



State Fiscal Note for Bill Number: 2014-H-7364

Date of State Budget Office Approval:

Date Requested: Wednesday, March 19, 2014

Date Due: Saturday, March 29, 2014

Impact on Expenditures

FY 2014 n/a
FY 2015 n/a
FY 2016 n/a

Impact on Revenues

FY 2014 n/a
FY 2015 \$(3,108,287)
FY 2016 \$(3,218,074)

Explanation by State Budget Office:

This bill 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 6,000 lbs that are used exclusively for personal use. 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:

The effective date of the act is upon passage but the implementation date is assumed to be July 1, 2014.

The Rhode Island Department of Revenue's Division of Motor Vehicles reports that 23.03 percent of all trucks registered in the state are trucks that are less than 6,000 pounds in gross vehicle weight and registered with Combination plates. The Office of Revenue Analysis (ORA) assumed that all pickup trucks that are registered with Combination plates are used exclusively for personal use. ORA used the base gross sales receipts data from the Rhode Island Macro Sales Tax Simulation Model for Tax Year 2013 for all new and used trucks and multiplied this figure by the percentage of trucks that have a gross vehicle weight of less than 6,000 lbs and are registered with a Combination plate to estimate the gross sales receipts for new and used trucks with less than 6,000 lbs gross vehicle weight that are used exclusively for personal use. According to the sales tax simulation model, the total Rhode Island gross sales receipts of new and used pick-up trucks are \$486.88 million. ORA estimated that total Rhode Island gross sales receipts of new and used pick-up trucks with less than 6,000 lbs gross vehicle weight that are used exclusively for personal use is \$112.13 million (i.e., \$486.88 million * 23.03 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 6,000 lbs that are used exclusively for personal use would also be subject to the state sales and use tax. ORA estimated the

Prepared by:

Paul Dion / 4015748943 / pdion@revenue.ri.gov

Thursday, March 20, 2014

Page 1 of 2

trade-in allowance for new and used pick-up trucks with gross vehicle weights of less than 6,000 lbs that are used exclusively for personal use is \$41.94 million (i.e., \$112.13 million * 0.374) thereby lowering the taxable base for new and used pick-up trucks with gross vehicle weights of less than 6,000 lbs that are used exclusively for personal use to \$70.19 million (i.e., \$112.13 million - \$41.94 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 6,000 lbs that are used exclusively for personal use would be \$4.91 million (i.e., \$70.19 million * .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 or use, of \$7.85 million. Thus, this act would decrease sales tax revenue by \$2.94 million (i.e.; \$7.85 million - \$4.91 million) in TY 2013. For simplicity ORA assumed that tax year and fiscal year revenue impacts are the same.

According to the November 2013 Revenue Estimating Conference, the estimated growth rate for sales and use taxes in FY 2014 is 2.86 percent. Applying this growth rate to the FY 2013 estimate of the sales and use tax foregone on the trade-in allowance for new and used pick-up trucks with gross vehicle weights of less than 6,000 lbs that are used exclusively for personal use yields an estimate of \$3.02 million of sales and use tax revenues foregone from allowing the trade-in allowance provision contained in the act in FY 2014 (i.e., \$2.94 million * 1.0286). Similarly, according to the November 2013 Revenue Estimating Conference, the annual growth rate of sales and use tax revenues for FY 2015 is 2.94 percent. Therefore, passage of the act would decrease tax revenue by \$3.11 million (i.e.; \$3.02 million * 1.0294) in FY 2015 from allowing the trade-in allowance provision for pick-up trucks that have less than 6,000 lbs of gross vehicle weight and are for personal use only. For the FY 2016 fiscal impact estimate, the Budget Office's sales and use tax revenues projected growth rate (excluding the Governor's sales tax initiatives included in the FY 2015 Budget) of 3.53 percent was applied. Thus, passage of the act would decrease tax revenue by \$3.22 million (i.e.; \$3.13 million * 1.0353) in FY 2016.

The Governor's FY 2015 Recommended Budget projects a surplus of \$400,000 in FY 2015 and a deficit of \$151.1 million in FY 2016. Passage of the bill would put the Governor's FY 2015 Recommended Budget out of balance and increase the FY 2016 projected deficit.

Summary of Fiscal Impact:

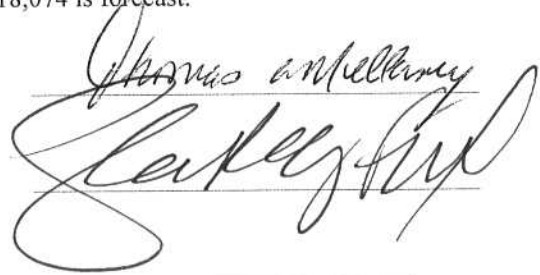
FY 2014: Not applicable due to the assumed implementation date of July 1, 2014.

FY 2015: A general revenue loss of \$3,108,287 is forecast.

FY 2016: A general revenue loss of \$3,218,074 is forecast.

Budget Office Signature:

Fiscal Advisor Signature:



NOK: - Exclusively for personal use MAY BE difficult to enforce.

This may increase lbs.

Prepared by:

Paul Dion / 4015748943 / pdion@revenue.ri.gov