

REVENUE & TAXATION CHANGES

The proposed FY2023 budget calls for a number of targeted revenue cuts, with only one major proposal to raise revenue along with a few smaller fee changes. The legalization of cannabis for adult recreational use (see below) would create only \$128K in revenue after start-up implementation and regulatory costs.

Hospital License Fee: The General Assembly needs to authorize this fee each year. The proposed budget estimates that the fee would raise \$170.6M additional revenue that will be taken into account as the FY2023 budget is negotiated.

Military Service Pensions: This proposal would take effect in Tax Year 2023 and be phased in over five years, exempting a portion of military service pensions from state taxation, although still liable to federal taxation. The first year would exempt 20% of a pension, with an additional 20% covered each year. If enacted, this measure would result in a revenue decrease of \$736K for FY2023 and an estimated \$5.8M per year once fully in place.

Corporate Minimum Income Tax: The budget proposes reducing by \$25 per year, from \$400 to \$375, the minimum corporate taxes paid by all businesses. The amount was reduced from \$500 to \$450 in Tax Year 2016 and from \$450 to \$400 in Tax Year 2017. The new amount would take effect in Tax Year 2023 and reduce state revenues by an estimated \$812K in FY2023 and \$1.6M in FY2024.

Interest Penalty on Delinquent Payment of Taxes: The Governor proposes lowering from 18 percent to 12 percent the minimum interest rate applied to almost all delinquent tax payments. Beginning with Tax Year 2023, this change would result in an estimated \$2.5M decrease in general revenue for FY2023 and \$6.4M in FY2024. Although presented by the administration as targeted to businesses, this proposal would include all delinquent tax payments with the sole exception of delinquent payments for trust fund taxes owed.

Motorcycle Sales Tax: The budget would make motorcycles that are traded in (when purchasing another motorcycle) exempt from the sales tax on the trade-in value, at an estimated revenue decrease of \$145K for FY2023. Under current law, the trade-in value of cars is exempt.

Department of Environmental Management Fee Increases: Through a set of 13 changes to air, ground, and water quality fees, all to be set through regulation rather than statute, the budget anticipates an estimated \$574K in additional revenue.

CANNABIS LEGALIZATION

The budget includes a proposal to legalize cannabis and its sale for adult recreational use:

Regulation: Regulation would be placed with the existing Office of Cannabis Regulation (OCR) within the Department of Business Regulation (DBR). OCR currently regulates medical cannabis products and sales.

Taxation: A retail excise tax of 10% would be instituted on top of the regular 7% state sales tax. An additional weight-based tax would be set on the cultivation of cannabis (\$10 per dried ounce of flower, \$3 per dried ounce of trim).

Revenue: Although revenue is estimated to reach \$16.9M in FY2024, sales are not expected to start until close to the end of FY2023, bringing in \$1.2M in revenue for FY2023; because most of the revenue will be directed to the costs of start-up, regulation, and expungement of criminal records, there will be only \$128K in net additional revenue. Revenue distribution will include 15% of revenue being provided to local governments.

Equity: The budget proposal addresses some equity concerns, most notably calling for automatic expungement of criminal records for offenses that will no longer be criminal. This means the burden and cost of expungement will be upon the state and not require those affected to file for expungement or pay for this. In addition, the proposal would require that at least 20% and a minimum of 5 of the first set of new retail licenses be awarded to minority-owned businesses. See **Appendix II** for details about these and other equity issues.