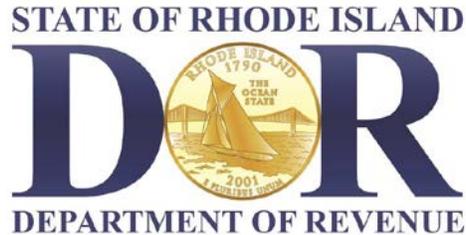


STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
GOVERNOR GINA M. RAIMONDO



Office of Revenue Analysis

State of Rhode Island Revenue Assessment Report
Monthly and Year-to-Date FY 2017 as of May 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. The findings of the May report are based on the revenue estimates adopted at the May 2017 Revenue Estimating Conference (REC). The principals of the May 2017 REC reduced the estimate for total general revenues by \$60,091,600 compared to the November 2016 REC.

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

	YTD May Adjusted Revenues FY 2017		YTD May Estimate of Revised FY 2017 Revenues †		Difference	Variance
Personal Income Tax	\$ 1,113,872,596	a, b, c	\$ 1,121,453,990		\$ (7,581,393)	-0.7%
General Business Taxes						
Business Corporations †	110,097,307	d	91,319,734		18,777,573	20.6%
Public Utilities Gross Earnings	41,198,931		43,645,116		(2,446,185)	-5.6%
Financial Institutions	7,233,458	d	11,083,943		(3,850,485)	-34.7%
Insurance Companies	57,487,800	c, e	59,847,804		(2,360,004)	-3.9%
Bank Deposits	1,149,025		1,062,112		86,913	8.2%
Health Care Provider Assessment	39,129,138		39,169,965		(40,827)	-0.1%
Excise Taxes						
Sales and Use	907,903,911		912,609,760		(4,705,849)	-0.5%
Motor Carrier Fuel Use	-		-		-	0.0%
Motor Vehicle	11,479,531		11,803,784		(324,253)	-2.7%
Cigarettes	127,168,795		126,293,696		875,099	0.7%
Alcohol	17,505,805		17,885,299		(379,494)	-2.1%
Controlled Substances						
Other Taxes						
Estate and Transfer	22,202,840		22,933,110		(730,270)	-3.2%
Racing and Athletics	1,046,551		1,005,094		41,457	4.1%
Realty Transfer	11,202,709	f, g	10,585,076		617,632	5.8%
Total Taxes	\$ 2,468,678,397		\$ 2,470,698,483		\$ (2,020,086)	-0.1%
Departmental Receipts	\$ 171,923,814	h	\$ 172,688,338		\$ (764,524)	-0.4%
Taxes and Departmentals	\$ 2,640,602,211		\$ 2,643,386,821		\$ (2,784,610)	-0.1%
Other General Revenue Sources						
Other Miscellaneous Revenues	10,665,611		10,665,611	+	-	0.0%
Lottery Transfer	300,598,853	i	300,279,629		319,224	0.1%
Unclaimed Property	-		-	+	-	n/a
Total Other Sources	\$ 311,264,464		\$ 310,945,240		\$ 319,224	0.1%
Total General Revenues	\$ 2,951,866,675		\$ 2,954,332,061		\$ (2,465,385)	-0.1%

PIT Component	YTD May Adj. Revenues		YTD May Revised Estimates		Difference	Variance
Estimated payments	\$ 189,065,653	a	\$ 188,818,905		\$ 246,747	0.1%
Final payments †	182,376,327		185,700,116		(3,323,790)	-1.8%
Withholding	1,042,078,260	c	1,038,955,894		3,122,366	0.3%
Refunds and Adjustments †	(299,647,643)	b, c	(292,020,926)		(7,626,717)	2.6%
Total	\$ 1,113,872,596		\$ 1,121,453,990		\$ (7,581,393)	-0.7%

† 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 Decreases personal income tax refunds and adjustments by \$1,201,941 and \$877,368 and subtracts \$1,201,941 and \$877,368 personal income tax withholding payments for transfers from personal income tax withholding payments to insurance companies gross premiums tax in March 2017. These amounts are included in insurance companies gross premiums tax as positive revenues.
- ^d Includes an adjustment of \$100,000 for the transfer of revenues from business corporations tax to financial institutions tax in September 2016. The offsetting adjustment included in financial institutions tax is \$(100,000), which was also recorded in September 2016.
- ^e Subtracts \$16,844,511 for an HMO insurance gross premiums payment that was paid in July 2016 and accrued back to FY 2016.
- ^f Subtracts \$136,793 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 May transfer that will occur in June 2017.
- ^g Includes \$402,500 from a large, infrequently occurring payment made in May 2017.
- ^h Subtracts \$161,377,782 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.
- ⁱ Deducts \$1,408,965 for the lottery transfer received in October 2016 that accrued back to FY 2016.

Monthly Estimate to Actual

	May Adjusted Revenues FY 2017	May Estimate of Revised FY 2017 Revenues †	Difference	Variance
Personal Income Tax	\$ 73,564,299	\$ 83,136,716	\$ (9,572,417)	-11.5%
General Business Taxes				
Business Corporations †	3,049,757	(361,726)	3,411,483	-943.1%
Public Utilities Gross Earnings	340,835	453,112	(112,277)	-24.8%
Financial Institutions	490,454	51,992	438,462	843.3%
Insurance Companies	2,390,528	664,964	1,725,564	259.5%
Bank Deposits	(491)	2,592	(3,083)	-118.9%
Health Care Provider Assessment	3,466,675	3,534,285	(67,610)	-1.9%
Excise Taxes				
Sales and Use	80,711,190	81,144,286	(433,096)	-0.5%
Motor Carrier Fuel Use	-	-	-	0.0%
Motor Vehicle	1,161,435	1,401,561	(240,126)	-17.1%
Cigarettes	12,289,549	11,423,276	866,273	7.6%
Alcohol	1,581,670	1,794,534	(212,864)	-11.9%
Controlled Substances				
Other Taxes				
Estate and Transfer	2,736,162	1,702,135	1,034,027	60.7%
Racing and Athletics	121,265	123,119	(1,854)	-1.5%
Realty Transfer	1,202,382	950,225	252,156	26.5%
	a, b, c			
Total Taxes	\$ 183,105,710	\$ 186,021,071	\$ (2,915,361)	-1.6%
Departmental Receipts	\$ 16,251,599	\$ 14,651,539	\$ 1,600,060	10.9%
	d			
Taxes and Departmentals	\$ 199,357,309	\$ 200,672,610	\$ (1,315,301)	-0.7%
Other General Revenue Sources				
Other Miscellaneous Revenues	10,373,807	10,373,807	-	0.0%
Lottery Transfer	31,873,535	31,442,726	430,809	1.4%
Unclaimed Property	-	-	-	n/a
	+	+		
Total Other Sources	\$ 42,247,342	\$ 41,816,533	\$ 430,809	1.0%
Total General Revenues	\$ 241,604,651	\$ 242,489,143	\$ (884,492)	-0.4%

PIT Component	May Adj. Revenues	May Revised Estimates	Difference	Variance
Estimated payments	\$ 3,058,365	\$ 3,713,234	\$ (654,869)	-17.6%
Final payments †	5,892,253	5,781,019	111,234	1.9%
Withholding	95,519,235	93,853,209	1,666,027	1.8%
Refunds and Adjustments	(30,905,554)	(20,210,746)	(10,694,808)	52.9%
Total	\$ 73,564,299	\$ 83,136,716	\$ (9,572,417)	-11.5%

† Revised FY 2017 adopted revenues for personal income tax final payments 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 \$402,500 from a large, infrequently occurring payment made in May 2017.

b Subtracts \$390,358 for payments made in May 2017 for prior months.

c Subtracts \$258,112 in realty transfer tax revenues that are designated for the Housing Resources Commission. The amount reflects the difference between the April 2017 transfer that occurred in May 2017 and the May 2017 transfer that will occur in June 2017.

d Subtracts \$833,409 in departmental receipts for hospital licensing fees received in April that accrue back to FY 2016.

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. Particular attention should be paid to the discussion of the Division of Taxation's transfer pricing audit project on page 14, the Department of Business Regulation's program to increase retaliatory actions against non-Rhode Island based insurance companies on pages 14 and 15, and the Office of Management and Budget's fraud initiative and the Department of Administration's sale of state fleet vehicles on pages 15 and 16.

Estimate of Revised FY 2017 Revenues Adopted at the May 2017 REC

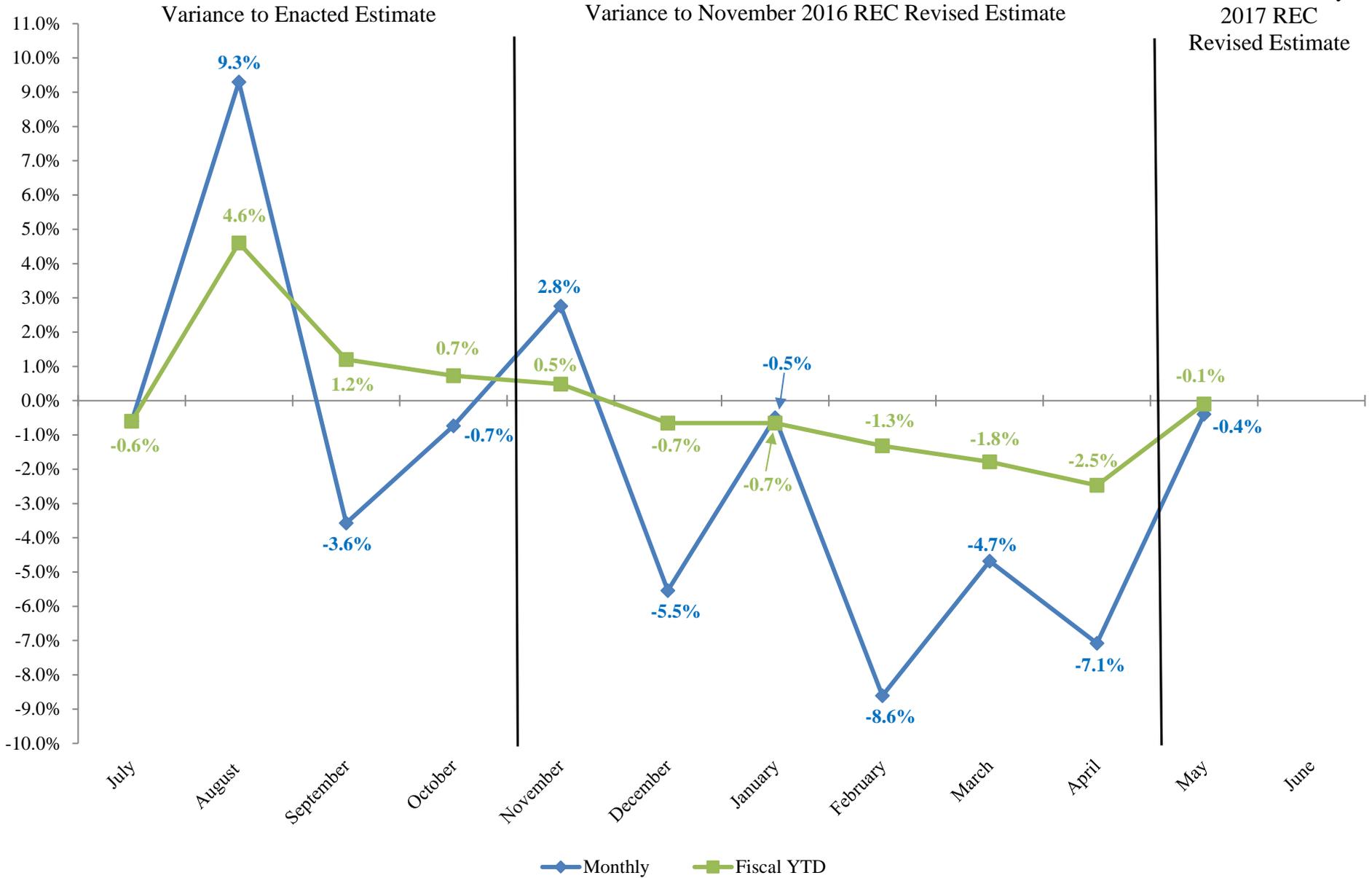
In order to determine the expected monthly and fiscal year-to-date revenue estimates based on the revised revenue estimates adopted at the May 2017 Revenue Estimating Conference (REC), the Office of Revenue Analysis (ORA) first calculates the average percentage of total adjusted revenues that occurred 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 May. 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 May 2017 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.

FY 2017 Variance of Adjusted Revenues to Estimate



Revenue Item	<u>Percent Received</u>		Revenue Item	<u>Percent Received</u>	
	May	YTD		May	YTD
Personal Income Taxes			Sales and Use Taxes	8.1 %	91.2 %
Estimated Payments	1.6 %	80.0 %	Motor Vehicles Fees	10.8 %	90.8 %
Final Payments	3.1 %	97.3 %	Cigarettes Taxes	8.2 %	91.1 %
Withholding Payments	8.3 %	91.7 %	Alcohol Excise Taxes	9.1 %	90.3 %
Refunds/Adjustments	6.6 %	96.2 %	Estate and Transfer	6.9 %	92.5 %
Business Corporations Taxes	-0.3 %	74.9 %	Racing and Athletics	11.2 %	91.4 %
Utilities Gross Earnings Taxes	0.5 %	45.4 %	Realty Transfer	8.1 %	90.5 %
Financial Institutions Taxes	0.3 %	54.1 %	Departmental Receipts	7.2 %	84.6 %
Insurance Co. Gross Premiums	0.5 %	44.9 %	Lottery Transfer	8.7 %	82.9 %
Bank Deposits	0.1 %	42.5 %	Other Misc. Revenues	n/a	n/a
Health Care Provider Assessment	8.2 %	91.1 %	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 2016 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 May 2017 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 law changes will flow through

as revenue impacts in FY 2017 cash receipts.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.

At the May 2017 Revenue Estimating Conference, \$6,696,000 of expected business corporations tax revenues generated by the transfer pricing audit project were shifted to FY 2018 expected business corporations tax revenues. Also shifted to FY 2018, was \$1,000,000 of expected other miscellaneous revenues from the sale of state fleet vehicles and \$5,000,000 of expected other miscellaneous revenues from the Office of Management and Budget's fraud initiative. Additionally, \$1,074,000 was removed from the estimate for FY 2017 insurances companies gross premiums tax.

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

Revenue Item	May 2017 Revised FY 2017 Estimate	Revenue Item	May 2017 Revised FY 2017 Estimate
Personal Income Taxes		Sales and Use Taxes	\$ 1,001,000,000
Estimated Payments	\$ 236,100,000	Motor Vehicles Fees	13,000,000
Final Payments ^a	187,600,000	Cigarettes Taxes	138,700,000
Withholding Payments	1,132,800,000	Alcohol Excise Taxes	19,800,000
Refunds/Adjustments ^b	(304,700,000)	Estate and Transfer	27,800,000
Business Corporations Taxes ^c	125,000,000	Racing and Athletics	1,100,000
Public Utilities Gross Earnings	96,200,000	Realty Transfer	11,700,000
Financial Institutions Taxes	20,500,000	Departmental Receipts ^d	373,000,000
Insurance Co. Gross Premiums	133,400,000	Lottery	362,200,000
Bank Deposits	2,500,000	Other Misc. Revenues	11,797,400
Health Care Provider Assessment	43,000,000	Unclaimed Property	12,100,000
		Total General Revenues ^e	\$ 3,659,497,400

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 be realized in 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 be realized in 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 be realized in 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 be in FY 2017 revenue flows during the March 2017 through June 2017 period. For the period from July 2016 through February 2017, adjusted FY 2017 personal income tax final payments revenues were assessed against a “base” FY 2017 revenue estimate of \$205,931,957. For the period from March 2017 through June 2017, adjusted FY 2017 personal income tax final payments revenues are assessed against the May 2017 REC adopted FY 2017 estimate of \$187,600,000.
- ^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 be in FY 2017 revenue flows during the February 2017 through June 2017 period. As a result, ORA assessed adjusted FY 2017 personal income tax refunds and adjustments revenues against a “base” FY 2017 revenue estimate of \$(298,690,775) 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 are assessed against the May 2017 REC FY 2017 estimate of \$(304,700,000).
- ^c Business corporations tax revenues 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 is expected in FY 2017 revenue flows during the March through June 2017 period. The business corporations tax revised estimate also includes \$(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 \$120,180,652.
- ^d Departmental receipts figure includes estimated hospital licensing fee revenues of \$168,958,671.
- ^e Total general revenues estimate includes the personal income tax net accrual of \$14,900,000. 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.

Results for FY 2017 through May

The table, *Year-to-Date Estimate to Actual*, gives the results for FY 2017 through May. As is apparent from the table, the Department of Revenue finds that FY 2017 through May adjusted total general revenues trailed the revised FY 2017 adopted total general revenues estimate through May by \$2.5 million, a variance of -0.1 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 \$2.0 million, a variance of -0.1 percent. For departmental receipts, FY 2017 through May adjusted revenues trailed the revised FY 2017 adopted year-to-date revenues estimate by \$764,524, a variance of -0.4 percent. For other general revenue sources, adjusted fiscal year-to-date revenues exceeded revised FY 2017 adopted revenues through May by \$319,224, a variance of 0.1 percent.

One revenue item had adjusted revenues in FY 2017 through May that exceeded expected FY 2017 revenue estimates, based on the revenue estimates adopted at the May 2017 Revenue Estimating Conference, by \$1.0 million or more.

- Business corporations tax adjusted revenues for year-to-date FY 2017 were \$18.8 million, or 20.6 percent, more than the expected year-to-date revised FY 2017 adopted business

corporations tax revenues estimate of \$91.3 million. It should be noted that the business corporations tax estimate was reduced by \$42.5 million at the May 2017 Revenue Estimating Conference.

Fiscal year-to-date through May adjusted revenues for the cigarettes tax, the realty transfer tax, the lottery transfer, the bank deposits tax, and the racing and athletics tax were greater than the expected FY 2017 through May adopted revenue estimates but by less than \$1.0 million each.

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

- Personal income tax adjusted revenues for the fiscal year-to-date through May period were \$7.6 million less than expected FY 2017 revised personal income tax revenues through May, a variance of -0.7 percent.
 - Adjusted FY 2017 personal income tax refunds and adjustments were \$7.6 million more than the \$(292.0 million) of expected FY 2017 personal income tax refunds and adjustments revenues based on the revised estimate adopted at the May 2017 Revenue Estimating Conference, a variance of 2.6 percent. The estimate for personal income tax refunds and adjustments was increased by \$6.4 million at the May 2017 REC.
 - Adjusted FY 2017 personal income tax final payments through May were \$3.3 million less than expected fiscal year-to-date personal income tax final payments based on the FY 2017 revised estimate, a variance of -1.8 percent. Adjusted personal income tax final payments through May include \$7.8 million of reimbursed Historic Structures Tax Credit redemptions. The estimate for personal income tax final payments was increased by \$3.6 million at the May 2017 REC.
 - Adjusted FY 2017 personal income tax withholding payments through May were \$3.1 million, or 0.3 percent, more than expected fiscal year-to-date personal income tax withholding payments based on the FY 2017 revised estimate. Adjusted FY 2017 personal income tax withholding payments through May include a large, infrequently occurring payment of \$3.3 million processed in August 2016. The estimate for personal income tax withholding payments was reduced by \$20.0 million at the May 2017 REC.
 - Adjusted FY 2017 personal income tax estimated payments through May were \$246,747, or 0.1 percent, more than expected FY 2017 personal income tax estimated payments revenues based on the revised estimate adopted at the May 2017 Revenue Estimating Conference. The estimate for personal income tax estimated payments was reduced by \$4.3 million at the May 2017 REC.
- FY 2017 through May adjusted sales and use tax revenues were \$4.7 million behind the expected FY 2017 revised sales and use tax revenues through May, a variance of -0.5 percent. FY 2017 through May 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. Adjusted sales and use tax revenues include sales and use taxes collected in February through April 2017 and remitted by Amazon in March through May 2017. The estimate for sales and use tax revenues was reduced by \$13.2 million at the May 2017 REC.

- Financial institutions tax adjusted revenues for FY 2017 through May were \$3.9 million below expected FY 2017 revised financial institutions tax revenues through May, a variance of -34.7 percent. The estimate for financial institutions tax revenues was reduced by \$500,000 at the May 2017 REC.
- Public utilities gross earnings tax adjusted revenues for FY 2017 through May were \$2.4 million below expected FY 2017 revised public earnings gross premiums tax revenues through May of \$43.6 million, a variance of -5.6 percent. The estimate for public utilities gross earnings tax revenues was reduced by \$7.9 million at the May 2017 REC.
- Insurance companies gross premiums tax adjusted revenues for FY 2017 through May were \$2.4 million below expected fiscal year-to-date insurance companies gross premiums tax revenues based on the FY 2017 revised estimate, a variance of -3.9 percent. The estimate for insurance companies gross premiums tax revenues was reduced by \$6.1 million at the May 2017 REC.

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

Results for the Month of May 2017

The second table, *Monthly Estimate to Actual*, gives the results for May 2017. As is apparent from the table, the Department of Revenue finds that May adjusted total general revenues trailed the expected FY 2017 revised total general revenues estimate for May by \$884,492, a variance of -0.4 percent. In total taxes, May adjusted revenues were less than the expected FY 2017 revised monthly revenue estimate by \$2.9 million, a variance of -1.6 percent. For departmental receipts, May adjusted revenues led the expected FY 2017 revised monthly revenues estimate by \$1.6 million, a variance of 10.9 percent. For other general revenue sources, adjusted FY 2017 monthly revenues for May were \$430,809 more than the expected FY 2017 revised monthly revenues estimate, a variance of 1.0 percent.

Four revenue items had adjusted revenues in May that exceeded the expected FY 2017 revised monthly estimate by \$1.0 million or more.

- Business corporations tax adjusted revenues for May 2017 were 3.4 million more than expected monthly business corporations tax revenues based on the revised FY 2017 estimate, a variance of -943.1 percent.
- Insurance companies gross premiums tax adjusted revenues for May 2017 were \$1.7 million, or 259.5 percent, more than the expected FY 2017 revised monthly revenues estimate of \$664,964.
- Departmental receipts adjusted revenues for May 2017 were \$1.6 million more than expected monthly departmental receipts revenues based on the revised FY 2017 estimate, a variance of 10.9 percent.

- Estate and transfer tax adjusted revenues for May 2017 were \$1.0 million, or 60.7 percent, more than expected monthly estate and transfer tax revenues based on the revised FY 2017 estimate.

May adjusted revenues for the cigarettes tax, the financial institutions tax, the lottery transfer, and the realty transfer tax were greater than the expected FY 2017 revised monthly revenue estimates for May, but by less than \$1.0 million each.

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

- Personal income tax adjusted revenues for May 2017 were \$9.6 million less than the expected FY 2017 revised monthly revenue estimate of \$83.1 million, a variance of -11.5 percent.
 - Adjusted personal income tax refunds and adjustments for May 2017 were \$10.7 million more than the expected FY 2017 revised monthly revenue estimate of \$(20.2 million), a variance of 52.9 percent.
 - Adjusted personal income tax estimated payments for May 2017 were \$654,869 less than the expected FY 2017 revised monthly revenue estimate of \$3.7 million, a variance of -17.6 percent.
 - May 2017 adjusted personal income tax withholding payments exceeded monthly expected personal income tax withholding revenues by \$1.7 million, a variance of 1.8 percent.
 - Adjusted personal income tax final payments for May 2017 led expected monthly personal income tax final payments revenues by \$111,234 or 1.9 percent. May 2017 adjusted personal income tax final payments include \$65,815 of reimbursed Historic Structures Tax Credit redemptions.

May adjusted revenues for sales and use tax, motor vehicle license and registration fees, the alcohol excise tax, the public utilities gross earnings tax, the health care provider assessment, the bank deposits tax, and the racing and athletics tax were below the expected FY 2017 revised revenue estimates for May but by less than \$1.0 million.



Robert S. Hull
 Director, Department of Revenue
 June 22, 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. Further, the deadline for calendar year C-corporations tax returns and final payments shifted from March 15 to April 15, 2017 for TY 2016 returns. ORA attempted to model this law change, however it is unclear how this time shift will impact filing behavior.

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. **The expected receipt of these revenues was shifted from FY 2017 to FY 2018 during the May 2017 Revenue Estimating Conference.**

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. **The principals of the May 2017 Revenue Estimating Conference**

(REC) determined that these additional revenues would not be collected in FY 2017 as such revenues are already being received under current law. As a result, the \$1,074,000 was removed from the estimate for FY 2017 adopted at the May 2017 REC. 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. **Due to delays in establishing the administrative protocols for these two**

revenue items, neither is expected to yield any revenue in FY 2017 and the impacts of these changes are now expected to be realized in FY 2018.

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 was explicitly estimated as part of the personal income tax net accrual at the May 2017 Revenue Estimating Conference.

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 change was explicitly estimated as part of the personal income tax net accrual at the May 2017 Revenue Estimating Conference.

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

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.

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.