



**State Fiscal Note for Bill
Number: 2015-H-5237**

Date of State Budget Office Approval:

Date Requested: 2/5/15

Date Due:

<i>Impact on Expenditures</i>		<i>Impact on Revenues</i>	
FY 2015	n/a	FY 2015	n/a
FY 2016	n/a	FY 2016	\$(4,033,384)
FY 2017	n/a	FY 2017	\$(4,213,160)

Explanation by State Budget Office:

This bill amends Rhode Island General Law Section 44-18-30 entitled "Gross receipts exempt from sales and use taxes" by adding Rhode Island General Law subsection 44-18-30(65) titled "Leased motor vehicles". This new subsection would prohibit the lessor of a motor vehicle from charging a lessee any sales or use tax on the portion of any motor vehicle lease payment that consists of the amount of any tangible personal property tax, municipal property tax, or any other tax.

Comments on Sources of Funds:

All sales and use taxes are considered to be general revenues.

Summary of Facts and Assumptions:

The effective date of the bill is upon passage but the implementation date is assumed to be July 1, 2015.

The fiscal impact is based on three data sources: (1) FY 2015 municipal data on motor vehicle property tax rates and the motor vehicle excise tax exemption amount by municipality provided by the Rhode Island Department of Revenue's Division of Municipal Finance; (2) February 2015 data from the Rhode Island Department of Revenue's Division of Motor Vehicles (DMV) detailing the number of leased vehicles by municipality; and (3) 2010 data from the US Bureau of Transportation Statistics that estimates the average value of a new vehicle.

In order to calculate the foregone revenue from the act, the Office of Revenue Analysis took the estimated average vehicle value from the U.S. Bureau of Transportation Statistics of \$26,850 and subtracted the motor vehicle excise tax exemption amount for each community. This community vehicle value was multiplied by the number of leased vehicles for that community reported by the DMV for February 2015. This total vehicle value amount per city/town was multiplied by the city/town's motor vehicle property tax per \$1,000 of vehicle value. Finally the sales tax was calculated off of the property tax total to arrive at a per community estimate of sales tax collected on leased vehicle property tax payments.

For example the following assumptions and calculations were made to estimate the fiscal impact of the act for FY 2015 for the city of Warwick:

Estimated Average Vehicle Value (US Bureau of Transportation Statistics):	
\$26,850	
Less Excise Tax Exemption Amount:	\$2,000
Difference (Taxable Value):	\$24,850

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Number of Leased Vehicles Registered in Warwick (DMV):	12,368
Total Taxable Vehicle Value (i.e., \$24,850 * 12,368)	\$307,344,800
Property Tax per \$1,000 of Vehicle Value: \$34.60	
Estimated Property Tax (i.e., \$307,344.8*\$34.60):	\$10,634,130
Sales Tax Portion of Property Tax (i.e., \$10,634,130*0.07):	\$744,389

This procedure was repeated for all 39 cities/towns. The sales tax portion of property taxes was summed to arrive at statewide total of \$3,694,722 of foregone revenue from allowing the exemption of any tangible personal property tax, municipal property tax or other tax included in a lease payment for a motor vehicle from sales and use taxes. It should be noted that this estimate should be viewed as a maximum revenue foregone amount. If a taxpayer pays their property tax in full at the beginning of the year as opposed to making monthly property tax payments, the provisions of this bill would not affect them.

According to the November 2014 Revenue Estimating Conference, the estimated growth rate for sales and use taxes in FY 2015 is 4.25 percent. Applying this growth rate to the FY 2014 estimate of the sales and use tax portion of property tax yields an estimate of \$3.85 million of sales and use tax revenues foregone from allowing the exemption provision in the bill in FY 2015 (i.e., \$3.69 million * 1.0425). Similarly, according to the November 2014 Revenue Estimating Conference, the annual growth rate of sales and use tax revenues for FY 2016 is 4.71 percent. Therefore, passage of the bill would decrease tax revenue by \$4.03 million in FY 2016 (i.e.; \$3.85 million * 1.0471). For the FY 2017 fiscal impact estimate, the Office of Management and Budget's sales and use tax revenues projected growth rate of 4.46 percent was applied. Thus, passage of the bill would decrease tax revenue by \$4.21 million in FY 2017 (i.e.; \$4.03 million * 1.0446).

According to the Office of Management and Budget, the FY 2015 Enacted Budget projects a deficit of \$172.9 million in FY 2016 and \$296.3 million in FY 2017. Passage of the act would increase the FY 2016 and FY 2017 projected deficits.

Summary of Fiscal Impact:

FY 2015: Not applicable due to the assumed implementation date of July 1, 2015.

FY 2016: A revenue loss of \$4,033,384 is forecast.

FY 2017: A revenue loss of \$4,213,160 is forecast.

Budget Office Signature: _____

Fiscal Advisor Signature: _____

