

State of Rhode Island
 Budget
 Office
 Department of Administration

**State Fiscal Note for Bill
 Number: 2020-H-7497**

Date of State Budget Office Approval:

Date Requested: Monday, February 24, 2020

Date Due: Thursday, March 5, 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	\$(7,640,422)
FY 2022	N/A	FY 2022	\$(15,825,639)

*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 eliminating the minimum age threshold required to take the allowable taxable Social Security income modification reducing federal Adjusted Gross Income (AGI) under R.I. Gen. Laws Section 44-30-12 titled "Rhode Island income of a resident individual" for tax years beginning on or after January 1, 2020. The bill keeps the current federal AGI income thresholds in place of \$80,000 or less in 2016 dollars for an individual filer or federal AGI of \$100,000 or less in 2016 dollars for joint filers below which taxpayers may deduct the full amount of unreduced Social Security retirement benefits from federal AGI. (These amounts for TY 2017 were adjusted to \$81,575 and \$101,950, respectively). For taxpayers with federal AGI above these threshold amounts, the bill would allow taxpayers to deduct the portion of their unreduced social security retirement benefits that exceeds the referenced gross incomes. The Office of Revenue Analysis is unclear what the intent is for this section of the bill and has requested further clarification from the bill's sponsor.

Under current law, effective for tax years beginning on or after January 1, 2016, a modification reducing federal AGI is allowed under Rhode Island General Law Section 44-30-12(c)(8) titled "Rhode Island income of a resident individual Modifications reducing federal adjusted gross income - Modification for taxable social security income" for taxable social security income provided the taxpayer has reached the age used for calculating full or unreduced Social Security retirement benefits and has federal AGI of \$80,000 or less in 2016 dollars for an individual filer or has federal AGI of \$100,000 or less in 2016 dollars for joint filers.

*Comments on
 Sources of Funds:*

All personal income taxes are general revenues.

*Summary of Facts
 and Assumptions:*

The effective date of the bill is upon passage. The provisions of the bill are applicable to "tax years beginning on or after January 1, 2020." Since tax year 2020 has already begun, The Department of Revenue's Office of Revenue Analysis (ORA) assumed that this bill would be applicable to tax years beginning on or after January 1, 2021. 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 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.

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Tuesday, August 11, 2020

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It should be noted that due to ORA's assumed implementation date the bill will have no impact on FY 2020 personal income tax revenues as the bill will be effective for tax years beginning on or after January 1, 2021. The impact of the bill on budget year personal income tax revenues will be realized through the personal income tax net accrual rather than actual revenue flows during the fiscal year as the returns filed for TY 2021 would not be received until FY 2021. The impact of the bill on FY 2021 personal income tax revenues will be realized through actual revenue flows during that fiscal year but primarily concentrated in the months of February through June.

It should also be noted that, although this modification reducing federal AGI is provided for in Rhode Island General Law Section 44-30-12 titled "Rhode Island income of a resident individual", said modification reducing federal AGI is extended to non-resident taxpayers via subsection (c) of Rhode Island General Law Section 44-30-32 titled "Rhode Island income of a nonresident individual".

Finally, the estimate provided by ORA includes data made available to ORA on gross social security amounts and taxable social security amounts and where available, dates of birth. ORA is unable to interpret the intent of 44-30-12(d)(2), the second half of the proposed bill. ORA would need further explanation before attempting to provide an estimate. As a result, the revenue impacts below are considered to be the minimum amount of revenue that will be forgone from passage of the bill.

The fiscal impact analysis of the bill is based on a personal income tax simulation executed by ORA. The simulation adjusted the TY 2017 personal income tax file to reflect TY 2019 law and applied the proposed gross social security decreasing modification from federal AGI without age restrictions but with income restrictions depending on filing status. The results of this simulation were compared to the application of TY 2019 law on the TY 2017 personal income tax file, which allows for a decreasing modification from federal AGI for taxable social security income with age and income restrictions.

ORA estimated Rhode Island personal income tax collections for TY 2017 under TY 2019 law were \$1,197,537,195 (\$969,079,125 for resident filers and \$228,458,070 for nonresident filers). The results of the simulation indicate that implementation of the bill would reduce personal income tax collections for TY 2017 under TY 2019 law by a total of \$13,838,381 for all Rhode Island personal income tax filers. Thus, the results of this simulation indicate that implementation of the bill would decrease personal income tax revenues by 1.1556 percent (i.e., \$13,838,381 / \$1,197,537,195).

Using the personal income tax simulation model, ORA determined that resident and nonresident TY 2017 personal income tax collections under TY 2017 law were \$1,197,895,105. This amount solely represents payments made by taxpayers for that tax year. It is important to distinguish between a tax year's revenues 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 2017 personal income tax revenues to total personal income tax revenues received in calendar year 2017 of \$1,279,668,989 to arrive at an estimate of the ratio of total calendar year personal income tax revenues that TY 2017 payments comprise of 93.6098 percent (i.e., \$1,197,895,105 / \$1,279,668,989).

The ratio of TY 2017 personal income tax revenues to CY 2017 personal income tax revenues was applied to the Department of Administration, Office of Management and Budget's (OMB) FY 2022 projection of personal income tax revenues based on estimates adopted at the May 2020 Revenue Estimating Conference (REC) of \$1,412,634,788. This calculation yields estimated TY 2021 personal income tax payments of \$1,322,364,074 realized in FY 2022 (i.e., \$1,412,634,788 * 0.936098). Applying the 1.1556 percent estimated personal income tax revenue gain from passage of the bill to the FY 2022 estimate of TY 2021 personal income tax revenues yields estimated forgone personal income tax revenue of \$15,280,843 in TY 2021 attributable to eliminating the age restriction for the social security modification reducing federal AGI (i.e., \$1,322,364,074 * 0.011556). The two percentages described above were also applied to OMB's projection of personal income tax revenues based on estimates adopted at the May 2020 REC for FY 2023 of \$1,513,361,971 to yield an estimated \$16,370,436 in personal income tax revenue forgone from eliminating the age restriction for the social security modification reducing federal AGI for Rhode Island tax purposes (i.e., 0.936098 * \$1,513,361,971 * 0.011556).

Employing the Office of Accounts and Controls accrual methodology yields budgetary revenue losses from the passage of this bill for FY 2021 of \$7,640,422 (i.e., 0.5 * \$15,280,843) and for FY 2022 of \$15,825,639 (i.e., 0.5 * \$15,280,843 + 0.5 * \$16,370,436).

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 decrease the Governor's FY 2021 Recommended Budget surplus and increase the projected deficit for FY 2022.

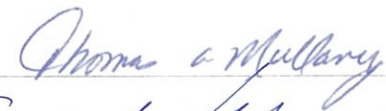
Summary of Fiscal
Impact:

FY 2020: Not applicable due to the assumed implementation date of January 1, 2021.

FY 2021: A revenue loss of \$7,640,422 is forecast.

FY 2022: A revenue loss of \$15,825,639 is forecast.

Budget Office Signature:



Fiscal Advisor Signature:



