other Sources | \$ 62,278,236 | | \$ 62,080,920 | | \$ 197,316 | 0.3% |
| Total General Revenues | \$ 789,555,160 | | \$ 780,203,536 | | \$ 9,351,624 | 1.2% |

| PIT Component | YTD September Adj. Revenues | | YTD September Enacted Estimates | | Difference | Variance |
|---------------------------|--------------------------------|---|------------------------------------|--|---------------------|-------------|
| Estimated payments | \$ 55,075,050 | | \$ 60,835,596 | | \$ (5,760,546) | -9.5% |
| Final payments † | 13,061,040 | | 10,767,703 | | 2,293,337 | 21.3% |
| Withholding | 269,799,872 | | 257,842,823 | | 11,957,049 | 4.6% |
| Refunds and Adjustments † | (16,228,019) | a | (13,870,977) | | (2,357,042) | 17.0% |
| Total | \$ 321,707,943 | | \$ 315,575,145 | | \$ 6,132,798 | 1.9% |

† Enacted FY 2017 adopted revenues for personal income tax final payments and refunds and adjustments and business corporations taxes are calculated using modified cash based revenue flows to align expected revenues with the actual realization of revenues.

+ 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

- ^a Decreases FY 2017 YTD refunds and adjustments by \$9,297,000 for refunds paid out in July and August 2016 but accrued back to FY 2016.
- ^b Includes an adjustment of \$100,000 for the transfer of revenues from business corporations tax to financial institutions in September 2016. The offsetting adjustment included in financial institutions tax is \$(100,000), which was also recorded in September 2016.
- ^c Subtracts \$16,844,511 for an HMO insurance gross premiums payment that was paid in July 2016 and accrued back to FY 2016.
- ^d Subtracts \$59,708 in realty transfer tax revenues that are designated for the Housing Resources Commission. The amount reflects the difference between the June transfer that occurred in July 2016 and the September transfer that will occur in October 2016.
- ^e Subtracts \$154,710,510 for hospital licensing fees and \$276,946 for beach parking fees both which were received in FY 2017 year-to-date but accrued back to FY 2016.

Monthly Estimate to Actual

| | September Adjusted Revenues FY 2017 | | September Estimate of Enacted FY 2017 Revenues † | Difference | Variance |
|--------------------------------------|---|---|--|------------------------|--------------|
| Personal Income Tax | \$ 135,832,530 | | \$ 140,862,032 | \$ (5,029,502) | -3.6% |
| General Business Taxes | | | | | |
| Business Corporations † | 11,891,569 | a | 15,027,745 | (3,136,176) | -20.9% |
| Public Utilities Gross Earnings | 463,128 | | 416,605 | 46,523 | 11.2% |
| Financial Institutions | 769,547 | a | 1,434,007 | (664,460) | -46.3% |
| Insurance Companies | 231,915 | | 104,574 | 127,341 | 121.8% |
| Bank Deposits | (2,080) | | 11,184 | (13,264) | -118.6% |
| Health Care Provider Assessment | 3,506,338 | | 3,876,521 | (370,183) | -9.5% |
| Excise Taxes | | | | | |
| Sales and Use | 86,746,465 | | 88,587,815 | (1,841,350) | -2.1% |
| Motor Carrier Fuel Use | - | b | - | - | 0.0% |
| Motor Vehicle | 1,010,041 | | 984,791 | 25,250 | 2.6% |
| Cigarettes | 12,658,455 | | 13,587,741 | (929,286) | -6.8% |
| Alcohol | 1,869,775 | | 1,566,773 | 303,002 | 19.3% |
| Controlled Substances | | | | | |
| Other Taxes | | | | | |
| Estate and Transfer | 1,691,802 | | 1,670,366 | 21,436 | 1.3% |
| Racing and Athletics | 95,970 | | 90,735 | 5,235 | 5.8% |
| Realty Transfer | 1,150,569 | c | 980,856 | 169,712 | 17.3% |
| Total Taxes | \$ 257,916,024 | | \$ 269,201,744 | \$ (11,285,721) | -4.2% |
| Departmental Receipts | \$ 13,639,678 | | \$ 12,850,951 | \$ 788,727 | 6.1% |
| Taxes and Departmentals | \$ 271,555,702 | | \$ 282,052,696 | \$ (10,496,994) | -3.7% |
| Other General Revenue Sources | | | | | |
| Other Miscellaneous Revenues | 29,781 | + | 29,781 | - | 0.0% |
| Lottery Transfer | 29,488,164 | | 31,188,882 | (1,700,718) | -5.5% |
| Unclaimed Property | - | + | - | - | n/a |
| Total Other Sources | \$ 29,517,945 | | \$ 31,218,663 | \$ (1,700,718) | -5.4% |
| Total General Revenues | \$ 301,073,647 | | \$ 313,271,359 | \$ (12,197,712) | -3.9% |

| PIT Component | September Adj. Revenues | | September Enacted Estimates | Difference | Variance |
|---------------------------|----------------------------|--|--------------------------------|-----------------------|--------------|
| Estimated payments | \$ 45,942,464 | | \$ 52,672,069 | \$ (6,729,605) | -12.8% |
| Final payments † | 6,525,648 | | 4,794,505 | 1,731,143 | 36.1% |
| Withholding | 88,327,069 | | 86,768,180 | 1,558,889 | 1.8% |
| Refunds and Adjustments † | (4,962,651) | | (3,372,722) | (1,589,928) | 47.1% |
| Total | \$ 135,832,530 | | \$ 140,862,032 | \$ (5,029,502) | -3.6% |

† Enacted FY 2017 adopted revenues for personal income tax final payments and refunds and adjustments and business corporations taxes are calculated using modified cash based revenue flows to align expected revenues with the actual realization of revenues.

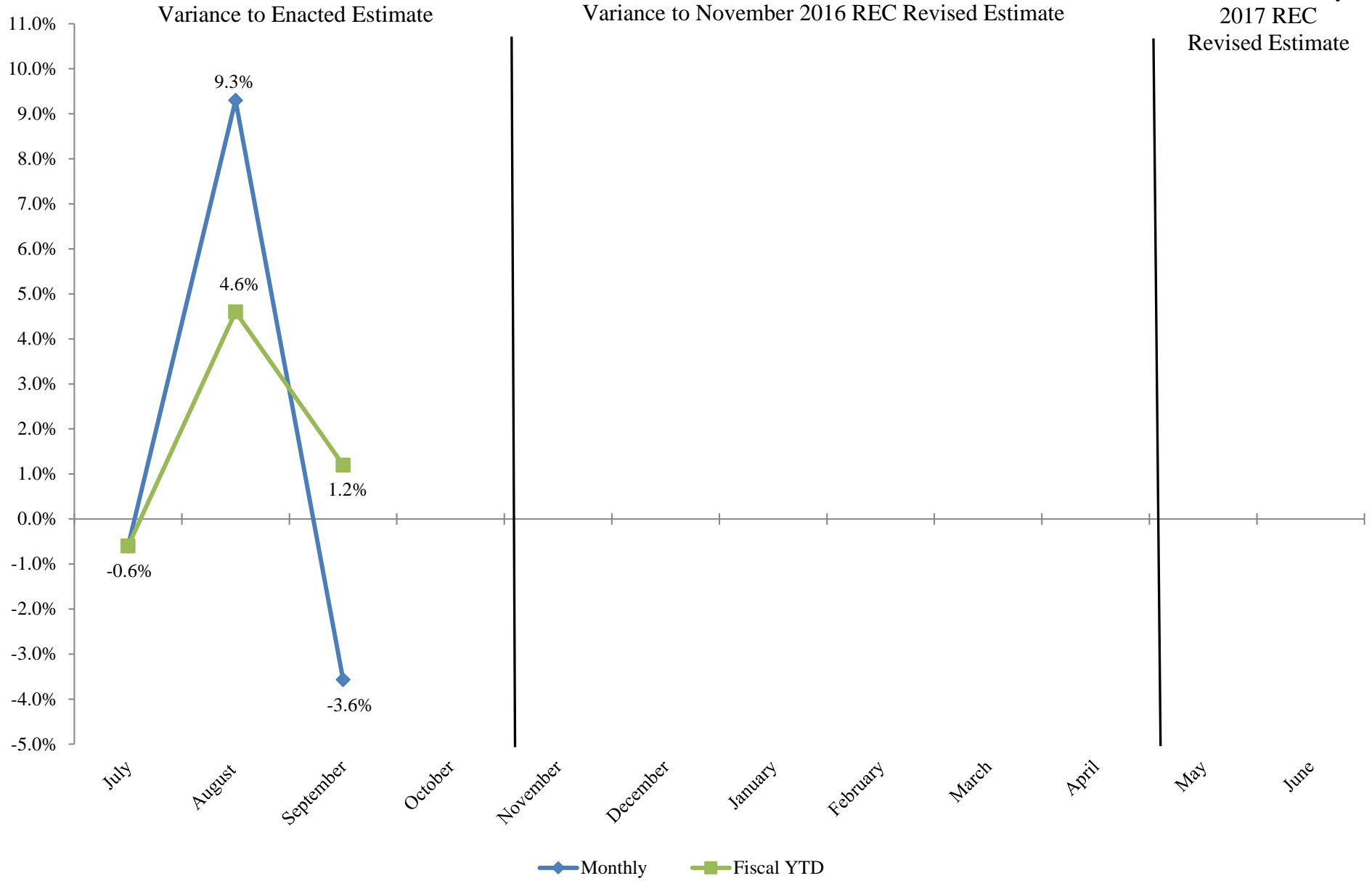
+ Set equal to actual amounts received.

a Includes an adjustment of \$100,000 for the transfer of revenues from business corporations tax to financial institutions in September 2016. The offsetting adjustment included in financial institutions tax is \$(100,000), which was also recorded in September 2016.

b Adds \$104,986 in motor carrier fuel use revenues to adjust for receipts incorrectly posted as general revenues.

c Subtracts \$14,426 in realty transfer tax revenues that are designated for the Housing Resources Commission. The amount reflects the difference between the August 2016 transfer that occurred in September 2016 and the September 2016 transfer that will occur in October 2016.

FY 2017 Variance of Adjusted Revenues to Estimate



Law Changes Enacted in the 2016 Session That Impact General Revenues

In the 2016 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; (2) changes that impact FY 2017 general revenues that will be realized through monthly revenue flows; and (3) changes that impact FY 2017 general revenues that will be realized through fiscal year end accruals. Those 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 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 Enacted FY 2017 Revenues

In order to determine the expected monthly and fiscal year-to-date revenue estimates based on the enacted FY 2017 budget signed into law by Governor Raimondo on June 15, 2016, the Office of Revenue Analysis (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.¹ For estate and transfer taxes, the previous ten fiscal years are used.² For monthly estimates, these percentages are applied to the enacted FY 2017 revenue estimate for each revenue item. For the fiscal year-to-date estimates, the monthly percentages are summed and then applied to the enacted FY 2017 revenue estimate for each revenue item. This methodology is used for all revenue items except personal income tax final payments revenues, personal income tax refunds and adjustments revenues, and business corporations tax revenues. For these three revenue items, the monthly percentage, or the sum of the monthly percentages, will be applied to the enacted FY 2017 modified cash revenue flows as estimated by ORA. In the case of 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 July. 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 2016 General Assembly.

¹ The previous five fiscal years are FY 2012 through FY 2016. In the case of personal income tax refunds and adjustments revenues FY 2011 through FY 2015 was used in computing the five fiscal year average percentage. These fiscal years were selected due to the significant delay in the processing of refunds that occurred in FY 2016 as a result of the implementation of the new personal income tax system by the Division of Taxation.

² The previous ten fiscal years are FY 2007 through FY 2016.

| Revenue Item | <u>Percent Received</u> | | Revenue Item | <u>Percent Received</u> | |
|---------------------------------|-------------------------|--------|-----------------------|-------------------------|--------|
| | Sept. | YTD | | Sept. | YTD |
| Personal Income Taxes | | | Sales and Use Taxes | 8.7 % | 26.8 % |
| Estimated Payments | 21.4 % | 24.7 % | Motor Vehicles Fees | 7.5 % | 20.6 % |
| Final Payments | 2.4 % | 5.5 % | Cigarettes Taxes | 9.7 % | 27.5 % |
| Withholding Payments | 7.7 % | 22.8 % | Alcohol Excise Taxes | 7.9 % | 26.0 % |
| Refunds/Adjustments | 1.2 % | 4.7 % | Estate and Transfer | 7.8 % | 25.2 % |
| Business Corporations Taxes | 9.2 % | 14.9 % | Racing and Athletics | 8.2 % | 25.2 % |
| Utilities Gross Earnings Taxes | 0.4 % | 1.2 % | Realty Transfer | 8.8 % | 27.9 % |
| Financial Institutions Taxes | 7.1 % | 7.2 % | Departmental Receipts | 6.7 % | 18.8 % |
| Insurance Co. Gross Premiums | 0.1 % | 0.2 % | Lottery Transfer | 8.5 % | 17.0 % |
| Bank Deposits | 0.5 % | 0.7 % | Other Misc. Revenues | n/a | n/a |
| Health Care Provider Assessment | 8.6 % | 25.2 % | Unclaimed Property | 0.0 % | 0.0 % |

The health care provider assessment consists only of an assessment on nursing homes. Motor vehicle fees are comprised only of fees paid for operators' licenses and motor vehicle registrations. 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, generally made only once in the fiscal year, and not always at the same time each 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.

In May 2016, the Streamline Sales Tax Governing Board approved an amendment to the Streamlined Sales and Use Tax Agreement (SSUTA) that put Rhode Island back in compliance with the SSUTA. The State will continue to receive voluntary remittances of sales and use tax revenues from remote sellers that are parties to the SSUTA. The FY 2017 enacted sales and use tax estimate includes these voluntary receipts.

Due to the unusual characteristics of the enacted FY 2017 legislative changes for personal income tax final payments, personal income tax refunds and adjustments, and business corporations tax revenues, ORA had to adjust the revenue bases against which FY 2017 adjusted revenues would be assessed for these revenue items. Specifically, significant impacts on revenue will be realized through the accrual component of these revenue items and thus not recorded until the end of the fiscal year.³ In addition, previously enacted law changes, such as the exemption of taxable Social Security benefits for certain taxpayers which passed in the 2015 session, will not flow through as

³ Since the enactment of the FY 2017 budget, the Office of Accounts and Controls (OAC) has determined that the revenue impacts of tax law changes that take effect in the middle of a fiscal year are properly accounted for in the year-end accrual calculation for that fiscal year.

revenues until later in FY 2017.⁴ As a result, ORA will use modified cash revenue flows for expected FY 2017 revenues for these revenue items to gauge the sufficiency of adjusted FY 2017 revenues in meeting estimated revenues. The footnotes to Table B detail the breakdown of modified cash revenue flows and accruals for each of these revenue items.

The FY 2017 estimates by revenue item as enacted by the General Assembly and signed into law by Governor Raimondo are as follows:

| Table B. FY 2017 Enacted Revenue Estimates by Major Revenue Item | | | |
|---|---------------------------------|---------------------------------|---------------------------------|
| Revenue Item | Enacted FY 2017 Estimate | Revenue Item | Enacted FY 2017 Estimate |
| Personal Income Taxes | | Sales and Use Taxes | \$ 1,017,043,806 |
| Estimated Payments | \$ 246,600,000 | Motor Vehicles Fees | 13,065,000 |
| Final Payments ^a | 172,247,672 | Cigarettes Taxes | 139,600,000 |
| Withholding Payments | 1,132,300,000 | Alcohol Excise Taxes | 19,770,000 |
| Refunds/Adjustments ^b | (300,972,326) | Estate and Transfer | 21,400,000 |
| Business Corporations Taxes ^c | 164,471,657 | Racing and Athletics | 1,100,000 |
| Public Utilities Gross Earnings | 101,000,000 | Realty Transfer | 11,100,000 |
| Financial Institutions Taxes | 20,300,000 | Departmental Receipts ‡ | 361,587,050 |
| Insurance Co. Gross Premiums | 126,064,809 | Lottery | 365,300,000 |
| Bank Deposits | 2,400,000 | Other Misc. Revenues | 7,065,000 |
| Health Care Provider Assessment | 45,100,000 | Unclaimed Property | 9,200,000 |
| | | Total General Revenues * | \$ 3,674,742,668 |
| ‡ Departmental receipts figure includes estimated hospital licensing fee revenues of \$168,958,671. | | | |
| * Total general revenues estimate includes the personal income tax net accrual of \$(1,000,000). | | | |

Notes to Table B:

^a Personal income tax final payments revenues estimate includes an estimated revenue impact of \$(18,331,957) from the exemption of taxable Social Security benefits for eligible taxpayers. The realization of this law change will not impact FY 2017 revenue flows until March 2017 through June 2017. The enacted FY 2017 personal income tax final payments revenues estimate includes an estimated revenue accrual of \$(6,340,796) from the exemption of the first \$15,000 of taxable pensions, annuities, etc. for eligible taxpayers effective January 1, 2017. The realization of this revenue accrual will not occur until after the end of the fiscal year. For the period from July 2016 through February 2017, adjusted FY 2017 personal income tax final payments revenues will be assessed against a “base” FY 2017 revenue estimate of \$196,920,426. For the period from March 2017 through June 2017, adjusted FY 2017 personal

⁴ In the case of personal income tax final payments, the impact of the 2015 passage of the exemption of taxable Social Security benefits for certain taxpayers will not be realized until March through June 2017. For personal income tax refunds and adjustments, the enactment of the increase in the state EIC from 10 percent to 12.5 percent of the federal EIC in the 2015 session will not be realized until February through June 2017. For business corporations tax revenues, the impact of the reduction in the business corporations minimum tax to \$450 by the 2015 General Assembly will not be realized until March through June 2017.

income tax final payments revenues will be assessed against a “base” FY 2017 revenue estimate of \$178,588,468. These “bases” will be used instead of the FY 2017 enacted estimate of \$172,247,672.

- ^b Personal income tax refunds and adjustments revenues estimate includes an estimated revenue impact of \$(6,009,225) from the enhanced Rhode Island earned income tax credit (EIC) at 12.5 percent. The realization of this revenue change will not impact FY 2017 revenue flows until the February 2017 through June 2017 period. The FY 2017 personal income tax refunds and adjustments revenues enacted estimate does include an estimated revenue impact of \$(2,672,326) for the increase of the Rhode Island EIC to 15.0 percent on January 1, 2017. The realization of this revenue accrual will not occur until after the end of the fiscal year. As a result, ORA will assess adjusted FY 2017 personal income tax refunds and adjustments revenues against a “base” FY 2017 revenue estimate of \$(292,290,775) for the period of July 2016 through January 2017. For the period from February 2017 through June 2017, adjusted FY 2017 personal income tax refunds and adjustments revenues will be assessed against a base of \$298,300,000. These “bases” will be used instead of the FY 2017 enacted estimate of \$(300,972,326).
- ^c Business corporations tax revenues estimate of \$164,471,657 includes an estimated revenue impact of \$(3,240,000) from the reduction of the business corporations minimum tax to \$450 effective January 1, 2016. The realization of this revenue change will not impact FY 2017 revenue flows until March through June 2017. The business corporations tax enacted estimate does include \$(1,579,348) from the reduction of the business corporations minimum tax to \$400 on January 1, 2017. The realization of this revenue accrual will not occur until after the end of the fiscal year. The enacted estimate also includes \$6,696,000 of revenues from the transfer pricing audit project that is not estimated to be realized until April 2017 through June 2017. As a result, ORA will assess adjusted FY 2017 revenues against a “base” FY 2017 revenue estimate of \$162,595,005, instead of the enacted FY 2017 estimate of \$164,471,657.

Results for FY 2017 through September

The table, *Year-to-Date Estimate to Actual*, gives the results for FY 2017 through September. As is apparent from the table, the Department of Revenue finds that FY 2017 through September adjusted total general revenues lead the enacted FY 2017 expected total general revenues estimate through September by \$9.4 million or 1.2 percent. In total taxes, FY 2017 year-to-date adjusted revenues are more than the enacted FY 2017 year-to-date expected revenue estimate by \$7.7 million or 1.1 percent. For departmental receipts, FY 2017 through September adjusted revenues exceed the enacted FY 2017 expected year-to-date revenues estimate by \$1.5 million or 4.1 percent. For other general revenue sources, adjusted fiscal year-to-date revenues exceed enacted FY 2017 expected revenues through September by \$197,316 or 0.3 percent.

Four revenue items had adjusted revenues in FY 2017 through September that exceeded the enacted FY 2017 through September expected estimate by \$1.0 million or more.

- Personal income tax adjusted revenues for the fiscal year-to-date through September period were \$6.1 million more than expected FY 2017 personal income tax revenues through September, a variance of 1.9 percent.
 - Adjusted FY 2017 personal income tax withholding payments through September were \$12.0 million, or 4.6 percent, more than expected fiscal year-to-date personal income tax withholding payments based on the FY 2017 enacted estimate.

- Adjusted FY 2017 personal income tax final payments through September were \$2.3 million, or 21.3 percent, more than expected fiscal year-to-date personal income tax final payments based on the FY 2017 enacted estimate.
- Adjusted FY 2017 personal income tax refunds and adjustments through September were \$2.4 million, or 17.0 percent, more than expected fiscal year-to-date personal income tax refunds and adjustments based on the FY 2017 enacted estimate.
- Adjusted FY 2017 personal income tax estimated payments through September were \$5.8 million, or -9.5 percent, less than expected fiscal year-to-date personal income tax estimated payments based on the FY 2017 enacted estimate.
- Estate and transfer tax adjusted revenues for FY 2017 through September are \$3.1 million, or 58.0 percent, more than the enacted FY 2017 expected year-to-date estate and transfer tax revenues estimate of \$5.4 million.
- Fiscal year-to-date adjusted departmental receipts are \$1.5 million more than expected departmental receipts for FY 2017 through September, a variance of 4.1 percent.
- FY 2017 through September adjusted sales and use tax revenues are \$1.3 million, or 0.5 percent, ahead of expected FY 2017 sales and use taxes through September, in part due to a \$2.3 million audit recovery of prior year sales and use taxes that was recorded in August 2016.

Fiscal year-to-date through September adjusted revenues for the realty transfer tax, the alcohol excise tax, the lottery transfer, the insurance companies gross premiums tax, and the racing and athletics taxes are greater than the enacted FY 2017 through September expected revenue estimates but by less than \$1.0 million each.

One revenue item had adjusted revenues in FY 2017 through September that trailed expected year-to-date revenues by more than \$1.0 million each.

- FY 2017 through September adjusted business corporations tax revenues are \$1.3 million behind the FY 2017 through September expected business corporations tax revenues of \$24.2 million, in part due to an increased number of refunds being paid out by the Division of Taxation in year-to-date through September in order to reduce the backlog of corporate returns.

FY 2017 through September adjusted revenues for the health care provider assessment, the financial institutions tax, the public utilities gross earnings tax, motor vehicle license and registration fees, the cigarettes tax, and the bank deposits taxes are below the enacted FY 2017 through September revenue estimates but by less than \$1.0 million each.

Results for the Month of September 2016

The second table, *Monthly Estimate to Actual*, gives the results for September 2016. As is apparent from the table, the Department of Revenue finds that September adjusted total general revenues trailed the enacted FY 2017 expected total general revenues estimate for September by \$12.2 million or -3.9 percent. In total taxes, September adjusted revenues are less than the enacted FY 2017 expected monthly revenue estimate by \$11.3 million or -4.2 percent. For departmental

receipts, September adjusted revenues exceed the enacted FY 2017 expected monthly revenues estimate by \$788,727 or 6.1 percent. For other general revenue sources, adjusted FY 2017 monthly revenues for September were \$1.7 million less than the enacted FY 2017 expected monthly revenues estimate.

No individual revenue items exceeded the enacted FY 2017 expected monthly estimate by \$1.0 million or more in September. September adjusted revenues for departmental receipts, the alcohol excise tax, the realty transfer tax, the insurance companies gross premiums tax, the public utilities gross earnings tax, motor vehicle license and registration fees, the estate and transfer tax, and the racing and athletics taxes are greater than the enacted FY 2017 expected monthly revenue estimates for September, but by less than \$1.0 million each.

Four revenue items had adjusted revenues in September that trailed the enacted FY 2017 expected monthly estimate by \$1.0 million or more.

- Personal income tax adjusted revenues for September 2016 are \$5.0 million, or -3.6 percent, less than the enacted FY 2017 expected monthly revenues estimate of \$140.9 million.
 - September adjusted personal income tax estimated payments revenues were \$6.7 million less than expected September personal income tax estimated payments revenues based on the enacted FY 2017 estimate.
 - September adjusted personal income tax refunds and adjustments were \$1.6 million more than expected September personal income tax refunds and adjustments based on the enacted FY 2017 estimate.
 - September adjusted personal income tax final payments revenues were \$1.7 million more than the expected September personal income tax final payments revenues based on the enacted FY 2017 estimate.
 - September adjusted personal income tax withholding payments revenues were \$1.6 million more than expected September personal income tax withholding payments revenues based on the enacted FY 2017 estimate.
- Monthly adjusted business corporations tax revenues are \$3.1 million, or -20.9 percent, less than expected business corporations tax revenues for September based on the enacted FY 2017 estimate, in part due to an increased number of refunds paid out by the Division of Taxation in September order to reduce the backlog of corporate returns.
- Monthly adjusted sales and use tax revenues are \$1.8 million, or -2.1 percent, less than expected monthly sales and use tax revenues based on the enacted FY 2017 estimate.
- The adjusted lottery transfer revenues for September are \$1.7 million less than expected monthly lottery transfer revenues, a variance of -5.5 percent.

September adjusted revenues for the cigarettes tax, the financial institutions tax, the health care provider assessment, and the bank deposits taxes are below the enacted FY 2017 monthly revenue estimate but by less than \$1.0 million each.



Robert S. Hull
Director, Department of Revenue
October 26, 2016

Appendix: Law Changes Enacted in the 2016 Session of the General Assembly

Revenue Changes That Reclassify General Revenues

In the 2014 session, the General Assembly passed legislation that reclassified 75.0 percent of all motor vehicle operator license and vehicle registration fees from general revenues to other funds effective July 1, 2016. The reclassification of these general revenue flows does not have any impact on expected FY 2017 enacted general revenues as these revenues are not included in either the adjusted revenue calculations contained in this report or the enacted FY 2017 general revenue estimates.

In the 2016 session, the General Assembly passed legislation that reclassified all of the motor carrier fuel use tax revenues from general revenues to other funds effective July 1, 2016. As motor carrier fuel use tax revenues are no longer classified as general revenues, they will no longer be included in this report.

Also in the 2016 session, the General Assembly transferred from general revenues to restricted receipts the registration fees of medical marijuana patients and medical marijuana caregivers effective July 1, 2016. The estimated revenues to be reclassified total \$901,647. The reclassification of these general revenue flows does not have any impact on expected FY 2017 enacted general revenues as these revenues are not included in either the adjusted revenue calculations contained in this report or the enacted FY 2017 general revenue estimates.

Revenue Changes That Will Be Realized Through Monthly Revenue Flows

In the 2015 session, the General Assembly enacted legislation that restructured the state's earned income credit (EIC). For tax years beginning on or after January 1, 2016, the state EIC is equal to 12.5 percent of the federal EIC claimed by a taxpayer with the amount of the state EIC greater than the taxpayer's state personal income tax liability fully refundable. Since TY 2016 personal income tax returns will not be filed until after January 1, 2017, most of the \$(6.0 million) impact from this law change is expected to be reflected in FY 2017 personal income tax refund revenue flows beginning in February. As a result, personal income tax refund revenue flows will be higher than the enacted personal income tax refund estimate for the period of July 2016 through January 2017. ORA has adjusted the July 2016 through January 2017 personal income tax refunds and adjustments revenue flows to reflect the higher expected revenues for this period.

Further, the 2015 General Assembly enacted legislation that exempts from state personal income taxes taxable Social Security benefits for taxpayers with federal adjusted gross income of \$80,000 or less if filing as an individual or \$100,000 or less if filing a joint return. This exemption is provided only to those taxpayers that have reached full Social Security retirement age.⁵ Since TY 2016 personal income tax returns will not be filed until after January 1, 2017, most of the \$(18.3

⁵ For TY 2016, persons born before 1951 will be eligible for a modification reducing federal Adjusted Gross Income subject to Rhode Island income tax. For TY 2017, the comparable year is 1952.

million) impact from this law change is expected to be reflected in FY 2017 personal income tax final payments. As a result, personal income tax final payments revenue flows will be higher than FY 2017 estimated personal income tax final payments revenues for the period July 2016 through February 2017. ORA has adjusted the July 2016 through February 2017 personal income tax final payments revenue flows to reflect the higher expected revenues for this period.

With respect to business corporations tax, the 2015 General Assembly enacted legislation that reduced the annual corporate minimum tax by 10.0 percent to \$450 for tax years beginning on or after January 1, 2016. Business entities that pay the minimum corporate tax include all for-profit enterprises except for sole proprietorships and general partnerships. Minimum corporate tax filers that have January to December taxable years are required to pay the minimum tax by March 15th of the following calendar year. For calendar year minimum corporate tax filers, final TY 2016 returns are due March 15, 2017. Thus, most of this \$(3.2 million) revenue change is expected to be realized in FY 2017 revenue flows, but not until March. ORA has adjusted the July 2016 through February 2017 business corporations tax revenue flows to reflect the higher expected revenues for this period.

In the 2016 session, the General Assembly enacted legislation that added three revenue officers to the Division of Taxation in FY 2017. The enacted FY 2017 personal income tax final payments revenue impact of this law change is \$788,468; the enacted FY 2017 business corporations tax revenue impact is \$205,005; the enacted FY 2017 sales and use tax revenue impact is \$784,639; and the enacted FY 2017 departmental receipts fines and penalties revenue impact is \$645,110. For each of these revenue items, the revenue flows from the addition of three revenue officers are expected to be realized completely during FY 2017 and in accordance to the general flow of revenues for each of these revenue items.

Furthermore, the 2016 General Assembly approved the Governor's proposal to reinstate the nexus program in the Division of Taxation's Field Audit Section. This reinstatement is expected to increase business corporations tax revenues by \$750,000 and sales and use tax revenues by \$250,000. The revenue flows from the reinstated nexus program are expected to be realized completely in FY 2017 and in accordance with the general flow of revenues for these two revenue items.

The 2016 General Assembly approved the Governor's proposal to have the Division of Taxation undertake a transfer pricing audit project which is expected to increase business corporations tax revenues by \$6,696,000 in FY 2017. This revenue change is not expected to be realized in the business corporations monthly revenue flows until the last quarter of FY 2017, and thus business corporations revenue flows will be lower than the enacted estimate until that time. ORA has adjusted the July 2016 through March 2017 business corporations tax revenue flows to reflect the higher expected revenues for this period.

With respect to the insurance companies gross premiums tax, the 2016 General Assembly enacted a program to increase retaliatory actions against foreign insurance companies to ensure that these companies pay the gross premiums tax assessed in their home states on insurance contracts written in Rhode Island if that tax rate is greater than Rhode Island's 2.0 percent gross premiums tax rate.

This enacted change is expected to increase insurance companies gross premiums tax revenues by \$1,074,000 in FY 2017. In addition, FY 2017 insurance companies gross premiums tax revenues are estimated to be \$209,191 less due to lower Medicaid insurance premiums written as a result of the implementation of the Unified Health Infrastructure Project. The impact of these revenue changes is expected to be realized primarily in March and June of 2017, which is typical for insurance companies gross premiums taxes in general.

With respect to sales and use tax, the 2016 General Assembly approved the Governor's proposal to add two revenue agents to the Division of Taxation. This proposal is expected to increase FY 2017 sales and use tax revenues by \$1,009,167. The monthly distribution of the impact of this revenue change is expected to be similar to that of sales and use tax revenues in general.

The 2016 General Assembly enacted legislation that will eliminate fees for veteran plates, as well as create a Gold Star Parent plate. These law changes are expected to have a revenue impact of \$(35,000) in the motor vehicle license and registration fees revenue item in FY 2017. The monthly distribution of the impact of this revenue change is expected to be similar to that of motor vehicle license and registration fees in general.

In the 2016 session, the General Assembly also enacted legislation that created a two-tiered annual license fee for distilleries based on the volume of production and exempted the first 50,000 gallons manufactured by Rhode Island distilleries from the alcohol excise tax. The monthly distribution of the \$(30,000) impact of this revenue change is expected to be similar to that of alcohol excise tax revenues in general.

Also, the 2016 General Assembly passed legislation that impacted the FY 2017 revenue flows for a number of departmental receipts items. Parking fees at state beaches were reduced by 50 percent yielding a decrease in departmental receipts revenues of \$1,284,000; the debt instruments upon which the Public Finance Management Board can assess a fee was expanded raising \$295,000; cost recovery fees paid by banks and insurance companies for examinations are expected to generate \$400,000; the restructuring of the fees paid by limited liability partnerships should reduce revenues by \$30,000; the delay in the reissuance of motor vehicle license plates is projected to lower revenues by \$2.0 million; revenues are expected to increase by \$108,864 based on payments to the state in exchange for state office facilities potentially being "browned out" during periods of excess demand for electricity; and indirect cost recovery fees of \$195,467 from medical marijuana plant tag fees and patient and caregiver registration fees are forecast. The monthly distribution of all of these revenue flows are expected to be the same as departmental receipts revenues in general.

Finally, in the 2016 Session, the General Assembly increased FY 2017 other miscellaneous revenues by \$6.0 million. This increased revenue is from the implementation of the Office of Management and Budget's fraud initiative and the anticipated sale of state fleet vehicles as part of a cost saving measure in the provision of motor vehicles for use by employees in the performance of their duties. The monthly distribution of these revenue flows will be recorded as they are received.

Revenue Changes That Will Be Realized Through Fiscal Year End Accruals

The 2016 General Assembly enacted legislation that impacts FY 2017 general revenues primarily through the fiscal year end accrual process. The legislation enacted during the 2016 session impacts the personal income tax and the business corporations tax. The effective date of the legislation is January 1, 2017.

With respect to personal income tax, the 2016 General Assembly enacted legislation that increased the percentage of the federal EIC that could be claimed by the taxpayer from 12.5 percent to 15.0 percent, effective for tax years beginning on or after January 1, 2017. This change in the state EIC is expected to increase TY 2017 personal income tax refunds paid out by \$5.3 million. Since TY 2017 personal income tax returns will not be filed until after January 1, 2018, which is in FY 2018, little or no impact on FY 2017 personal income tax refund revenue flows is expected. There is, however, an expected increase in the payable portion of the FY 2017 personal income tax accrual to align increased future refunds with the time period in which the income was earned that generated these refunds. The increase in the payable portion of the FY 2017 personal income tax accrual is estimated at \$2.7 million. This amount was included in the enacted FY 2017 estimate of personal income tax refunds and adjustments and, as a result, actual personal income tax refund revenue flows will be higher, all else equal, than expected personal income tax refund revenues for at least the July 2016 through October 2016 period. ORA has adjusted personal income tax refunds and adjustments revenue flows to reflect the higher expected revenues for at least this period.

Additionally, the 2016 General Assembly enacted legislation that exempts from state personal income taxes up to \$15,000 of taxable pensions, annuities, and certain other retirement income⁶ for taxpayers that have reached full Social Security retirement age.⁷ Taxpayers must have federal adjusted gross income (AGI) of \$80,000 or less for individuals or federal AGI of \$100,000 or less for married couples.⁸ The exemption of the first \$15,000 of taxable pensions, annuities, etc. is expected to decrease TY 2017 personal income tax final payments by \$12.7 million. Since TY 2017 personal income tax returns will not be filed until after January 1, 2017, which is in FY 2018, little or no impact on FY 2017 personal income tax final payments is expected. There is, however, an expected decrease in the receivable portion of the FY 2017 personal income tax accrual to align anticipated reduced personal income tax final payments with the time period in which the exempted income was generated. The decrease in the receivable portion of the FY 2017 personal income tax accrual is \$6.3 million. This amount was included in the enacted FY 2017 estimate of personal income tax final payments and, as a result, personal income tax final payments revenue flows will be higher, all else equal, than expected personal income tax final payments revenues for at least the July 2016 through October 2017 period. ORA has adjusted personal income tax final payments revenue flows to reflect the higher expected revenues for at least this period.

⁶ Other retirement income consists primarily of distributions from 401(k), 403(b), and 457(b) retirement accounts but not distributions from individual retirement accounts.

⁷ For TY 2017, persons born before 1952 will be eligible for a modification reducing federal Adjusted Gross Income subject to Rhode Island income tax.

⁸ The actual federal AGI amounts for individual and married taxpayers will be the same as the TY 2017 federal AGI thresholds applicable for the exemption of taxable Social Security benefits.

With respect to business corporations tax revenues, the 2016 General Assembly passed legislation that further reduces corporate minimum tax paid by all for profit business entities other than sole proprietorships and general partnerships to \$400 effective for tax years beginning on or after January 1, 2017. This change is expected to decrease TY 2017 business corporation tax revenues by \$3.2 million. For calendar year minimum corporate tax filers, final TY 2017 returns are due on March 15, 2018, which is in FY 2018. To align the tax paid by corporate minimum filers to the business activity that generated the tax liability, 50.0 percent of minimum corporate tax payments expected to be received for TY 2017 will be accrued back to FY 2017. Since the minimum corporate tax in TY 2017 is less than for TY 2016, a reduction of \$1.6 million in FY 2017 business corporations tax revenues will result on a net accrual basis.

Due to these revenue changes, the methodology used in the *Revenue Assessment Report* for FY 2017 will be similar to that used in the FY 2015 and FY 2016 reports. For most revenue items, the assessment of FY 2017 adjusted revenues will be made vis-à-vis the FY 2017 enacted (or revised) revenue estimates. For some revenue items, however, the assessment of FY 2017 adjusted revenues will be made vis-à-vis FY 2017 enacted (or revised) revenue flows as estimated by ORA.