



**State Fiscal Note for Bill
Number: 2017-H-5283**

Date of State Budget Office Approval:

Date Requested: Monday, February 20, 2017

Date Due: Thursday, March 02, 2017

Impact on Expenditures

FY 2017 n/a
FY 2018 n/a
FY 2019 n/a

Impact on Revenues

FY 2017 n/a
FY 2018 \$(2,500,399)
FY 2019 \$(2,567,841)

**Explanation by State
Budget Office:**

This bill would amend Rhode Island General Law Chapter 44-18 entitled "Sales and Use Taxes – Liability and Computation" by adding to Rhode Island General Law Section 44-18-30(23) titled "Gross receipts exempt from sales and use taxes – Trade-in value of motor vehicles" an exemption for the trade-in value of pickup trucks with gross vehicle weights of less than 6,000 lbs. that are used exclusively for personal use.

Under current law, Rhode Island General Law Section 44-18-30(23) provides an exemption only for the trade-in value of private passenger automobiles not used for hire and does not refer to any other type of motor vehicle.

**Comments on
Sources of Funds:**

All sales and use taxes are considered to be general revenue.

**Summary of Facts
and Assumptions:**

The effective date of the act is upon passage but the implementation date is assumed to be July 1, 2017.

The Department of Revenue's Office of Revenue Analysis (ORA) used the base gross sales receipts data for households from the Rhode Island Macro Sales Tax Simulation Model for Fiscal Year 2016 for all new and used trucks. ORA has recently learned that the gross sales receipts data for trucks includes SUVs and vans as well as trucks. Under current law both SUVs and vans are allowed the trade-in exemption from the sales and use tax. According to the sales tax simulation model, total Rhode Island gross sales receipts of new and used trucks, including SUVs and vans, for household use is \$744.738 million. Based on data provided by the Rhode Island Department of Revenue's Division of Motor Vehicles (DMV), ORA estimates that 30.2 percent of the total trucks, SUVs, and vans registered in Rhode Island are in fact trucks. ORA multiplied the percentage of trucks based on the DMV data by the total Rhode Island gross sales receipts of new and used trucks, including SUVs and vans, purchased by households to approximate the gross sales receipts for new and used trucks used exclusively for personal use to be \$224.911 million (i.e. \$744.738 million * 0.302).

Based on additional data provided by the DMV, ORA estimates that 45.71 percent of all trucks registered in the state with Combination plates are trucks that are less than 6,000 pounds in gross vehicle weight. ORA assumed that all pickup trucks that are registered with Combination plates are used exclusively for personal use. ORA used the estimated gross sales for new and used trucks purchased by households and

Prepared by:

Paul Dion / 4015748943 / paul.dion@revenue.ri.gov

Monday, February 27, 2017

Page 1 of 3

multiplied this figure by the percentage of trucks that have a gross vehicle weight of less than 6,000 lbs. and are registered with a Combination plate to estimate the gross sales receipts for new and used trucks with less than 6,000 lbs. gross vehicle weight used exclusively for personal use. ORA estimated that total Rhode Island gross sales receipts of new and used pick-up trucks used exclusively for personal use with less than 6,000 lbs. gross vehicle weight is \$102.807 million (i.e., \$224.911 million * 0.4571).

The Rhode Island Macro Sales Tax Simulation Model assumes that 32.53 percent of the gross sales receipts for new and used private passenger automobiles are exempt from the state's sales and use tax due to the fact that the trade-in value of such vehicles are exempt from the sales and use tax. That is, the sales tax simulation model subjects only 67.47 percent of the gross receipts from the sales of new and used cars to the state's sales and use tax to account for this exemption. ORA assumed that the same percentage of the gross receipts from the sales of new and used pick-up trucks used exclusively for personal use with gross vehicle weights of less than 6,000 lbs. would also be subject to the state sales and use tax. ORA estimated the trade-in allowance for new and used pick-up trucks with gross vehicle weights of less than 6,000 lbs. and used exclusively for personal use is \$33.44 million (i.e., \$102.807 million * 0.3253). Thus, this bill would decrease sales tax revenue by \$2.34 million (i.e.; \$33.44 million * 0.07) in FY 2016 from allowing the trade-in allowance for new and used pick-up trucks used exclusively for personal use with gross vehicle weights of less than 6,000 lbs.

According to the November 2016 Revenue Estimating Conference, the estimated growth rate for all sales and use taxes in FY 2017 is 4.349 percent. Applying this growth rate to the FY 2016 estimate of the sales and use tax foregone on the trade-in allowance for new and used pick-up trucks used exclusively for personal use with gross vehicle weights of less than 6,000 lbs. yields an estimate of \$2.44 million of sales and use tax revenues foregone from allowing the trade-in allowance provision contained in the bill in FY 2017 (i.e., \$2.34 million * 1.04349). Similarly, according to the November 2016 Revenue Estimating Conference, the annual growth rate of sales and use tax revenues for FY 2018 is 2.357 percent. Therefore, passage of the bill would decrease tax revenue by \$2.50 million in FY 2018 (i.e.; \$2.44 million * 1.02357). For the FY 2019 fiscal impact estimate, the Office of Management and Budget's sales and use tax revenues projected growth rate of 2.697 percent was applied. Thus, passage of the bill would decrease tax revenue by \$2.57 million in FY 2019 (i.e.; \$2.50 million * 1.02697).

The Governor's FY 2018 Recommended Budget projects a closing surplus of \$78.0 million in FY 2017 and \$654,736 in FY 2018. Passage of this bill would have no impact on the FY 2017 closing surplus, but it would put the Governor's FY 2018 Recommended Budget out of balance and increase the projected deficit for FY 2019.

*Summary of Fiscal
Impact:*

FY 2017: Not applicable due to the assumed implementation date of July 1, 2017.

FY 2018: A general revenue loss of \$2,500,399 is forecast.

FY 2019: A general revenue loss of \$2,567,841 is forecast.



State of Rhode Island
**Budget
Office**
Department of Administration

**State Fiscal Note for Bill
Number: 2017-H-5283**

Budget Office Signature:

Thomas G. McManus

Fiscal Advisor Signature:

[Handwritten Signature]

Prepared by:

Paul Dion / 4015748943 / paul.dion@revenue.ri.gov

Monday, February 27, 2017

Page 3 of 3

