

Date of State Budget Office Approval:

Date Requested: Wednesday, March 4, 2020

Date Due: Saturday, March 14, 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	\$(600,000)
FY 2022	n/a	FY 2022	\$(1,200,000)

Explanation by State Budget Office:

This bill would amend Rhode Island General Laws (R.I. Gen Laws) § 44-62-3 titled "Tax Credits for Contributions to Scholarship Organizations – Application for the tax credit program" to increase the maximum aggregate amount of tax credits to \$5,000,000 in FY 2021. Further, this amendment provides that the future amount of tax credits made available will increase by 15% following any fiscal year in which applications by eligible businesses exceed approved contributions by 10%.

In addition, the bill amends R.I. Gen Laws § 44-62-3 by adding to it subsection (f), which prioritizes the approval process such that approval will be given "first to applications for the continued participation of eligible students already attending qualified schools through the scholarship program." Finally, the bill amends § 44-62-6 titled "Definitions" by adding the term "eligible business entity" defined as "any business entity whose application to make a contribution to the program created by this section would be approved if said approval would not exceed the limit described in § 44-62-3(b)."

Under current law, the total aggregate amount of tax credits that can be approved under the Contributions to Scholarship Organizations program is capped at a fixed \$1,500,000 in a fiscal year. There is no designated priority of approval for applicants to the program. Finally, the term "business entity" is defined in the statute as "an entity authorized to do business in this state and subject to taxes imposed under chapters 44-11 (Business Corporation Tax), 44-13 (Public Service Corporation Tax), 44-14 (Taxation of Banks), 44-15 (Tax on Bank Deposits Generally), and 44-17 (Taxation of Insurance Companies). "Business entity" includes subchapter S corporations, limited liability companies, and limited liability

Comments on Sources of Funds:

All business corporation tax (R.I. Gen. Laws Ch. 44-11), public utilities gross earnings tax (R.I. Gen. Laws Ch. 44-13), financial institutions tax (R.I. Gen. Laws Ch. 44-14), bank deposits tax (R.I. Gen. Laws Ch. 44-15), insurance company gross premiums tax (R.I. Gen. Laws Ch. 44-17), and personal income tax (R.I. Gen. Laws Ch. 44-30) revenues are general revenues.

Summary of Facts and Assumptions:

This bill takes effect upon passage, but the increase in the aggregate amount of tax credits for contributions to scholarship organizations would take effect on July 1, 2020. A large majority of business corporation taxpayers are calendar year entities, meaning that their tax year runs from January 1 to December 31. The FY 2021 tax credits for contributions to scholarship organizations were approved in July 2020. The qualifying contributions to the chosen scholarship organizations must be made

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within 120 days of the date of the approval letter. Thus, the tax credits under this program issued in FY 2021 will, in general, be redeemed with the TY 2020 tax return. TY 2020 spans two fiscal years, FY 2020 and FY 2021, with FY 2020 ending on June 30, 2020 (i.e., before the implementation of the proposed change). As a result, the Department of Revenue, Office of Revenue Analysis (ORA) assumed the bill would be applicable to tax year 2021 and thereafter. Based upon the accrual methodology employed by the Department of Administration, Office of Accounts and Controls, 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.

It should be noted that the bill states that the cap of \$1.5 million for tax credits for contributions to scholarship organization under current law would increase to \$5.0 million for FY 2021. The bill also provides for the cap to increase in future fiscal years if the total amount of applications for the contributions to scholarship organizations tax credits meet a certain criterion (i.e., exceed approved tax credits by 10%). As written, the maximum aggregate tax credits approved under this program will revert to \$1.5 million in FY 2022 if applications for tax credits for contributions to scholarship organizations do not exceed approved tax credits by 10%. ORA assumed this was in error and that the maximum cap in contributions to scholarship organizations tax credits will remain at \$5.0 million for all fiscal years after FY 2021 if the criterion is not met.

According to the Department of Revenue, Division of Taxation, the tax credits for the contributions to scholarship organizations program are oversubscribed on an annual basis. This means that the amount of tax credits that business entities want to receive for their contributions to scholarship organizations is greater than the \$1.5 million cap placed on the program. The Division of Taxation indicates that in FY 2020 and FY 2021 business entities applied for \$2.4 million and \$2.7 million of tax credits for contributions made to scholarship organizations, respectively. It should be noted that multiple business entities controlled by the same individual or shareholders made applications to the program with the tax credits requested exceeding the program's limit of \$100,000 per taxpayer. Thus, it is likely that there is substantive double counting of actual tax credits demanded by applicants and that the current program may not be oversubscribed to the extent indicated.

As noted above, the FY 2021 tax credits for contributions to scholarship organizations already issued will be redeemed with the TY 2020 tax returns. Thus, the TY 2020 tax credits redeemed under this program are assumed to be \$2.7 million, or \$1.2 million more than allowed under current law. ORA assumed no further growth in the tax credits for contributions to scholarship organizations in TY 2021 and TY 2022. Thus, the estimated revenue impact for TY 2021 and TY 2022 is \$1.2 million. As the estimated demand for tax credits in TY 2022 will not exceed the available amount of tax credits of \$5.0 million in TY 2021, the aggregate amount of tax credits available will remain at \$5.0 million.

Employing the Office of Accounts and Controls accrual methodology yields budgetary revenue losses for FY 2021 of \$600,000 (i.e., $0.5 * \$1,200,000$) and for

FY 2022 of \$1,200,000 (i.e., $0.5 * \$1,200,000 + 0.5 * \$1,200,000$).

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

Summary of Fiscal
Impact:

FY 2020: No revenue impact is forecast due to the assumed implementation date.

FY 2021: A revenue loss of \$600,000 is forecast.

FY 2022: A revenue loss of \$1,200,000 is forecast.

Budget Office Signature:



Fiscal Advisor Signature:



