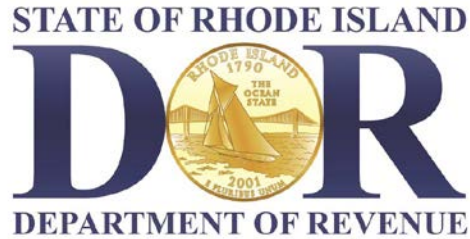


STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
GOVERNOR GINA M. RAIMONDO



Office of Revenue Analysis

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

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 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.

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. This monthly revenue assessment report compares adjusted revenues to expected revenues based on the revenue estimates adopted at the November 2016 Revenue Estimating Conference.

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

| | YTD January Adjusted Revenues FY 2017 | | YTD January Estimate of Revised FY 2017 Revenues † | | Difference | Variance |
|--------------------------------------|---|------|--|---|------------------------|--------------|
| Personal Income Tax | \$ 781,989,829 | a, b | \$ 787,933,635 | | \$ (5,943,806) | -0.8% |
| General Business Taxes | | | | | | |
| Business Corporations † | 43,680,984 | c | 41,793,566 | | 1,887,418 | 4.5% |
| Public Utilities Gross Earnings | 2,351,489 | | 2,163,734 | | 187,755 | 8.7% |
| Financial Institutions | 1,486,957 | c | 4,857,293 | | (3,370,336) | -69.4% |
| Insurance Companies | 3,528,843 | d, e | 2,077,840 | | 1,451,003 | 69.8% |
| Bank Deposits | 4,414 | | 184,447 | | (180,033) | -97.6% |
| Health Care Provider Assessment | 24,002,667 | | 24,742,090 | | (739,423) | -3.0% |
| Excise Taxes | | | | | | |
| Sales and Use | 608,275,610 | | 614,784,802 | | (6,509,192) | -1.1% |
| Motor Carrier Fuel Use | - | | - | | - | 0.0% |
| Motor Vehicle | 5,558,249 | | 5,808,239 | | (249,990) | -4.3% |
| Cigarettes | 84,730,502 | | 82,743,455 | | 1,987,047 | 2.4% |
| Alcohol | 11,802,160 | | 11,994,022 | | (191,862) | -1.6% |
| Controlled Substances | | | | | | |
| Other Taxes | | | | | | |
| Estate and Transfer | 15,235,525 | | 19,021,446 | | (3,785,921) | -19.9% |
| Racing and Athletics | 634,376 | | 618,306 | | 16,070 | 2.6% |
| Realty Transfer | 7,128,453 | f | 7,302,290 | | (173,837) | -2.4% |
| Total Taxes | \$ 1,590,410,059 | | \$ 1,606,025,165 | | \$ (15,615,106) | -1.0% |
| Departmental Receipts | \$ 110,215,756 | g | \$ 105,162,514 | | \$ 5,053,242 | 4.8% |
| Taxes and Departmentals | \$ 1,700,625,815 | | \$ 1,711,187,679 | | \$ (10,561,864) | -0.6% |
| Other General Revenue Sources | | | | | | |
| Other Miscellaneous Revenues | 108,345 | | 108,345 | + | - | 0.0% |
| Lottery Transfer | 177,195,411 | h | 178,972,031 | | (1,776,620) | -1.0% |
| Unclaimed Property | - | | - | + | - | n/a |
| Total Other Sources | \$ 177,303,756 | | \$ 179,080,376 | | \$ (1,776,620) | -1.0% |
| Total General Revenues | \$ 1,877,929,571 | | \$ 1,890,268,055 | | \$ (12,338,484) | -0.7% |

| PIT Component | YTD January Adj. Revenues | | YTD January Revised Estimates | | Difference | Variance |
|---------------------------|------------------------------|---|----------------------------------|--|-----------------------|--------------|
| Estimated payments | \$ 148,972,747 | a | \$ 148,800,995 | | \$ 171,752 | 0.1% |
| Final payments † | 36,629,642 | | 29,585,295 | | 7,044,346 | 23.8% |
| Withholding | 652,163,045 | | 657,356,961 | | (5,193,916) | -0.8% |
| Refunds and Adjustments † | (55,775,604) | b | (47,809,616) | | (7,965,988) | 16.7% |
| Total | \$ 781,989,830 | | \$ 787,933,635 | | \$ (5,943,805) | -0.8% |

† Revised 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 Includes large, infrequently occurring personal income tax estimated payments totaling \$2.6 million that were received in November 2016.
- ^b 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.
- ^c 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.
- ^d Subtracts \$16,844,511 for an HMO insurance gross premiums payment that was paid in July 2016 and accrued back to FY 2016.
- ^e Adds \$(192,749) in insurance companies gross premiums tax refunds that were paid by Taxation in January 2017 but will not be posted until February 2017.
- ^f Adds \$17,648 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 January transfer that will occur in February 2017.
- ^g Subtracts \$158,044,146 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.
- ^h Deducts \$1,408,965 for the lottery transfer received in October 2016 that accrued back to FY 2016.

Monthly Estimate to Actual

| | January Adjusted Revenues FY 2017 | January Estimate of Revised FY 2017 Revenues † | Difference | Variance |
|--------------------------------------|---|--|-----------------------|--------------|
| Personal Income Tax | \$ 143,366,702 | \$ 147,099,114 | \$ (3,732,412) | -2.5% |
| General Business Taxes | | | | |
| Business Corporations † | 426,954 | 1,207,991 | (781,037) | -64.7% |
| Public Utilities Gross Earnings | 460,416 | 239,342 | 221,074 | 92.4% |
| Financial Institutions | (18,475) ^a | 1,513 | (19,988) | -1321.5% |
| Insurance Companies | 272,426 | 328,073 | (55,647) | -17.0% |
| Bank Deposits | 4,590 | 23,349 | (18,759) | -80.3% |
| Health Care Provider Assessment | 3,426,251 | 3,611,980 | (185,729) | -5.1% |
| Excise Taxes | | | | |
| Sales and Use | 91,325,139 | 92,898,522 | (1,573,383) | -1.7% |
| Motor Carrier Fuel Use | - | - | - | 0.0% |
| Motor Vehicle | 835,969 | 457,419 | 378,550 | 82.8% |
| Cigarettes | 11,431,972 | 10,445,620 | 986,352 | 9.4% |
| Alcohol | 1,578,671 | 1,784,989 | (206,318) | -11.6% |
| Controlled Substances | | | | |
| Other Taxes | | | | |
| Estate and Transfer | 809,166 | 2,009,398 | (1,200,232) | -59.7% |
| Racing and Athletics | 73,361 | 83,016 | (9,655) | -11.6% |
| Realty Transfer | 913,183 ^b | 1,121,458 | (208,275) | -18.6% |
| Total Taxes | \$ 254,906,326 | \$ 261,311,784 | \$ (6,405,459) | -2.5% |
| Departmental Receipts | \$ 29,084,008 ^c | \$ 23,609,183 | \$ 5,474,825 | 23.2% |
| Taxes and Departmentals | \$ 283,990,334 | \$ 284,920,967 | \$ (930,633) | -0.3% |
| Other General Revenue Sources | | | | |
| Other Miscellaneous Revenues | - ⁺ | - ⁺ | - | n/a |
| Lottery Transfer | 28,516,921 | 29,149,921 | (633,000) | -2.2% |
| Unclaimed Property | - ⁺ | - ⁺ | - | n/a |
| Total Other Sources | \$ 28,516,921 | \$ 29,149,921 | \$ (633,000) | -2.2% |
| Total General Revenues | \$ 312,507,255 | \$ 314,070,887 | \$ (1,563,633) | -0.5% |

| PIT Component | January Adj. Revenues | January Revised Estimates | Difference | Variance |
|---------------------------|----------------------------|------------------------------|-----------------------|--------------|
| Estimated payments | \$ 57,639,675 ^a | \$ 53,776,480 | \$ 3,863,195 | 7.2% |
| Final payments † | 3,192,499 | 3,263,616 | (71,117) | -2.2% |
| Withholding | 98,742,328 | 99,548,210 | (805,882) | -0.8% |
| Refunds and Adjustments † | (16,207,800) | (9,489,192) | (6,718,608) | 70.8% |
| Total | \$ 143,366,702 | \$ 147,099,114 | \$ (3,732,412) | -2.5% |

† Revised 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.

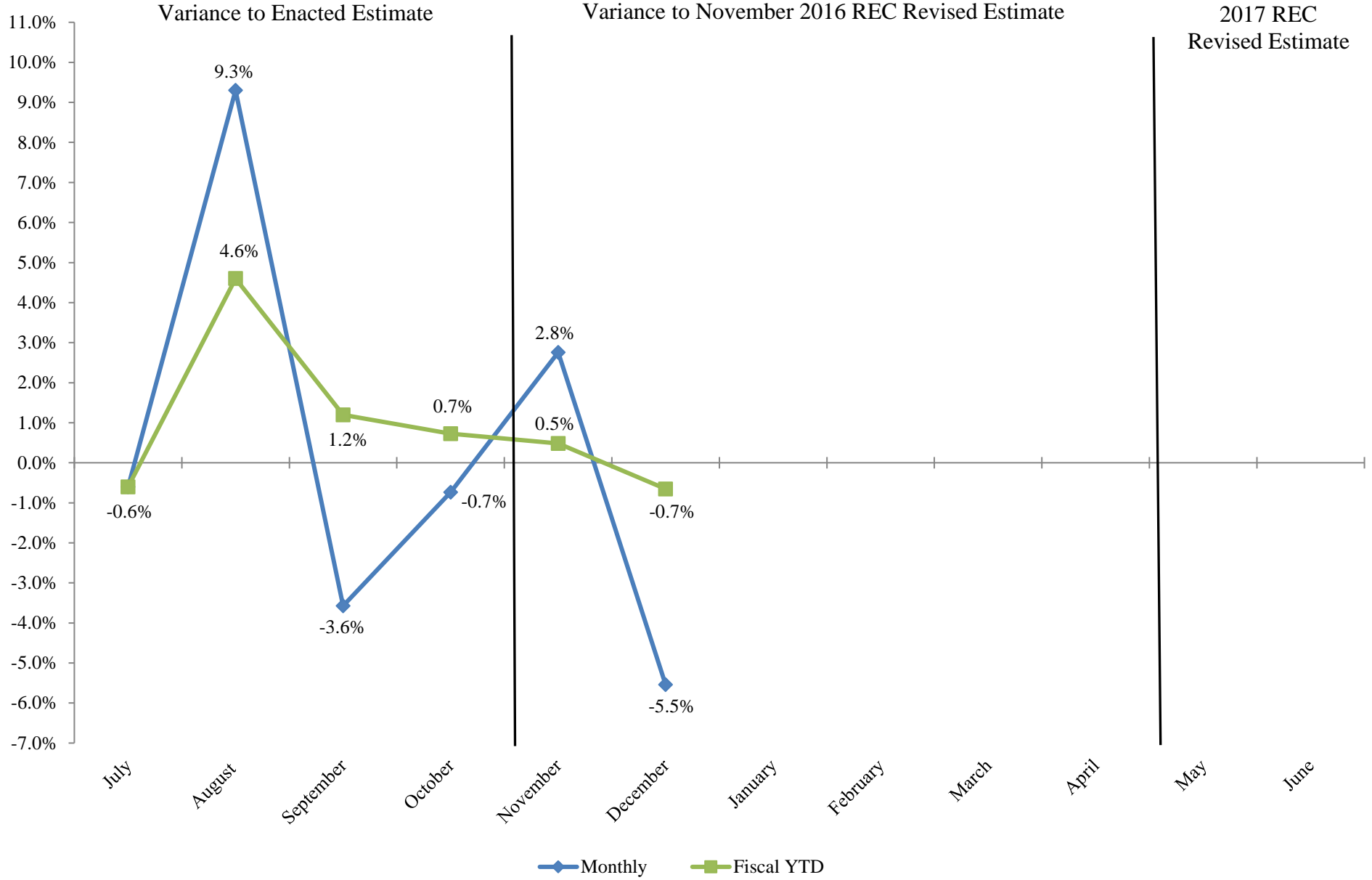
+ Set equal to actual amounts received.

a Adds \$(192,749) in insurance companies gross premiums tax refunds that were paid by Taxation in January 2017 but will not be posted until February 2017.

b Adds \$19,133 in realty transfer tax revenues that are designated for the Housing Resources Commission. The amount reflects the difference between the December 2016 transfer that occurred in January 2017 and the January 2017 transfer that will occur in February 2017.

c Subtracts \$833,409 in departmental receipts for hospital licensing fees received in January that accrue back to FY 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 Revised FY 2017 Revenues Adopted at the November 2016 REC

In order to determine the expected monthly and fiscal year-to-date revenue estimates based on the revised revenue estimates adopted at the November 2016 Revenue Estimating Conference (REC), 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 revised 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 revised 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 revised FY 2017 modified 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 January. 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 and included as part of the revised FY 2017 revenue estimates adopted at the November 2016 REC.

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> | |
|---------------------------------|-------------------------|--------|-----------------------|-------------------------|--------|
| | Jan. | YTD | | Jan. | YTD |
| Personal Income Taxes | | | Sales and Use Taxes | 9.2 % | 60.6 % |
| Estimated Payments | 22.4 % | 61.9 % | Motor Vehicles Fees | 7.2 % | 44.3 % |
| Final Payments | 1.6 % | 14.6 % | Cigarettes Taxes | 7.6 % | 60.1 % |
| Withholding Payments | 8.6 % | 57.0 % | Alcohol Excise Taxes | 9.0 % | 60.6 % |
| Refunds/Adjustments | 3.2 % | 16.4 % | Estate and Transfer | 6.5 % | 61.4 % |
| Business Corporations Taxes | 0.8 % | 26.0 % | Racing and Athletics | 7.5 % | 56.2 % |
| Utilities Gross Earnings Taxes | 0.2 % | 2.1 % | Realty Transfer | 9.7 % | 63.0 % |
| Financial Institutions Taxes | 0.0 % | 23.1 % | Departmental Receipts | 12.1 % | 53.7 % |
| Insurance Co. Gross Premiums | 0.3 % | 1.6 % | Lottery Transfer | 8.0 % | 49.0 % |
| Bank Deposits | 0.9 % | 7.4 % | Other Misc. Revenues | n/a | n/a |
| Health Care Provider Assessment | 8.5 % | 58.4 % | 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 revised sales and use tax estimate includes these voluntary receipts.

In the 2017 session, the General Assembly enacted changes to personal income tax final payments, personal income tax refunds and adjustments and business corporations tax revenues that had effective dates of January 1, 2017. In general, such law changes impact the underlying revenue stream through the accrual process rather than through the monthly revenue flows. At the November 2016 Revenue Estimating Conference, the principals explicitly estimated the impact of allowing a deduction of up to \$15,000 for taxable pensions and annuities from federal Adjusted Gross Income (AGI) for certain taxpayers and increasing the state allowance for the federal earned income credit (EIC) from 12.5 percent to 15.0 percent as part of the personal income tax net accrual. In the case of previously enacted law changes, however, such as the exemption of taxable Social Security benefits for certain taxpayers which passed in the 2015 session, these impacts will not flow through

as revenues until later in FY 2017.³ As a result, ORA will still adjust the revenue flows for personal income tax final payments and personal income tax refunds and adjustments but only to account for law changes that went into effect on January 1, 2016 or earlier.

This is not the case with the business corporations tax. For the business corporations tax, ORA will continue to adjust business corporations tax revenues to reflect the revenue impacts of both law changes with effective dates of January 1, 2017 and later and January 1, 2016 and earlier in the same manner as in previous monthly revenue assessment reports. The footnotes to Table B detail the breakdown of modified revenue flows and accruals for each of these revenue items.

The revised FY 2017 estimates by revenue item as adopted at the November 2016 Revenue Estimating Conference are as follows:

| Table B. FY 2017 Revised Revenue Estimates by Major Revenue Item | | | |
|--|---|---------------------------------|---|
| Revenue Item | Nov. 2016 Revised FY 2017 Estimate | Revenue Item | Nov. 2016 Revised FY 2017 Estimate |
| Personal Income Taxes | | Sales and Use Taxes | \$ 1,014,200,000 |
| Estimated Payments | \$ 240,400,000 | Motor Vehicles Fees | 13,100,000 |
| Final Payments ^a | 184,000,000 | Cigarettes Taxes | 137,700,000 |
| Withholding Payments | 1,152,800,000 | Alcohol Excise Taxes | 19,800,000 |
| Refunds/Adjustments ^b | (298,300,000) | Estate and Transfer | 31,000,000 |
| Business Corporations Taxes ^c | 167,500,000 | Racing and Athletics | 1,100,000 |
| Public Utilities Gross Earnings | 104,100,000 | Realty Transfer | 11,600,000 |
| Financial Institutions Taxes | 21,000,000 | Departmental Receipts ‡ | 364,800,000 |
| Insurance Co. Gross Premiums | 139,500,000 | Lottery | 363,500,000 |
| Bank Deposits | 2,500,000 | Other Misc. Revenues | 7,189,000 |
| Health Care Provider Assessment | 42,400,000 | Unclaimed Property | 11,000,000 |
| | | Total General Revenues * | \$ 3,719,589,000 |
| ‡ 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 \$(11,300,000). Included in this accrual is the estimated revenue impact of \$(6,340,796) from the exemption of the first \$15,000 of taxable pensions and annuities and the estimated revenue impact of \$(2,672,326) from the increase of the state EIC to 15.0 percent of the federal EIC on January 1, 2017. | | | |

³ 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.

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. 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 \$202,331,957. For the period from March 2017 through June 2017, adjusted FY 2017 personal income tax final payments revenues will be assessed against the November 2016 REC adopted FY 2017 estimate of \$184,000,000.
- ^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. 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 the November 2016 REC FY 2017 estimate of \$298,300,000.
- ^c Business corporations tax revenues estimate includes an estimated revenue impact of \$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, for the period of July 2016 through March 2017 ORA will assess adjusted FY 2017 revenues against a “base” FY 2017 revenue estimate of \$160,804,000. Additionally, the November 2016 REC FY 2017 estimate includes \$(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 revised 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. As a result, from the period of March 2017 through June 2017 ORA will assess adjusted FY 2017 revenues against a “base” FY 2017 revenue estimate of \$162,680,652.

Results for FY 2017 through January

The table, *Year-to-Date Estimate to Actual*, gives the results for FY 2017 through January. As is apparent from the table, the Department of Revenue finds that FY 2017 through January adjusted total general revenues trailed the revised FY 2017 adopted total general revenues estimate through January by \$12.3 million, a variance of -0.7 percent. In total taxes, FY 2017 year-to-date adjusted revenues were less than the revised FY 2017 year-to-date adopted revenue estimate by \$15.6 million, a variance of -1.0 percent. For departmental receipts, FY 2017 through January adjusted revenues led the revised FY 2017 adopted year-to-date revenues estimate by \$5.1 million or 4.8 percent. For other general revenue sources, adjusted fiscal year-to-date revenues trailed revised FY 2017 adopted revenues through January by \$1.8 million, a variance of -1.0 percent.

Four revenue items had adjusted revenues in FY 2017 through January that exceeded expected FY 2017 revenue estimates, based on the revenue estimates adopted at the November 2016 Revenue Estimating Conference, by \$1.0 million or more.

- Departmental receipts adjusted revenues for year-to-date FY 2017 were \$5.1 million or 4.8 percent more than the expected year-to-date revised FY 2017 adopted departmental receipts revenues estimate of \$105.2 million. Part of this variance can be attributed to

adjusted FY 2017 through January revenues for penalties on overdue taxes being ahead of expected year-to-date revenues.

- FY 2017 through January adjusted cigarettes tax revenues exceeded the expected FY 2017 revised year-to-date cigarette tax revenues estimate by \$2.0 million, a variance of 2.4 percent.
- Business corporations tax adjusted revenues for FY 2017 through January were \$1.9 million, or 4.5 percent, more than the expected year-to-date revised FY 2017 adopted business corporations tax revenues estimate of \$41.8 million.
- Insurance companies gross premiums tax adjusted revenues for FY 2017 through January were \$1.5 million, or 69.8 percent, more than the expected year-to-date revised FY 2017 adopted business corporations tax revenues estimate of \$2.1 million.

Fiscal year-to-date through January adjusted revenues for the public utilities gross earnings tax and the racing and athletics tax were greater than the expected FY 2017 through January adopted revenue estimates but by less than \$1.0 million each.

Five revenue items had adjusted revenues in FY 2017 through January that trailed the expected FY 2017 revised revenue estimate by more than \$1.0 million each.

- FY 2017 through January adjusted sales and use tax revenues were \$6.5 million behind the expected FY 2017 revised sales and use tax revenues through January, a variance of -1.1 percent. FY 2017 through January adjusted sales and use tax revenues include \$2.3 million from an audit recovery of prior year sales and use tax owed that was received in August 2016.
- Personal income tax adjusted revenues for the fiscal year-to-date through January period were \$5.9 million less than expected FY 2017 revised personal income tax revenues through January, a variance of -0.8 percent.
 - Adjusted FY 2017 personal income tax refunds and adjustments were \$8.0 million more than expected FY 2017 personal income tax refunds and adjustments revenues based on the revised estimate adopted at the November 2016 Revenue Estimating Conference, a variance of 16.7 percent. This increase is due, in part, to the processing of prior tax year refunds.
 - Adjusted FY 2017 personal income tax withholding payments through January were \$5.2 million less than expected fiscal year-to-date personal income tax withholding payments based on the FY 2017 revised estimate, a variance of -0.8 percent. Adjusted FY 2017 personal income tax withholding payments through January include a large, infrequently occurring payment of \$3.3 million processed in August 2016.
 - Adjusted FY 2017 personal income tax final payments through January were \$7.0 million, or 23.8 percent, more than expected fiscal year-to-date personal income tax final payments based on the FY 2017 revised estimate. Adjusted personal income tax final payments through January include \$7.2 million of reimbursed Historic Structures Tax Credit redemptions.

- Adjusted FY 2017 personal income tax estimated payments through January were in-line with expectations.
- FY 2017 through January adjusted estate and transfer tax revenues were \$3.8 million behind the expected FY 2017 revised sales and use tax revenues through January, a variance of -19.9 percent.
- Financial institutions tax adjusted revenues for FY 2017 through January were \$3.4 million below expected FY 2017 revised financial institutions tax revenues through January, a variance of -69.4 percent
- The lottery transfer adjusted revenues for FY 2017 through January were \$1.8 million behind expected FY 2017 revised lottery transfer revenues through January of \$179.0 million, a variance of -1.0 percent

FY 2017 through January adjusted revenues for the healthcare provider assessment, motor vehicle license and registration fees, the alcohol excise tax, the bank deposits tax, and the realty transfer tax were below the expected FY 2017 through January revised revenues estimates but by less than \$1.0 million each.

Results for the Month of January 2017

The second table, *Monthly Estimate to Actual*, gives the results for January 2017. As is apparent from the table, the Department of Revenue finds that January adjusted total general revenues trailed the expected FY 2017 revised total general revenues estimate for January by \$1.6 million, a variance of -0.5 percent. In total taxes, January adjusted revenues were less than the expected FY 2017 revised monthly revenue estimate by \$6.4 million, a variance of -2.5 percent. For departmental receipts, January adjusted revenues led the expected FY 2017 revised monthly revenues estimate by \$5.5 million, a variance of 23.2 percent. For other general revenue sources, adjusted FY 2017 monthly revenues for January were \$633,000 less than the expected FY 2017 revised monthly revenues estimate, a variance of -2.2 percent.

One revenue item had adjusted revenues in January that exceeded the expected FY 2017 revised monthly estimate by \$1.0 million or more.

- Departmental receipts adjusted revenues for January 2017 were \$5.5 million more than expected monthly departmental receipts based on the revised FY 2017 estimate, a variance of 23.2 percent. Part of this variance can be attributed to adjusted January 2017 revenues for penalties on overdue taxes being ahead of expected monthly revenues.

January adjusted revenues for the cigarettes tax, motor vehicle license and registration fees, and the public utilities gross earnings tax were greater than the expected FY 2017 revised monthly revenue estimates for January, but by less than \$1.0 million each.

Three revenue items had adjusted revenues in January that trailed the expected FY 2017 revised monthly estimate by \$1.0 million or more.

- Personal income tax adjusted revenues for January 2017 were \$3.7 million less than the expected FY 2017 revised monthly revenue estimate of \$147.1 million, a variance of -2.5 percent.
 - Adjusted personal income tax refunds and adjustments for January 2017 were \$6.7 million more than the expected FY 2017 revised monthly revenue estimate of \$(9.5 million), a variance of 70.8 percent.
 - Adjusted personal income tax estimated payments for January 2017 were \$3.9 million more than the expected FY 2017 revised monthly revenue estimate of \$53.8 million, a variance of 7.2 percent.
 - Adjusted personal income tax final payments for January 2017 were in-line with expectations for the month while January 2017 adjusted personal income tax withholding payments lagged monthly expected personal income tax withholding revenues by \$805,882, a variance of -0.8 percent.
- Monthly adjusted sales and use tax revenues were \$1.6 million less than expected monthly sales and use tax revenues based on the revised FY 2017 estimate, a variance of -1.7 percent.
- Estate and transfer tax adjusted revenues for January 2017 were \$1.2 million less than the expected FY 2017 revised monthly revenues estimate of \$2.0 million, a variance of -59.7 percent.

January adjusted revenues for the business corporations tax, the lottery transfer, the realty transfer tax, the alcohol excise tax, the health care provider assessment, the insurance companies gross premiums tax, the financial institutions tax, the bank deposits tax, and the racing and athletics tax were below the expected FY 2017 revised revenue estimates for January but by less than \$1.0 million each.



Robert S. Hull
Director, Department of Revenue
February 17, 2017

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 revised FY 2017 adopted general revenues as these revenues are not included in either the adjusted revenue calculations contained in this report or the revised 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 revised FY 2017 adopted general revenues as these revenues are not included in either the adjusted revenue calculations contained in this report or the revised 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 (or revised) 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.⁴ Since TY 2016 personal income tax returns will not be filed until after January 1, 2017, most of the \$(18.3 million) impact from this law change is expected to be reflected in FY 2017 personal income tax

⁴ 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.

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 (or revised) 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 (or revised) 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 (or adopted) personal income tax refund revenues for at least the July 2016 through January 2017 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 income⁵ for taxpayers that have reached full Social Security retirement age.⁶ 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.⁷ 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 (or revised) 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 (or adopted) personal income tax final payments revenues for at least the July 2016 through January 2017 period. ORA has adjusted

⁵ Other retirement income consists primarily of distributions from 401(k), 403(b), and 457(b) retirement accounts but not distributions from individual retirement accounts.

⁶ For TY 2017, persons born before 1952 will be eligible for a modification reducing federal Adjusted Gross Income subject to Rhode Island income tax.

⁷ 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.

personal income tax final payments revenue flows to reflect the higher expected revenues for at least this period.

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.