

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

**State Fiscal Note for Bill
 Number: 2020-H-7373**

Date of State Budget Office Approval:

Date Requested: Wednesday, February 5, 2020

Date Due: Saturday, February 15, 2020

<i>Impact on Expenditures</i>		<i>Impact on Revenues</i>	
FY 2020	n/a	FY 2020	n/a
FY 2021	n/a	FY 2021	\$(5,524,367)
FY 2022	n/a	FY 2022	\$(5,721,976)

*Explanation by State
 Budget Office:*

This bill, titled as The Motor Vehicle Sales Tax Equity Act, would amend Rhode Island General Laws Chapter 44-18 entitled "Sales and Use Taxes – Liability and Computation" in two ways. First by adding Rhode Island General Laws subsection 44-18-30(67) titled "Trade-in value of motorcycles" which would provide an exemption for the trade-in value of motorcycles. Included in the definition of the trade-in value of motorcycles are (1) "the proceeds applicable only to the motorcycle as are received from the manufacturer of motorcycles for the repurchase of the motorcycle, whether the repurchase was voluntary or not, towards the purchase of a new or used motorcycle by the buyer" and (2) proceeds received from an insurance claim as a result of a stolen or damaged motorcycle provided that the proceeds from an insurance claim or repurchase is in lieu of the benefit described in Rhode Island General Law subsection 44-18-21(c) for the total loss or destruction of the motorcycle and provided further that the tax has not been reimbursed as part of the insurance claim or repurchase.

Second, the bill adds to Rhode Island General Laws 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 or equal to 8,100 lbs.

Currently under Rhode Island General Law subsection 44-18-30(23) titled "Trade in value of motor vehicles" an exemption is only provided from the sales and use tax for the trade-in value of a private passenger automobile not used for hire and does not refer to any other type of motor vehicle. In addition, current law allows "the proceeds applicable only to the automobile as are received from the manufacturer of automobiles for the repurchase of the automobile whether the repurchase was voluntary or not" to qualify as the trade-in allowance if said proceeds are used "towards the purchase of a new or used automobile by the buyer." Current law does not, however, allow "proceeds received from an insurance claim as a result of a stolen or damaged automobile" to qualify as the trade-in allowance if said proceeds are used towards the purchase of a new or used automobile by the buyer."

*Comments on
 Sources of Funds:*

All sales and use taxes are general revenue.

*Summary of Facts
 and Assumptions:*

The effective date of the bill is upon passage, but the implementation date is assumed to be July 1, 2020.

Prepared by:

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The Division of Taxation notes the following “the bill as written creates an imbalance because it provides a carveout only for insurance proceeds received for a claim relating to a motorcycle,” a provision that was previously repealed for all other motor vehicles by the General Assembly:

To estimate the revenue loss from allowing the trade-in value of motorcycles the Department of Revenue, Office of Revenue Analysis (ORA) used the base gross sales receipts data from the Rhode Island Macro Sales Tax Simulation Model for Fiscal Year 2019 for all new and used motorcycles. According to the simulation results, total gross sales receipts for all motorcycles is \$36.568 million and total sales tax under the current law from the sales of motorcycles is \$2.5598 million.

The Rhode Island Macro Sales Tax Simulation Model assumed that 13.58 percent of the gross sales receipts for new and used private passenger automobiles are exempt from the state’s sales and use tax as the trade-in value of such vehicles are exempt from the sales and use tax. That is, the sales tax simulation model subjects only 86.42 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 motorcycles would also be subject to the state sales and use tax. ORA estimated the trade-in allowance for new and used motorcycles at \$4.9667 million (i.e., \$36.568 million * 0.1358). Thus, passage of the bill would decrease sales tax revenue by \$347,669 (i.e.; \$4.9667 million * 0.07) in FY 2019 from allowing the trade-in allowance for new and used motorcycles.

ORA used the base gross sales receipts data for households and businesses from the Rhode Island Macro Sales Tax Simulation Model for Fiscal Year 2019 for all new and used trucks. In the Sales Tax Simulation Model, 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 as both types of vehicles are deemed passenger automobiles. According to the sales tax simulation model, the total Rhode Island gross sales receipts of new and used trucks, including SUVs and vans, for household use is \$744.7885 million. Based on data provided by the Rhode Island Department of Revenue, Division of Motor Vehicles (DMV), ORA estimated that 30.2 percent of the total trucks, SUVs, and vans registered in Rhode Island with Combination plates are trucks (a combination plate can be issued to any motor vehicle eligible for registration as a commercial vehicle having a gross weight of 8,800 lbs. or less). 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 for personal use to be \$223.5855 million (i.e., \$744.7885 million * 0.302). Similarly, according to the sales tax simulation model, the total Rhode Island gross sales receipts of new and used light trucks, including SUVs and vans, for business use is \$463.0185 million. Based on data provided by DMV, ORA estimated that 87.5 percent of the total trucks, SUVs, and vans registered in Rhode Island with Commercial plates are trucks. ORA estimated the gross sales receipts for new and used light trucks with Commercial plates to be \$405.1412 million (i.e., \$463.0185 * 0.875). Total gross sales receipts for new and used trucks for all purchasers are \$630.0673 million (i.e., \$224.9261 million + \$405.1412 million).

Based on additional data provided by the DMV, ORA estimated that 99.404 percent of all trucks registered in the state with Combination plates are trucks that are less than 8,100 pounds in gross vehicle weight. ORA estimates the gross sales receipts for new and used light trucks that are less than 8,100 pounds in gross vehicle weight with Combination plates to be \$223.5855 million (i.e., $\$224.9261 * 0.99404$). According to the US Census Bureau, the definition of light duty trucks is a gross vehicle weight of less than 10,000 lbs. Based on data provided by DMV, ORA estimated that 66.836 percent of trucks weighing 10,000 pounds or less registered in the state with Commercial plates are trucks that are less than 8,100 pounds in gross vehicle weight. ORA estimates the gross sales receipts for new and used pickup trucks that are less than 8,100 pounds in gross vehicle weight with Commercial plates to be \$270.7801 million (i.e., $\$405.1412 * 0.66836$). Total gross sales receipts for new and used trucks for all purchasers are \$494.3655 million (i.e., $\$223.5855 \text{ million} + \270.7801 million).

The Rhode Island Macro Sales Tax Simulation Model assumes that 13.58 percent of the gross sales receipts for new and used private passenger automobiles are exempt from the state's sales and use tax because the trade-in value of such vehicles are exempt from the sales and use tax. That is, the sales tax simulation model subjects only 86.42 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. These percentages are based on FY 2019 data captured by the DMV's RIMs computer system. ORA assumed that the same percentage of the gross receipts from the sales of new and used pick-up trucks with gross vehicle weights of not more than 8,100 lbs. would also be subject to the state sales and use tax. ORA estimated that the trade-in allowance for new and used pick-up trucks with gross vehicle weights of not more than 8,100 lbs. is \$67.1447 million (i.e., $\$494.3655 \text{ million} * 0.1358$). Thus, passage of the bill would decrease sales tax revenue by \$4.70 million (i.e., $\$67.1447 \text{ million} * 0.07$) in FY 2019 from allowing the trade-in allowance for new and used pick-up trucks with gross vehicle weights of not more than 8,100 lbs.

Summing the motorcycle and pickup trucks with gross vehicle weights of not more than 8,100 pounds estimates yields a total FY 2019 sales tax revenues decrease of \$5.047 million (i.e., $\$4.70 \text{ million} + \$347,669$) from passage of this bill.

According to the November 2019 Revenue Estimating Conference (REC), estimated sales and use tax revenues for FY 2020 are \$1,192,100,000. In order to estimate the growth in the sales and use tax base, ORA subtracted from the November 2019 REC FY 2020 sales and use tax estimate, the enacted sales and use taxes estimates for additions to the Rhode Island sales and use tax base in FY 2020. These additions include: digital downloads, \$2,625,759; Rebuild Rhode Island sales and use tax rebates \$5,600,000; and sales and use tax exemptions for feminine hygiene products Exemption, \$(617,211); and urns, \$(75,000); or a total of \$7,533,548. Subtracting the above revenue items from the FY 2020 sales and use tax estimate yields an adjusted FY 2020 sales and use tax estimate of \$1,184,566,452 (i.e., $\$1,192,100,000 - \$7,533,548$). ORA then calculated an estimated FY 2020 sales and use tax growth rate of 5.2305 percent over FY 2019 audited sales and use tax revenues of \$1,125,687,845 (i.e., $(\$1,184,566,452 / \$1,125,687,845) - 1$).

Applying this growth rate to the FY 2019 estimate of the sales and use taxes on the trade in values of trucks weighing less than 8,100 pounds and motorcycles yields an estimated \$5.312 million of sales and use tax revenues for FY 2020 (i.e., \$5.047 million * 1.052305). According to the November 2019 REC, estimated sales and use tax revenues for FY 2021 are \$1,239,800,000, which represents a growth rate of 4.0013 percent over FY 2020. Applying this growth rate to the FY 2020 estimate calculated above yields an estimated revenue loss from the passage of the bill of \$5.524 million (i.e., \$5.312 * 1.040013). For the FY 2022 fiscal impact estimate, the Office of Management and Budget's sales and use tax revenues projected growth rate of 3.5770 percent was applied to the FY 2021 estimated forgone revenue to yield a revenue loss of \$5.722 million in FY 2022 from the passage of this bill (i.e., \$5.524 million * 1.03577).

The Governor's FY 2021 Recommended Budget projects a closing surplus of \$24,842,778 in FY 2020 and \$892,259 in FY 2021. Passage of this bill would have no impact on the FY 2020 closing surplus, but it would put the Governor's FY 2021 Recommended Budget out-of-balance and increase the projected deficit for FY 2022.

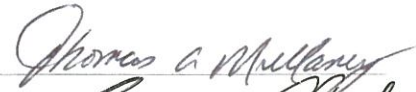
Summary of Fiscal
Impact:

FY 2020: Not applicable due to the assumed implementation date of July 1, 2020.

FY 2021: A general revenue loss of \$5,524,367 is forecast.

FY 2022: A general revenue loss of \$5,721,976 is forecast.

Budget Office Signature:



Fiscal Advisor Signature:

