



# OFFICE OF MANAGEMENT & BUDGET

## State Budget Office

One Capitol Hill  
Providence, RI 02908-5890

Office: (401) 222-6300  
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*State Fiscal Note for Bill Number:*

**2025-S 0107**

**Date of State Budget Office Approval:** Friday, February 28, 2025

**Date Requested:** Friday, January 31, 2025

**Date Due:** Saturday, February 15, 2025

<i>Impact on Expenditures</i>		<i>Impact on Revenues</i>	
FY 2025	\$0	FY 2025	\$0
FY 2026	\$0	FY 2026	Indeterminate
FY 2027	\$0	FY 2027	Indeterminate

### Explanation by State Budget Office:

This bill would add a new chapter to R.I. Gen. Laws Title 44, titled "Chapter 72 - Surplus Funds Tax Credit Act." This new chapter would provide tax credits to all taxpayers in the event that "net state tax revenues in any fiscal year exceed the projected estimates as contained in the budget." The total credits would equal the amount of the surplus and would be distributed proportionally based on the income tax liability of taxpayers in the preceding tax year.

### Summary of Facts and Assumptions:

The effective date of this bill is July 1, 2025, which means the FY 2026 budget would be the first budget subject to this proposal. Audited revenue for FY 2026 will not be available until December 2026 or January 2027. This means any tax credits would likely be issued in tax year 2027 for inclusion on TY 2027 tax returns (due by April 2028).

This novel process would require rulemaking and implementation by the Department of Revenue, Division of Taxation. This implementation would include the modification of tax systems and forms to be able to calculate and process this new personal income tax credit. The Division of Taxation notes several technical issues with the bill as drafted and plans to submit a letter detailing these issues, which concern tax policy, clarity, compliance, and administration, when the bill is scheduled for hearing.

It is important to note that R.I. Gen. Laws § 35-6-1(e) requires the state controller to transfer any excess audited revenue greater than the estimates in the final enacted budget to the supplemental rainy-day fund and the pension fund (with half of the excess, net of the transfer to the regular rainy-day fund, to each fund). It is unclear how that provision would interact with this proposal. Prior to the implementation of R.I. Gen. Laws § 35-6-1(e), excess revenue in one fiscal year would increase the opening surplus in the following fiscal year. Under this prior scenario, the tax credits envisioned by this proposal would then offset that increased opening surplus. However, under current law this excess revenue is no longer carried over to the following year's opening surplus, meaning this proposal may reduce available revenue the fiscal year following enactment (and in subsequent years).



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The terms used in the bill are imprecise, most notably in two areas: which type of revenue should be included in the calculation and which two revenue numbers should be compared. Generally, "tax revenue" includes personal income tax, businesses taxes, sales and excise taxes, and other taxes. This definition doesn't include departmental receipts and lottery revenue, the third and fourth largest sources of general revenue in the state. It's also unclear if just general revenue or all revenue should be considered under this process.

In terms of which revenue numbers should be used, one benchmark is relatively straightforward: final revenue is determined by the audited closing statement issued by the Office of Accounts and Control. The bill states that this final revenue number should be compared to "projected revenue estimates as contained in the budget." Revenue estimates are revised multiple times in the budget process. The initial enacted budget is usually signed into law immediately preceding the fiscal year start in July. This enacted budget is revised during the next budget cycle, with that revised budget typically signed into law at the very end of that fiscal year. For example, the FY 2024 budget was first enacted on June 16, 2023 and then revised on June 16, 2024. Preliminary FY 2024 general revenue figures were released on September 24, 2024, with audited revenue figures to follow.

The benchmark chosen greatly impacts likely surplus revenue. For FY 2013 through FY 2024, the difference between audited general revenues to the initial enacted budget estimates averaged \$162.9 million. This surplus shrinks to \$52.2 million if the comparison is between audited and revised enacted estimates. The recent fiscal years have seen large excesses related to the difficulty in estimating revenue during a pandemic. If FY 2020 through FY 2024 is removed from those averages, those surpluses shrink to \$61.4 million (audited compared to enacted) and \$11.4 million (audited compared to revised).

The goal of the revenue estimating process is to minimize variance between forecasted and actual revenue collections. The likelihood of positive or negative forecast errors should, in theory, be equal. Much of the forecast variance should be due to unpredictable exogenous events that impact the economy or revenue collections. Given this, the Office of Revenue Analysis is unable to predict if any specific future fiscal year will have a revenue surplus and is unable to estimate the magnitude of those surpluses.

### Comments on Sources of Funds:

This fiscal note assumes credits under this new chapter would be based on general revenues and be claimed under personal income tax, also a general revenue.



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### Summary of Fiscal Impact:

FY 2025: Not applicable due to the assumed implementation date of July 1, 2025.

FY 2026: An indeterminate revenue loss is forecast.

FY 2027: An indeterminate revenue loss is forecast.

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Fiscal Advisor Signature: \_\_\_\_\_

