



State Fiscal Note for Bill Number: 2013-H-5222

Date of State Budget Office Approval: Thursday, March 07, 2013

Date Requested: Tuesday, February 19, 2013

Date Due: Friday, March 01, 2013

<i>Impact on Expenditures</i>		<i>Impact on Revenues</i>	
FY 2013	n/a	FY 2013	n/a
FY 2014	n/a	FY 2014	\$(11,309,285)
FY 2015	n/a	FY 2015	\$(11,579,577)

Explanation by State Budget Office: This act would provide an exemption from the tax imposed by Rhode Island General Law Chapter 44-18 entitled "Sales and Use Taxes – Liability and Computation" for the trade-in value of pickup trucks with gross vehicle weights of less than 10,000 lbs. Under Rhode Island General Law Section 44-18-30(23), an exemption from the state sales and use tax is provided for the trade-in value of private passenger automobiles only.

Comments on Sources of Funds: All sales and use taxes are considered to be general revenue.

Summary of Facts and Assumptions: *****REVISED MARCH 8, 2013*****

The effective date of the act is upon passage but the implementation date is assumed to be July 1, 2013.

The Rhode Island Division of Motor Vehicles reports that 86.57 percent of all trucks registered in the state are trucks that are less than 10,000 pounds in gross vehicle weight. The Office of Revenue Analysis (ORA) used the base gross sales receipts data from the Rhode Island Macro Sales Tax Simulation Model for Tax Year 2012 for all new and used trucks and multiplied it by this percentage to estimate the gross sales receipts for new and used trucks with less than 10,000 lbs gross vehicle weight. According to the sales tax simulation model, the total Rhode Island gross sales receipts of new and used pick-up trucks are \$469.72 million. ORA estimates that total Rhode Island gross sales receipts of new and used pick-up trucks with less than 10,000 lbs gross vehicle weight is \$406.63 million (i.e., \$469.72 million * 86.57 percent).

The Rhode Island Macro Sales Tax Simulation Model assumes that 37.4 percent of the gross sales receipts for new and used private passenger automobiles are exempt from the state's sales and use tax due to the fact that the trade-in value of such vehicles are exempt from the sales and use tax. That is, the sales tax simulation model subjects only 62.6 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 pick-up trucks with gross vehicle weights of less than 10,000 lbs would also be subject to the state sales and use tax. ORA estimated the trade-in allowance for new and used pick-up trucks with gross vehicle weights of less than 10,000 lbs to be \$152.08 million

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(i.e., \$406.63 million * 0.374) thereby lowering the taxable base for new and used pick-up trucks with gross vehicle weights of less than 10,000 lbs to \$254.55 million (i.e., \$406.63 million - \$152.08 million).

Under the act, ORA estimated that total sales and use tax collected from the sales of new and used pick-up trucks with gross vehicle weights of less than 10,000 lbs would be \$17.82 million (i.e., \$254.55 million * 0.07). This compares to sales and use tax collections for the same vehicles under current law, where there is no trade-in allowance granted for any pick-up trucks regardless of gross vehicle weight, of \$28.46 million. Thus, the act would decrease sales tax revenue by \$10.65 million (i.e.; \$28.46 million - \$17.82 million) in TY 2012. For simplicity ORA assumed that tax year and fiscal year revenue impacts are the same. To calculate the FY 2013 fiscal impact, the foregone sales tax revenue is grown by the growth in sales and use tax revenues adopted at the November 2012 Revenue Estimating Conference of 3.33 percent. Applying this percentage to the estimated foregone revenue for FY 2012 yields a decrease in sales and use tax revenue of \$11.00 million (i.e., \$10.65 million * 1.033) in FY 2013 under the act.

According to the November 2012 Revenue Estimating Conference, the annual growth rate of sales and use tax revenues for FY 2014 is estimated at 2.81 percent. Therefore, passage of the act would decrease sales and use tax revenue by \$11.31 million (i.e.; \$11.00 million * 1.0281) in FY 2014. For the FY 2015 fiscal impact estimate, the Budget Office's sales and use tax revenues projected growth rate (excluding Governor's enhanced sales tax compliance program included in the FY 2014 Budget) of 2.39 percent was applied. Thus, the act would decrease sales and use tax revenues by \$11.58 million (i.e.; \$11.31 million * 1.0239) in FY 2015.

The Governor's FY 2014 Recommended Budget projects a deficit of \$170.5 million in FY 2015. Passage of this act would increase this projected deficit.

*Summary of Fiscal
Impact:*

FY 2013: Not applicable due to the assumed implementation date of July 1, 2013.

FY 2014: A general revenue loss of \$11,309,285 is forecast.

FY 2015: A general revenue loss of \$11,579,577 is forecast.

Budget Office Signature:

Fiscal Advisor Signature: