

# **Rhode Island Revenue & Caseload Estimating Conference**

## **Departmental Testimony**

May 7, 2009

### **Unclaimed Property -- General Treasurer's Office**

**Elizabeth Leach, Associate Director of Finance for the General Treasurer;**

**Richard Coffey, Unclaimed Property Manager**

**Complete testimony posted on Poverty Institute Website**

#### **Unclaimed Property:**

Definition: Unclaimed property consists of money and other assets that are considered lost or abandoned after an owner cannot be located for a specific period of time. It includes bank accounts; stocks and dividends; wages; refunds; safe deposit boxes; insurance payments; gift certificates; credit memos; account receivable credits and payables, just to name a few. Most property is turned over to the Treasury if it has been inactive for three years. However, wages and utility deposits become unclaimed after one year.

Testimony indicates that the total revenue received in FY2009 will decrease from the current estimate of \$22.1 million to \$21.5 million a change of \$0.6 million. Revenue from Stock Sales is off \$1.6 million, but traditional revenues are up \$1.0 million.

There is a projected \$0.7 million increase from the current estimate in Operating Expenditures based on claims paid. When the increase operating expenditures are added to the loss in revenue the State can expect a decrease in revenue of about \$1.1 million.

For FY2010 the testimony indicates that total revenue will decline from the projected \$19.2 million to \$18.6 million. This is a projected decrease of \$0.6 million. The transfer to the State also declines from \$5.6 million to \$5.0 million, which is a projected decrease of \$0.6 million.

## Motion Picture Tax Credits -- RI Film and Television Office

Steven Fineburg, Executive Director

Complete testimony posted on Poverty Institute Website

**TAX CREDIT:** Provides a tax credit of 25.0% of the state certified production costs incurred that are directly attributable to activity within the state provided that the primary locations are within the State of Rhode Island and the total production budget is at least \$300,000. The tax credit is transferable from the motion picture production company to other individuals or companies. The 2008 General Assembly imposed a \$15.0 million cap on these credits claimed in any one future fiscal year.

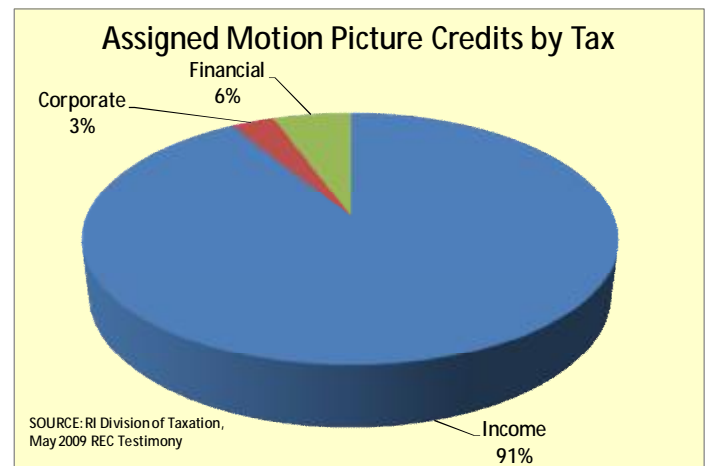
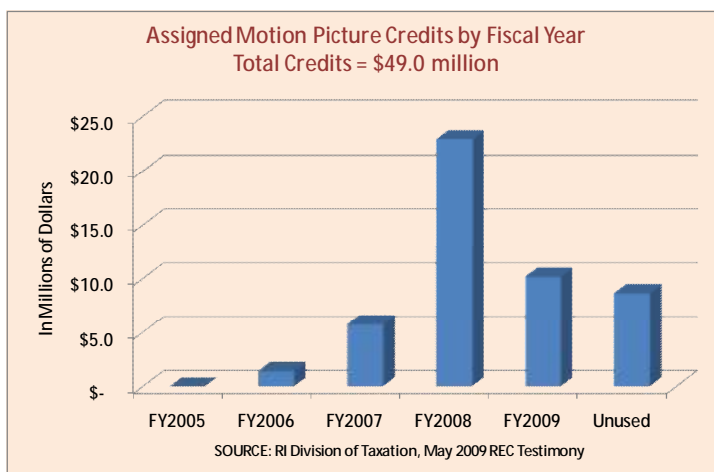
The following information was taken from the report presented.

### Motion Picture Production Costs and Credits

Year	Applications			Approvals		
	Projects	Estimated Productions Costs	Estimated Tax Credits	Projects	Final Production Costs	Final Tax Credits
2005	3	\$ 30.3	\$ 7.6	3	\$ 30.3	\$ 7.6
2006	12	\$ 102.7	\$ 24.9	11	\$ 91.2	\$ 22.8
2007	7	\$ 55.3	\$ 13.8	5	\$ 43.7	\$ 10.9
2008	10	\$ 59.4	\$ 14.8	7	\$ 51.2	\$ 12.8
2009	9	\$ 47.4	\$ 11.8	0	\$ -	\$ -

It does not appear that the \$15.0 million annual cap will be reached in 2008. The zero in the approved projects column in the above chart only indicates that none have been approved to date in 2009.

The Division of Taxation testified that \$49.0 million of these credits have actually be assigned. The two graphs below show the impact by fiscal year and by tax. In 2008, \$12.8 million will be used. 91% of the credits will be applied against the Income Tax.



## Historic Tax Credits

**Historical Preservation & Heritage Commission Steven -- Edward Sanderson, Executive Director**

**Rhode Island Division of Taxation -- David Sullivan, Tax Administrator**

**Complete testimony posted on Poverty Institute Website**

**TRUST FUND:** The FY2009 Budget Act established a trust fund to pay anticipated Historic Tax Credits redeemed over the next thirteen years. The fund will be used to reimburse the General Fund for Historic Tax Credit redemptions, in order to stabilize budget projections and streamline the annual impacts of Historic Tax Credits. The amount authorized to borrow for the Historic Preservation Tax Credit Trust Fund was \$356.2 million. The cost included \$299.9 million in bonds to establish the Trust Fund, along with \$4.2 million in financing, and \$50.6 million deposited in a debt service reserve fund at an interest rate not to exceed 5.92%.

Historic Tax Credit Trust Fund Transfers FY2009 -- 1 July 2008 to 30 April 2009 (In Millions of Dollars)	
Tax	Amount
Income	\$ 40.2
Financial	\$ 3.0
Coprorate	\$ 1.2
Insurance	\$ 6.5
<b>Total</b>	<b>\$ 50.9</b>

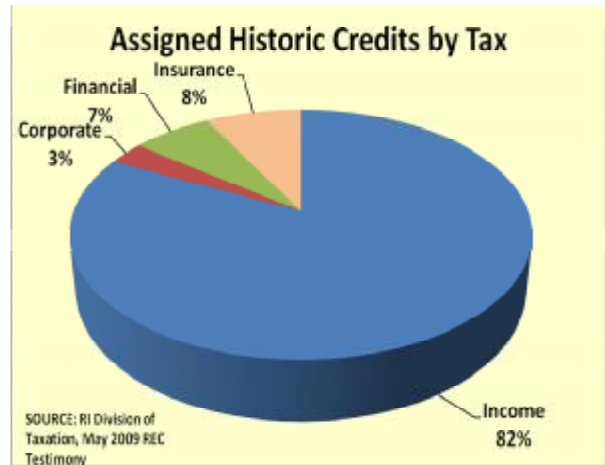
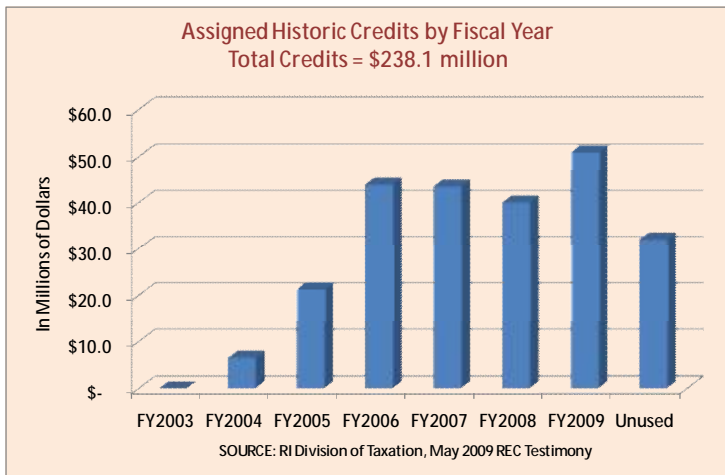
Source: RI Division of Taxation, May 2009 REC Testimony

The Division of Taxation testified that as of the end of April, 2009, \$50.8 million has been transferred from the Trust Fund to reimburse the General Fund.

The Completed Projects report presented by Historic Preservation indicates that since 2002 completed projects total 206. These projects represent total project costs of \$1,099.3 million, with final rehabilitation expenses of \$871.1 million, equaling \$255.9 million in tax credits.

The Active Projects report presented by Historic Preservation indicates that there are still an additional 128 projects to be completed. These projects represent estimated project costs of \$893.9 million, equaling \$223.5 million in additional tax credits.

The Division of Taxation testified that \$238.1 million of these credits have actually be assigned. The two graphs below show the impact by fiscal year and by tax. In FY2009, \$50.9 million will be used. 82% of the credits will be applied against the Income Tax.



When the Historic Tax Credit Trust Fund was created the Processing Fees were changed and deadlines set. By 15 May 2008, \$22.8 million in initial processing fees were collected. Based on this it was expected that an additional \$7.6 million would be due on 5 March 2009. Only \$3.4 million of this amount has been paid. This could indicate that not all the expected projects may be completed, but it could mean that the developers are willing to pay the remaining fees plus the required interest at a later date. 42 projects owe the balance of \$4.2 million.

**RI Lottery, Department of Revenue**

**Gerald S. Aubin, Executive Director, Daniel Sarro, Finance Administrator;**

**& Sandra Lee, Comptroller – Lottery Proceeds.**

**Complete testimony posted on Poverty Institute Website**

Lottery proceeds are reported in three categories – Games, Monitors and Video Lottery. The Games include Power Ball, Wild Money, The Numbers, Instant Games and Million Dollar Raffle. Monitor games include Keno and Rhody Poker. Video Lottery includes sales at both the Lincoln and Newport Facilities.

As can be seen below sales for the Games and Monitors are running behind the same time period last year by -1.7% and -5.3% respectively. One of the reasons for the drop off in Games sales was a large jackpot during these three months in FY2008. On August 25, 2007 (FY2008) a large Power Ball jackpot worth \$314.3 million boosted sales. There has not been a similar large jackpot in FY2009. The Lottery has transferred \$44.5 million to the State’s General Fund when the revenue from Games and Monitors is added together.

Video Lottery sales are running ahead of last year by 8.3%. The State’s share is not based on sales. The State’s share is based on total Net Terminal Income (NTI). Next to the Video Lottery sales data displayed below is the NTI data for the same time frame. This indicates a decrease of 3.4%. For this time period, the Video Lottery has transferred \$210.8 million to the State’s General Fund.

In total, from June to March, the Lottery has transferred to the State’s General Fund \$255.3 million.

SALES -- July to March	FY2008	FY2009	Compare	Percent	
<b>Games Total</b>					
Total	\$ 123.0	\$ 120.9	\$ (2.1)	-1.7%	
TRANSFER TO STATE		\$ 32.0			
<b>Monitor Total</b>					
Total	\$ 59.35	\$ 56.18	\$ (3.2)	-5.3%	
TRANSFER TO STATE		\$ 12.5			
					<b>NET TERMINAL INCOME</b>
<b>Video Lottery Total</b>					
Total	\$ 1,565.6	\$ 1,696.3	\$ 130.6	8.3%	Total
TRANSFER TO STATE GENERAL FUND AND PERMANENT SCHOOL FUND					
					FY2008
					FY2009
					Compare
					Percent
					\$ 352.7
					\$ 340.7
					\$ (12.0)
					-3.4%
					\$ 210.8
<b>Lottery Total</b>					
Total	\$ 1,747.9	\$ 1,873.3	\$ 125.4	7.2%	
TRANSFER TO STATE		\$ 255.3			

SOURCE: RI Lottery, Department of Revenue, May 2008 REC Testimony

## Testimony on Various Revenues, RI Division of Taxation, Department of Revenue

David Sullivan, Tax Administrator

Complete testimony posted on Poverty Institute Website

The Division of Taxation provided testimony on Tax Credits, Personal Income Tax, Corporate / Franchise Taxes, Public Utilities Gross Earnings Tax, Financial Institutions Taxes, Sales and Use Taxes and Cigarette Taxes. Also monthly and year to date reports on Income Tax, Sales Tax, and Corporate Tax collections were presented.

The estimate of the impact of the Personal Income Flat Tax option was updated based for the first time on the 2007 Tax file. When fully implemented in Tax Year (TY) 2011 the revenue loss is now estimated to be \$70.64 million per year. It should be noted that this revenue loss is some \$5.76 million less than the estimate presented at the November, 2008 Revenue Estimate Conference based on the 2006 Tax File. As can be seen in the chart below nearly 700 less Rhode Island taxpayers will benefit from the Flat Tax option. This shift reduces the revenue loss by \$5.83 million per year. It is also interesting to note that while the number of Rhode Island taxpayers is shrinking, the number of Non-Resident taxpayers benefiting from the Flat Tax option is increasing. Nearly 50 additional Non-Resident taxpayers will benefit increasing the revenue loss by \$70,000 per year. In percentage terms the number of Non-Resident taxpayers will now be 46%, which is a 3 percentage point increase from the previous estimate of 43%.

Flat Tax Estimates - 2007 Tax File							
As of May 8, 2009							
SOURCE: RI Division of Taxation, May 2009 REC Testimony							
Tax Year	Rate	# of Resident Taxpayers	Resident Tax Loss (millions)	# of Non-Resident Taxpayers	Non-Resident Loss (millions)	# of Taxpayers	Total Loss (millions)
2008	7.00%	1,543	\$18.42	2,392	\$4.08	3,935	\$22.50
2009	6.50%	2,661	\$28.63	3,293	\$6.06	5,954	\$34.69
2010	6.00%	4,416	\$41.92	4,518	\$8.61	8,934	\$50.53
2011	5.50%	7,225	\$58.80	6,118	\$11.84	13,343	\$70.64
Change in TY2011 Estimate, Flat Tax Rate = 5.50%							
		# of Resident Taxpayers	Resident Tax Loss (millions)	# of Non-Resident Taxpayers	Non-Resident Loss (millions)	# of Taxpayers	Total Loss (millions)
2006 Tax File, On 10/17/08		7,921	\$64.63	6,069	\$11.77	13,990	\$76.40
2007 Tax File, On 5/8/09		7,225	\$58.80	6,118	\$11.84	13,343	\$70.64
Change		-696	(\$5.83)	49	\$0.07	-647	(\$5.76)

Updated information was presented on the impact of reducing the tax rate on Capital Gains held more than 5 years. As illustrated in the chart below, based on Tax Year (TY) 2007 filers, capital gains held more than 5 years total \$1.1 billion. The State of Rhode Island will collect only \$17.6 million in taxes on these gains. The Poverty Institute estimates that the cost of reducing the tax rate on long term capital gains cost the State \$35.1 million in TY2007. It is also interesting to compare the TY2006 to the TY2007 data. Reported Capital Gains held less than 1 year declined \$7.4 million. Gains held more than 1 year but less than 5 years increased \$18.1 million. The real story is in the increase in Capital Gains held more than 5 years. For this category Capital Gains increased \$247.4 million. This is a 29.8% increase from TY2006. This dramatic increase has caused the tax collected to increase by \$4.1 million for TY2007. The Poverty Institute's estimate of the revenue lost of \$35.1 million for TY2007 is an increase of \$8.2 million from the TY2006 level of \$26.8 million.

<b>Capital Gain Summary</b>							Poverty Institute Estimate
Tax Year 2007, As of April 30, 2008							
SOURCE: RI Division of Taxation, May 2008 REC Testimony							
	Capital Gains Held Less Than 1 Year	Tax	Capital Gains Held More Than 1 year and Less Than 5 Years	Tax	Capital Gains Held More Than 5 Years	Tax	Revenue Lost on 5 Year Assets
<b>Taxed at Ordinary Income</b>	\$110,074,237	\$7,797,526					
Ordinary long term gain for people in the first tax bracket (federal Ordinary long term gains (federal 20%)			\$72,679,419	\$1,817,013	\$62,915,091	\$522,197	\$1,044,395
Unrecaptured section 1250 gain (federal 25%)			\$1,090,431,450	\$54,521,573	\$997,465,464	\$16,657,674	\$33,315,349
Collectibles (federal 28%)			\$32,966,004	\$2,060,378	\$17,646,071	\$367,038	\$734,076
Totals	\$110,074,237	\$7,797,526	\$1,199,156,902	\$58,614,566	\$1,078,787,684	\$17,564,643	\$35,129,285
Time Period		Value of Gains		Tax on Gains			
Capital Gains Held Less Than 1 Year	\$110,074,237	4.6%		\$7,797,526	9.3%		
Capital Gains Held More Than 1 year and Less Than 5 Years	\$1,199,156,902	50.2%		\$58,614,566	69.8%		
Capital Gains Held More Than 5 Years	\$1,078,787,684	45.2%		\$17,564,643	20.9%		
<b>Total Capital Gains</b>	<b>\$2,388,018,823</b>	<b>100.0%</b>		<b>\$83,976,735</b>	<b>100.00%</b>		
<b>Comparison to Previous Estimate</b>							
	Capital Gains Held Less Than 1 Year	Tax	Capital Gains Held More Than 1 year and Less Than 5 Years	Tax	Capital Gains Held More Than 5 Years	Tax	Revenue Lost on 5 Year Assets
Tax Year 2006, As of October 31, 2008	\$117,500,614	\$8,135,923	\$1,181,086,046	\$57,472,052	\$831,405,307	\$13,417,301	\$26,834,603
Tax Year 2007, As of April 30, 2008	\$110,074,237	\$7,797,526	\$1,199,156,902	\$58,614,566	\$1,078,787,684	\$17,564,643	\$35,129,285
<b>Change</b>	<b>(\$7,426,377)</b>	<b>(\$338,397)</b>	<b>\$18,070,856</b>	<b>\$1,142,514</b>	<b>\$247,382,377</b>	<b>\$4,147,341</b>	<b>\$8,294,682</b>

Data on the year-to-date revenue collections for the Personal Income, Sales, and Business Corporations Taxes was presented. As can be seen below collections have continued to fall behind the prior year's collections. The Governor's Budget as Submitted was based on the November 2008 Revenue Estimating Conference figures. The November conference uses collections through the end of October. At that point Personal Income Tax collections were running 2.3% behind the prior year collections, Sales Tax was 1.9% behind, and Business Corporation tax collections 19.1% behind. As of the end of April these percentages showed further declines. Personal Income Tax is 15.5% behind last year, Sales Tax is 3.2% behind, and Business Corporations Tax is 25.0% behind last year.

<b>Year to Date Revenue Collections</b>			
(in Millions)	Personal Income Tax	Sales Tax	Business Corporation Tax
<b>November 2008 Revenue Estimating Conference</b>			
October Collections			
FY2008	\$ 329.7	\$ 304.1	\$ 18.4
FY2009	\$ 322.2	\$ 298.3	\$ 14.8
Change	\$ (7.5)	\$ (5.7)	\$ (3.5)
Percent Change	-2.3%	-1.9%	-19.1%
<b>May 2009 Revenue Estimating Conference</b>			
April Collections			
FY2008	\$ 896.0	\$ 697.5	\$ 104.5
FY2009	\$ 757.2	\$ 675.0	\$ 78.3
Change	\$ (138.8)	\$ (22.5)	\$ (26.2)
Percent Change	-15.5%	-3.2%	-25.0%
SOURCE: RI Division of Taxation, May 2009 REC Testimony			