

State Fiscal Note for Bill
Number: 2021-H-5121

Date of State Budget Office Approval: Thursday, April 15, 2021

Date Requested: Tuesday, March 2, 2021

Date Due: Friday, March 12, 2021

<i>Impact on Expenditures</i>		<i>Impact on Revenues</i>	
FY 2021	NA	FY 2021	NA
FY 2022	NA	FY 2022	\$(969,727)
FY 2023	NA	FY 2023	\$(1,965,553)

Explanation by State Budget Office:

This bill would amend Rhode Island General Laws (R.I. Gen. Laws) Chapter 44-30 titled "Personal Income Tax" by adding R.I. Gen Laws § 44-30-12(11), titled "Modification for state community service volunteerism". This new modification would provide a nonrefundable deduction to taxable income of up to \$500 for individuals or \$1,000 for a joint return "for approved state community service volunteerism hours." The definition of approved state community service volunteerism hours is contained in a new section to be added to R.I. Gen. Laws Chapter 44-30, R.I. Gen Laws § 44-30-27.1 titled "Credit for state community service volunteerism hours".

The determination of state community service volunteerism hours will be made by the Rhode Island Department of Administration (DOA). DOA will "identify and certify not-for-profit entities and departments within municipal entities that shall be eligible to issue credits." DOA will develop eligibility criteria "to determine whether voluntary community service hours rendered to [an] entity would confer a sufficient benefit to the community so as to warrant designation as an entity eligible to issue credits." Once they are deemed eligible, entities "may establish a credit rate of up to \$25.00 per hour of community service rendered" and issue "written certification" to "an individual domiciled in the state for the entire tax year" entitling said individual "to an income tax credit for community service hours voluntarily rendered to the entity, and for which no compensation is provided to the person claiming the credit for the service provided."

Under current law, there is no provision to allow for a modification deduction or an income tax credit for voluntary community service hours rendered by an individual.

All personal income taxes are general revenues.

Comments on Sources of Funds:

Summary of Facts and Assumptions:

The effective date of the bill is upon passage. The Department of Revenue, Office of Revenue Analysis (ORA) assumed for purposes of estimating the revenue impact of the bill that the implementation date of the bill would be for tax years beginning on or after January 1, 2022. ORA recommends that the bill be redrafted to specify exactly to what tax years the provisions of the bill will apply.

Based upon the accrual methodology employed by the Department of Administration's Office of Accounts and Controls (OAC), tax law changes that take effect in the middle of a fiscal year have a current fiscal year revenue impact equal to

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one-half of the succeeding fiscal year's revenue impact. ORA has used this accrual-based methodology to provide the budgetary revenue impacts contained in this fiscal note.

The Department of Revenue, Division of Taxation (Taxation) submitted a letter of concern on February 24, 2021 to the House Committee on Finance regarding issues with this bill as drafted related to clarity and tax administration and those concerns are not included in this note as they are set forth in detail in the Taxation's letter.

It is unclear if the intent of the bill is to create a modification reducing federal adjusted gross income (AGI) or a personal income tax credit. The bill adds R.I. Gen Laws § 44-30-12(11), titled "Modification for state community service volunteerism" which would allow an eligible taxpayer to deduct from federal AGI up to \$500 for volunteer community service hours rendered (a maximum \$1,000 deduction is provided to a joint return). The bill also adds R.I. Gen Laws § 44-30-27.1 titled "Credit for state community service volunteerism hours", which authorizes the issuance of credits at a rate of \$25 per hour of voluntary community service for which an individual is not otherwise compensated. The amount of the income tax credit allowed in this section is also limited to \$500 on an individual return and \$1,000 on a joint return. There is a substantive difference between a modification reducing federal AGI, which reduces the amount of income subject to tax, and a personal income tax credit, which reduces the amount of tax owed on a dollar-for-dollar basis. ORA recommends that the bill be redrafted to clarify that the tax benefit contained in the bill is either a modification reducing federal AGI or a credit that can be taken against the personal income tax, but not both. Further, if the intent of the bill is to, in fact, allow a credit against personal income tax owed for those taxpayers that have received certification of "community service volunteerism hours," then the credit must be included in the list of allowable credits against the personal income tax in Rhode Island General Laws subsection 44-30-2.6(c)(3)(F) titled "Rhode Island taxable income – Rate of tax – Credits against tax".

For the purposes of estimating the revenue impact of the bill, ORA assumed that the intent of the bill is to create a modification reducing federal AGI for state community service volunteerism hours. If, instead, a personal income tax credit was created for state community service volunteerism hours, then the revenue impact would be significantly greater.

According to an analysis of Rhode Island volunteer activity by AmeriCorps, a federal agency whose mission is to "improve lives, strengthen communities, and foster civic engagement through service and volunteering," 30.7% of Rhode Island residents volunteered their time in 2018. In addition, AmeriCorps provided a breakdown of participation in volunteer organizations by category, showing 20.95% volunteered in religious organizations, 19.8% in sport, hobby, cultural or arts organizations, 13.84% educational or youth organizations, 6.71% in civic, political, professional, or international organizations, 6.44% in hospital or other health services, 5.19% in environmental or animal care, 1.62% in public safety, and 24.28% in other unspecified organizations. Since DOA must "identify and certify not-for-profit entities and departments within municipal entities that shall be eligible to issue credits", ORA assumed that all categories except for religious organizations, hospital

or other health services, and other unspecified organizations would be eligible to issue credits. Thus, ORA calculated that 47.16% of individuals who volunteer will work with an eligible entity (i.e., $0.1980 + 0.1384 + 0.0671 + 0.0519 + 0.0162$). The more entities that are eligible to certify state community service volunteerism hours, then the greater will be the impact of the bill on state personal income tax revenues.

The AmeriCorps data showed that 264,459 Rhode Islanders volunteered 22.0 million hours of service in 2018, or an average of 83.2 hours per volunteer for the year (i.e., $22,000,000 / 264,459$). Entities can establish a credit rate of up to \$25 per hour. Since Rhode Island's minimum wage is \$11.50, ORA assumed that all entities would establish a credit rate of \$11.50 or greater, up to \$25. If all entities establish a credit rate of \$11.50 and each volunteer provides 83.2 hours of services, all volunteers would exceed the maximum deduction of \$500 (i.e., $\$11.50 \times 83.2 = \$956.67 > \$500$). Therefore, ORA estimated that all qualified volunteers would reach the maximum modification deduction of \$500. ORA assumed that passage of the bill would have no impact on the number of Rhode Islanders who would choose to volunteer their time to an eligible entity. This assumption is justified, in part, by the modest tax benefit a volunteer would receive under the bill. Should the tax incentive in the bill be a personal income tax credit rather than a modification reducing federal AGI, then it is likely that this assumption would no longer be valid.

ORA estimated that of the U.S. Census Bureau's estimated 855,276 Rhode Island residents age 18 years and older in 2020, there were 262,570 who volunteer (i.e., $855,276 \times 0.3070$). Since ORA calculated that 47.16 percent of these individuals will work with an eligible entity, there would be 123,828 volunteers whose volunteer hours would qualify for the modification (i.e., $262,570 \times 0.4716$). Given the estimate that average volunteer hours worked in a year are 83.2, and the assumption that all eligible entities would establish a credit rate of \$11.50 or greater, all volunteers would qualify for the \$500 modification reducing federal AGI. Thus, passage of the bill is estimated to reduce federal AGI subject to the Rhode Island personal income tax by \$61,914,000 (i.e. $123,828 \times \$500$).

To determine the total decrease in personal income tax revenues, ORA calculated the effective personal income tax rate for Rhode Island resident filers. ORA estimated total Rhode Island resident federal AGI was \$36,405,192,700 and total resident tax liability to be \$1,016,651,499, which gives the total resident effective tax rate of 2.79% (i.e., $\$1,016,651,499 / \$36,405,192,700$). Applying this effective tax rate to the total modification reducing federal AGI gives a tax difference of \$1,727,401 (i.e., $\$61,914,000 \times 0.0279$). The total resident effective personal income tax rate is used since everyone across the federal AGI spectrum is equally likely to participate in volunteer activities. To the extent that this assumption is not true, and the rates of volunteerism are greater at higher levels of federal AGI, then the reduction in personal income tax revenues will be more than indicated here. If the opposite is the case, then the reduction in personal income tax revenues will be less than indicated here.

Given the estimated Rhode Island resident personal income tax collections in TY 2018 under TY 2020 law of \$1,016,651,499, the proposed modification reducing federal AGI for state community service volunteerism hours represents a 0.1699

percent decrease in total Rhode Island resident personal income tax collections (i.e., \$1,727,401 / \$1,016,651,499). Rhode Island non-resident personal income tax collections in TY 2018 under TY 2020 law were \$233,122,205. Thus, Rhode Island resident personal income tax collections represented 81.3468 percent of the total Rhode Island personal income tax collections (i.e., \$1,016,651,499 / (\$1,016,651,499 + \$233,122,205)).

Using the TY 2018 personal income tax returns simulation model, ORA determined that resident and nonresident TY 2018 personal income tax collections under TY 2018 law were \$1,250,081,388. This amount solely represents payments made by taxpayers for that tax year. It is important to distinguish between a specific tax year's collections and total personal income taxes received in a given calendar year. Total personal income tax payments received in a given calendar year may include tax payments that are associated with prior tax year liabilities or estimated payments for future tax year liabilities as well as tax payments that are related to current tax year liabilities. To account for the receipt of tax payments not associated with the current tax year, ORA compared the resident and nonresident TY 2018 personal income tax collections to total personal income tax collections received in calendar year 2018 of \$1,318,375,783 to arrive at an estimate of the ratio of total calendar year personal income tax collections that TY 2018 payments comprise of 94.8198% (i.e., \$1,250,081,388 / \$1,318,375,783).

The ratio of TY 2018 personal income tax collections to CY 2018 personal income tax collections was applied to the Office of Management and Budget (OMB)'s projection of personal income tax revenues for FY 2023, which incorporates the personal income tax estimates adopted at the November 2020 Revenue Estimating Conference (REC), of \$1,479,948,896 to yield TY 2022 personal income tax payments of \$1,403,284,583 realized in FY 2023 (i.e., \$1,479,948,896 * 0.948198). To estimate the portion of TY 2022 personal income tax payments attributable to Rhode Island residents, ORA applied the percentage of Rhode Island resident personal income tax collections to the total TY 2022 Rhode Island personal income tax collections to yield an estimate of \$1,141,527,103 (i.e., \$1,403,284,583 * 0.813468).

The percentage of revenues impacted by the modification reducing federal AGI for state community service volunteerism hours was applied to the FY 2023 estimate of TY 2022 personal income tax revenues to arrive at full-year estimated personal income tax revenues attributable to the proposed modification reducing federal AGI of \$1,939,455 (i.e., \$1,141,527,103 * 0.001699).

The above percentages were also applied to OMB's projection of personal income tax revenues for FY 2024, which also incorporate the personal income tax estimates adopted at the November 2020 REC, of \$1,519,779,261 to yield TY 2023 personal income tax payments attributable to Rhode Island residents of \$1,172,249,408 realized in FY 2024 (i.e., \$1,519,779,261 * 0.948198 * 0.813468). ORA then applied the percentage of revenues impacted by the proposed modification reducing federal AGI to this figure to arrive at full year estimated personal income tax revenues attributable to the modification reducing federal AGI of \$1,991,652 for TY 2023 (i.e., \$1,172,249,408 * 0.001699).

*Summary of Fiscal
Impact:*

Employing OAC's accrual methodology yields budgetary revenue losses for FY 2022 of \$969,727 (i.e., $0.5 * \$1,939,455$) and for FY 2023 of \$1,965,553 (i.e., $0.5 * \$1,939,455 + 0.5 * \$1,991,652$).

The Governor's FY 2022 Recommended Budget projects a closing surplus of \$265,441,847 in FY 2021 and \$4,425,716 in FY 2022. Passage of this bill would have no impact on the FY 2021 closing surplus, but it would decrease the FY 2022 closing surplus and increase the FY 2023 projected budget deficit of \$374.4 million.

FY 2021: No revenue impact is forecast due to the assumed implementation date.

FY 2022: A revenue loss of \$969,727 is forecast. This revenues loss assumes that the bill creates a modification reducing federal AGI for state community service volunteerism hours and not a personal income tax credit for state community service volunteerism hours.

FY 2023: A revenue loss of \$1,965,553 is forecast. This revenues loss assumes that the bill creates a modification reducing federal AGI for state community service volunteerism hours and not a personal income tax credit for state community service volunteerism hours.

Budget Office Signature:

Fiscal Advisor Signature:

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