

State of Rhode Island
Budget
Office
Department of Administration

**State Fiscal Note for Bill
Number: 2020-H-7536**

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	\$(2,653,240)
FY 2022	n/a	FY 2022	\$(5,415,024)

Explanation by State Budget Office: This bill would amend Rhode Island General Laws Chapter 44-30 entitled "Personal Income Tax" by extending the allowable modification amount under Rhode Island General Laws Section 44-30-12(c)(9) titled "Rhode Island income of a resident individual – Modifications reducing federal adjusted gross income – Modification for up to fifteen thousand dollars (\$15,000) of taxable retirement income from certain pension plans or annuities" to individual retirement accounts (IRAs)" for tax years beginning on or after January 1, 2021. To be eligible for this modification reducing federal AGI, a taxpayer must have reached the age used for calculating full or unreduced Social Security retirement benefits and have a federal AGI of \$80,000 or less, in 2016 dollars, for an individual filer or a federal AGI of \$100,000 or less, in 2016 dollars, for joint filers.

Under current law, effective for tax years beginning on or after January 1, 2017, a modification is allowed for up to \$15,000 of taxable retirement income from certain pension plans and annuities, but not individual retirement arrangements, subject to the same age minimum and federal AGI limitations as noted above.

Comments on Sources of Funds: All personal income tax revenues are general revenues.

Summary of Facts and Assumptions: The effective date of the bill is upon passage, but the implementation is for tax years beginning on or after January 1, 2021. The bill changes the current allowance for a modification reducing federal AGI for up to \$15,000 of taxable pension and annuities from tax years beginning on or after January 1, 2017 to tax years beginning on or after January 1, 2021, and, as a result, the bill would retroactively eliminate the current modification for TY 2017, TY 2018, TY 2019, and TY 2020. The Office of Revenue Analysis (ORA) assumed this was done in error and did not include this change in the fiscal impact.

Based upon the accrual methodology employed by the 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. 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 FY 2021 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

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2021 would not be received until FY 2022. The impact of the bill on FY 2022 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 be noted that, although this modification reducing federal AGI is provided for in Rhode Island General Laws 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 Laws Section 44-30-32 titled "Rhode Island income of a nonresident individual".

The revenue figures reported in this fiscal note are based on ORA's TY 2017 personal income tax simulation model adjusted to reflect current tax law as of TY 2019. Under TY 2019 law, a modification reducing federal AGI is allowed for taxable retirement income, including pensions, annuities, 401(k), 403(b), and 457(b) distributions, of up to \$15,000 per eligible taxpayer. The simulation used the TY 2017 personal income tax return file adjusted to reflect TY 2019 law and applied the proposed modification decreasing federal AGI for taxable retirement income to include taxable IRA distributions as reported on the federal 1040 tax form for TY 2017. It should be noted that in the case of joint filers, ORA was unable to determine whether taxable retirement income was attributable to one or both taxpayers. In the case where both taxpayers were eligible for this modification based on age or where age information for one or both taxpayers was missing, ORA assumed both taxpayers were eligible to receive up to the maximum modification amount from retirement income, \$30,000 in total for the proposed bill. The results of this simulation were compared to a base simulation which used the TY 2017 personal income tax return file adjusted to reflect TY 2019 law without the inclusion of taxable IRA distributions in the retirement income modification. The results of the simulation incorporating the provisions of the bill indicate that implementation of the bill would decrease personal income tax revenues by 0.3068 percent.

The TY 2017 resident and non-resident actual personal income tax receipts of \$1,197,895,105 represent payments made by taxpayers for TY 2017. It is important to distinguish between a given tax year's revenues and total personal income tax revenues 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 TY 2017 actual personal income tax receipts to total personal income taxes received in calendar year 2017 of \$1,279,668,989 to arrive at a ratio of TY 2017 personal income tax payments received to total calendar year 2017 personal income tax payments received 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 of \$1,552,264,766. This projection is consistent with the FY 2021 revenue estimates adopted at the November 2019 Revenue Estimating Conference (REC). This calculation yields estimated TY 2021 personal income tax payments of

\$1,453,071,365 realized in FY 2022 (i.e., $\$1,552,264,766 * 0.936098$). Applying the 0.3068 percent estimated personal income tax revenue loss from passage of the bill to the FY 2022 estimate of TY 2021 personal income tax revenues yields estimated personal income tax revenue losses of \$5,306,480 in TY 2021 attributable to adding taxable IRA distributions to the modification decreasing federal AGI for taxable retirement income (i.e., $\$1,453,071,365 * 0.003068$). The two percentages described above were also applied to OMB's projection of FY 2022 personal income tax revenues of \$1,615,768,282 to yield an estimated \$5,523,569 in decreased personal income tax revenue from the addition of taxable IRA distributions to the modification decreasing federal AGI for taxable retirement income of up to \$15,000 (i.e., $\$1,615,768,282 * 0.936098 * 0.003068$).

Employing the Office of Accounts and Controls accrual methodology yields budgetary revenue losses from the passage of this bill for FY 2021 of \$2,653,240 (i.e., $0.5 * \$5,306,480$) and for FY 2022 of \$5,415,024 (i.e., $0.5 * \$5,306,480 + 0.5 * \$5,523,569$).

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 implementation date of January 1, 2021.

FY 2021: A revenue loss of \$2,653,240 is forecast.

FY 2022: A revenue loss of \$5,415,024 is forecast.

Budget Office Signature:

Fiscal Advisor Signature:



