

Governor's FY 2014 Budget

Staff Presentation to the House Finance Committee
March 6, 2013

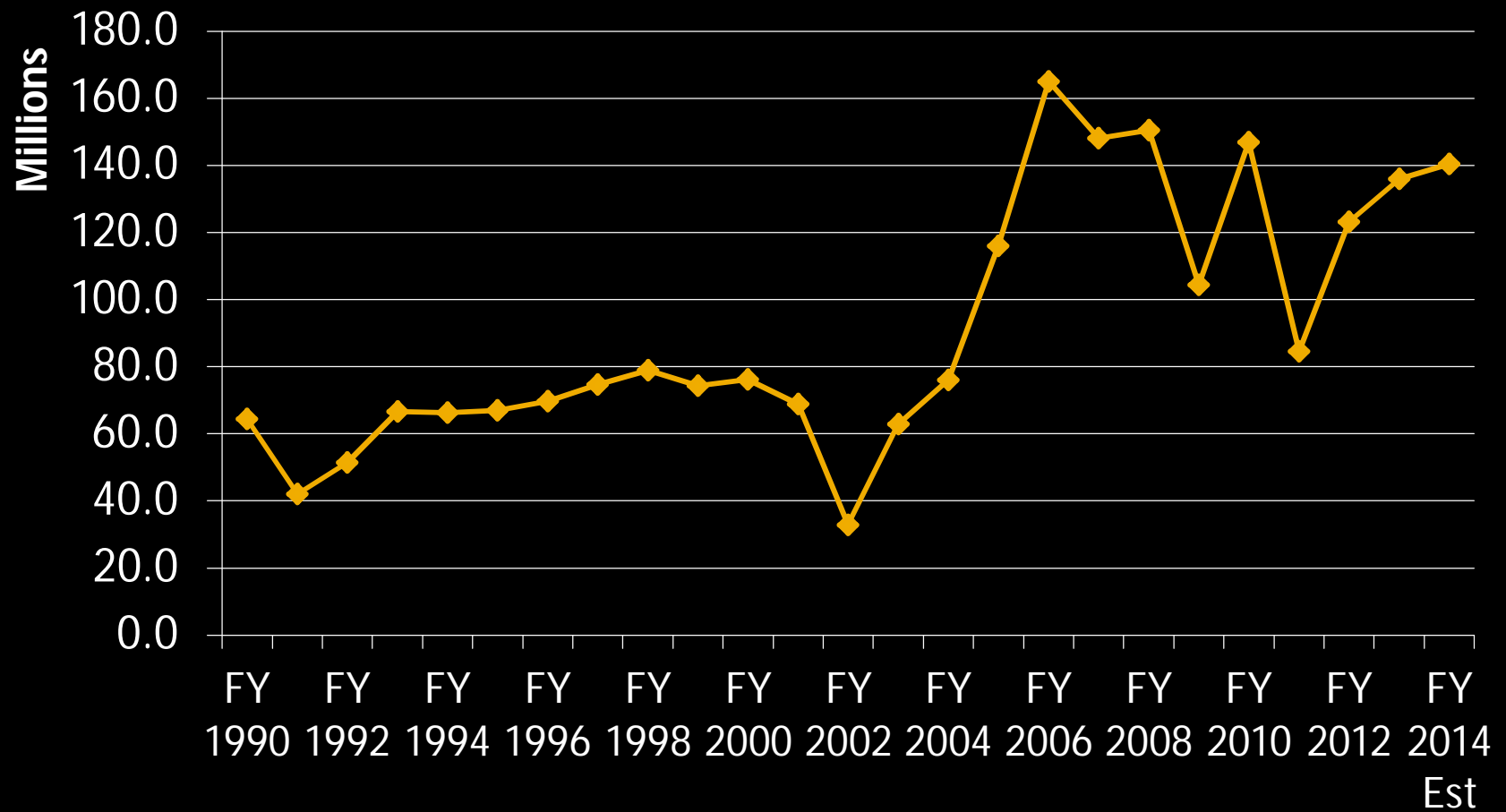
Article 9

- Enterprise Zone Wage Credit Elimination
- Jobs Development Tax Credit Reduction
- Corporate Tax Rate Reduction
- Outside Collection Agencies
- Tax Preparers Act
- Hazardous Substances Right-to-Know

Revenue Changes – FY 2014 Gov.

Article 9 Impacts (in millions)		
Enterprise Zone Credit Sunset	Corp	\$0.3
Jobs Develop. Phase Out	Corp	2.4
Corp Rate Reduction	Corp	(8.0)
Outside Collection Agencies	PIT	0.8
Hazardous Substance Fee	Dept.	(0.4)
Total		\$(4.9)

Corporation Income Tax



Corporation Income Tax

- Who Pays
- Rates
- How It's Calculated
- What Article 9 Changes

Corporation Income Tax: Who Pays

- Corporations and businesses, wherever incorporated, deriving any income from sources within Rhode Island or engaging in any activities or transactions within the state for purpose of profit or gain

Corporation Income Tax: Who Pays

- All corporations, joint-stock companies, and associations incorporated in RI or qualified to do business in RI, which must be registered with the Secretary of State are liable for the franchise tax
 - Franchise tax liability is offset by the amount of corporate income tax paid

Corporation Income Tax: Who Pays

- Types of business entities
 - C-Corporation
 - S-Corporation
 - LLC – Limited Liability Corporations

Who Pays

- C-Corporation - business entity that may have an unlimited number of shareholders, some of which may be foreign citizens

Filers	Tax Year
15,624	2008
15,363	2009
15,258	2010

Who Pays

- S-Corporation - business entity in which the shareholders are protected from the corporation's liabilities
 - No more than 100 shareholders, all of whom must be U.S. citizens

Filers	Tax Year
26,934	2008
30,231	2009
30,050	2010

Who Pays

- Limited Liability Corporation - Allowed by all 50 states through state laws that govern formation and operation
- Owners have limited personal liability for the debts and actions of the company

Filers	Tax Year
6,039	2008
4,057	2009
5,725	2010

How It's Calculated

- Federal taxable income adjusted for modifications specific to RI
- Entities doing business in other states only pay tax on Rhode Island income
- Income is apportioned to states based on 3 factors
 - Sales, Property and Payroll

Rates

- Nine percent of net income since 7/1/89 for the income tax
- Minimum tax has been \$500 since January 2004
- Assembly enacted an eleven percent surcharge on amounts due in tax years between 3/31/91 -1/1/94

Rates

- Franchise tax is \$2.50 per ten thousand of authorized capital stock or \$500, whichever is greater. Franchise tax liability is offset by the amount of Corporate Income Tax paid.
- Businesses that have been inactive within the state for a tax year pay \$500 if capital stock does not exceed \$1.0 million and \$12.50 per million or fraction above that first \$1.0 million

Rates – 2008 Statistics of Income

Type	Min. Tax	Other	Total
C-Corp	12,233	3,391	15,624
S-Corp	26,806	128	26,934
LLC	6,039	-	6,039
Total Filers	45,078	3,519	48,597

Rates – 2009 Statistics of Income

Type	Min. Tax	Other	Total
C-Corp	12,145	3,218	15,363
S-Corp	30,092	139	30,231
LLC	4,057	-	4,057
Total Filers	46,294	3,357	49,651

Rates – 2010 Statistics of Income

Type	Min. Tax	Other	Total
C-Corp	11,878	3,380	15,258
S-Corp	29,875	175	30,050
LLC	5,725	-	5,725
Total Filers	47,478	3,555	51,033

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Enterprise Zone Wage Tax Credit

- Tax credit earned for adding 5% of jobs within Enterprise Zone
- Zone defined by US Census as economically distressed
- Credit equal to half the total wages on the new jobs
 - Or 75% if *employees* are residents of distressed area

Enterprise Zone Wage Tax Credit

- Ends credit effective January 1, 2014
- Those earned prior to Tax Year 2014 expire
- Full impact revenue impact in FY 2015

Enterprise Zone Wage Tax Credit

FY 2008	\$(1,626,658)
FY 2009	(1,066,997)
FY 2010	(715,187)
FY 2011*	(875,575)
FY 2012	(701,936)
FY 2013 Est.	(571,121)
FY 2014 Est.	(590,032)
<i>*Ability to claim against PIT ended</i>	

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Jobs Development Tax Credit

- Originally enacted by 1996 Assembly
- Rate reductions of 0.25 % for each 50 new qualifying jobs created by eligible companies for 3 years past base year.
 - Reduction = number of units of qualifying new jobs X 0.25 percent, but cannot exceed six percent.
 - Example: 200 Jobs = 4 units X 0.25 = 1% reduction in tax rate from 9% to 8%
- 6% maximum reduction

Jobs Development Tax Credit

- After three years, the tax reduction rate is that of the third year, if the third year employment remains - if not, entire credit is eliminated
 - Permanent expiration of the credit is known as the "cliff provision"
- 2008 Assembly enacted the Tax Incentive Disclosure and Accountability Act requiring disclosure of selected credits and incentives by entities receiving them
- Additional economic impact data required as of Jan 2012 and not yet submitted

Jobs Development Tax Credit

- FY 2012 Tax Incentive Report Disclosure
- 8 entities received total credits valued at \$16.4 million
 - \$96,600 to 2 financial institutions
 - \$16.3 million to 6 corporations, of which \$15.4 million went to CVS

Jobs Development Tax Credit

Total Credits and Entities			Financial Institutions	Corporations
	Number	Value		
FY 2010	14	\$21.3	\$4.0	\$17.3
FY 2011	8	\$16.4	\$0.1	\$16.3
FY 2012	11	\$14.1	\$0.3	\$13.6

Jobs Development Tax Credit Reduction

- Eliminates 25 percent of credit from January 1, 2014 to January 1, 2015
- Eliminates 50 percent of credit beginning January 1, 2015 and after
- Cuts 6% reduction to 3%

Jobs Development Tax Credit Reduction

<i>(in millions)</i>	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Impact	\$2.4	\$7.5	\$10.4	\$10.8	\$11.0
Assumed Total Value of Credit	\$18.7	\$19.6	\$20.4	\$21.1	\$21.9

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Corporate Tax Rate Reduction

- Three-year phased in reduction of the current 9% rate down to 7.0%
- FY 2014 impact reflect half year

Fiscal Year	2014	2015	2016	2017	2018
Rate	8.0%	7.5%	7.0%	7.0%	7.0%
Impact	\$(8.0)	\$(21.1)	\$(31.1)	\$(36.7)	\$(37.6)

Article 9: Corp Tax Fiscal Impact

<i>Fiscal Year</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>
Entp. Zone	\$ 0.3	\$ 0.6	\$ 0.7	\$ 0.7	\$ 0.7
Rate Cut	(8.0)	\$ (21.1)	\$ (31.1)	\$ (36.7)	\$ (37.6)
Jobs Credit	2.4	7.5	10.4	10.8	11.0
Total	\$ (5.3)	\$ (12.9)	\$ (20.1)	\$ (25.2)	\$ (25.9)

Article 9: Corp Tax (table corrected 3/7/2013)

Article 9 Impact Scenario #1 – Company w/maximum JDA benefit -6% rate reduction

Tax Year	Current Rate w/ JDA	Rate w/ JDA - Art. 9	New Corp. Tax Rate	Lesser of the 2 rates	Chg. to Current Tax Burden
2014	3.0	4.5	8.0	4.5	50%
2015	3.0	6.0	7.5	6.0	100%
2016	3.0	6.0	7.0	6.0	100%

Article 9: Corp Tax (table corrected 3/7/2013)

Article 9 Impact Scenario #2 – Company with lower JDA benefit -4% rate reduction

Tax Year	Current Rate w/ JDA	Rate w/ JDA - Art. 9	New Corp. Tax Rate	Lesser of the 2 rates	Chg. to Current Tax Burden
2014	5.0	6.0	8.0	6.0	20%
2015	5.0	7.0	7.5	7.0	40%
2016	5.0	7.0	7.0	7.0	40%

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- Tax Preparers
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Outside Collections Agencies

- Section amended to permit Tax Administrator to contract with outside collection agencies
- 11,554 non-residents owing \$28.9 million in outstanding debt to the state
- Expected revenue \$750,000 for FY 2014
 - DOR reports that this is based on other states' experience

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Tax Preparers

- Establishes minimum standards that tax return preparers must comply with when filing returns and/or claims for refunds
- No direct fiscal impact but would assist in compliance efforts
- The House passed similar legislation, 2012-H 8066, during the 2012 session, but the legislation did not pass the Senate.

Tax Preparers

- Establishes civil and criminal penalties for preparers who fail to exercise due diligence in determining taxpayers' eligibility for earned income or property tax relief credits, or who attempt to reduce or evade a tax obligation intentionally.
 - Penalty of \$1,000 or \$500 for each return filed

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- *Hazardous Substances Right-to-Know*

Hazardous Substances Right-to-Know

- Currently a \$42 annual fee
- Charged to employers who use, transport, store or otherwise expose workers to hazardous substances
- Employers must conspicuously post lists, posters of hazardous substances used
 - Must also post rights of employees

Hazardous Substances Right-to-Know

- Administered by Labor and Training
- Article 9 eliminates this fee
 - Seen as nuisance, not business-friendly
- Governor assumes revenue loss of \$0.4 million, beginning in FY 2014
- Employers must still post all information

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