

# Governor's FY 2020 Budget: Articles

Staff Presentation to the House Finance  
Committee  
February 28, 2019

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# Introduction

- Article 5
  - Sections 7 & 10 Hotel Taxes
  - Sections 9 & 12 - Sales Tax Expansion
    - Hunting, Shooting, Trapping
    - Commercial Building Services
    - Lobbying
    - Interior Design Services
    - Digital Services
  - Sections 1 & 18 Weapons Dealers & Firearms Excise Tax

# Hotel Tax

- Article 5 increases hotel tax from 5% to 6% and changes the distribution to ensure the increase accrues to state general revenues
  - Budget assumes \$4.4 million
- Hotel tax has changed numerous times in recent years
  - How it is distributed
  - What is taxed

# Hotel Tax Distribution

- Hotel room rental subject to occupancy taxes:
  - Sales Tax – 7.0%
    - General Fund
  - State Hotel Tax – 5.0%
    - Commerce (previously General Fund), municipalities, regional tourism districts, and Providence/Warwick CVB
  - Local Hotel Tax – 1.0%
    - Municipalities

# Hotel Tax Distribution

- State has 4 shared regional districts

## South County

Charlestown  
Coventry  
East Greenwich  
Exeter  
Hopkinton  
Narragansett  
North Kingstown  
Richmond  
South Kingstown  
West Greenwich  
Westerly

## Northern RI

Burrillville  
Central Falls  
Cumberland  
Glocester  
Lincoln  
North  
Smithfield  
Pawtucket  
Smithfield  
Woonsocket

## Aquidneck Island

Barrington  
Bristol  
Jamestown  
Little Compton  
Middletown  
Newport  
Portsmouth  
Warren

## Statewide

Cranston  
Foster  
Johnston  
North  
Providence  
West Warwick

# Hotel Tax Distribution

- 3 municipalities have own districts

Warwick

Providence

Block Island  
(New Shoreham)

- Current law divides state into 8 districts
  - East Providence is unique case
    - Not in shared district
    - Division of Taxation holding district share until it joins district - \$0.4 million as of January 2019

# Hotel Tax Distribution

- Example - \$150 Hotel Room
  - State 5.0% Hotel Tax - \$7.50

<b>Room Rental from Hotel</b>	
Room Charge	\$150.00
Sales Tax – General Fund	10.50
Hotel Tax – Multiple Recipients	7.50
Local Hotel Tax - Municipality	1.50
Total Charge to Occupant	\$ 169.50
<b>Total Taxes Collected</b>	<b>\$19.50</b>

# Hotel Tax Distribution - Detail

- Example - \$150 Hotel Room
  - State 5.0% Hotel Tax - \$7.50

Region	Districts	Providence/ Warwick CVB	Cities & Towns	Commerce Corp
Warwick	\$2.25	\$1.80	\$1.88	\$1.58
Providence	\$2.25	\$1.80	\$1.88	\$1.58
Omni	\$2.25	\$1.50	-	\$3.75
Statewide	-	\$ 0.38	\$1.88	\$5.25
All Other Regionals	\$3.38	\$0.38	\$1.88	\$1.88



# Hotel Tax Distribution

- Article 5 Example - \$150 Hotel Room
  - State 6.0% Hotel Tax - \$9.00

<b>Room Rental from Hotel</b>	
Room Charge	\$150.00
Hotel & Sales Taxes – General Fund	12.00
Hotel Tax – Multiple Recipients	7.50
Local Hotel Tax - Municipality	1.50
Total Charge to Occupant	\$171.00
<b>Total Taxes Collected</b>	<b>\$21.00</b>

# Hotel Tax Distribution

- Article 5 Example - \$150 Hotel Room
  - State 6.0% Hotel Tax - \$9.00

Region	Districts	Providence/ Warwick CVB	Cities & Towns	Commerce Corp	General Fund
Warwick	\$2.25	\$1.80	\$1.87	\$1.58	\$1.50
Providence	\$2.25	\$1.80	\$1.87	\$1.58	\$1.50
Omni	\$2.25	\$1.50	-	\$3.74	\$1.50
Statewide	-	\$0.38	\$1.87	\$5.25	\$1.50
All Other Regionals	\$3.38	\$0.38	\$1.87	\$1.87	\$1.50

# Hotel Tax Distribution

- FY 2016 Budget: major state tourism and marketing campaign
  - Decreased shares for all districts & tourism/marketing entities
  - General Fund share to Commerce
  - Expanded application of taxes
    - Expansion to unlicensed rentals to CC
- Regional districts must incorporate state campaign to receive share

# Expansion of Hotel Taxes:

<b>Rental – All Booking Methods</b>	<b>7.0% Sales Tax</b>	<b>5.0% State Hotel Tax</b>	<b>1.0% Local Hotel Tax</b>
Hotel/Motel	X	X	X
B&B (3+ rooms)	X	X	X
<b>B&amp;B (≤ 3 rooms)</b>	X	X	X
Hotel/Motel/B&B + other amenities	X	X	X
Tour Operator Services			
<b>House/Condo/Apt. space (≤ 30 days)</b>	X	X	X
House/Condo/Apt. space (31+ days)			
<b>Entire House/Condo/Apt. (≤ 30 days)</b>	X		X
Entire House/Condo/Apt. (31+ days)			

# Hotel Tax Distribution

- Concerns over statewide campaign rollout and impact to regionals
  - Temporary reversal of regional reductions
- FY 2017 Budget
  - One year reprieve
    - Distribution tax returned to CY 2015 shares
    - Regional districts' increase taken from Commerce Corporation's share
- FY 2019
  - Permanent change to splits
    - Regional shares partially restored

# Hotel Tax Distribution

- Distribution – Prior to Jan 1, 2016

Region	Districts	Providence Warwick CVB	Cities & Towns	General Fund
Warwick	31.0%	23.0%	25.0%	21.0%
Providence**	31.0%	23.0%	25.0%	21.0%
Statewide*	[47.0%]	7.0%	25.0%	68.0%
All Other Regionals	47.0%	7.0%	25.0%	21.0%

\*Statewide regional "share" goes to general fund too 47% +21% = 68%

\*\* Except Omni hotel: CVB= 12%, CCA=30%, State=27%, no local %

# Hotel Tax Allocation

- Distribution – after June 30, 2018

Region	Districts	Providence/ Warwick CVB	Cities & Towns	Commerce Corp.
Warwick	30.0%	24.0%	25.0%	21.0%
Providence	30.0%	24.0%	25.0%	21.0%
Omni	30.0%	20.0%	-	50.0%
Statewide	-	5.0%	25.0%	70.0%
All Other Regionals	45.0%	5.0%	25.0%	25.0%

# Hotel Tax Allocation

- Distribution – Article 5

Region	Districts	Providence/ Warwick CVB	Cities & Towns	Commerce Corp.	General Fund
Warwick	25.0%	20.0%	20.8%	17.5%	16.7%
Providence	25.0%	20.0%	20.8%	17.5%	16.7%
Omni	25.0%	16.7%	-	41.6%	16.7%
Statewide	-	4.2%	20.8%	58.3%	16.7%
All Other Regionals	37.5%	4.2%	20.8%	20.8%	16.7%



# Collections History

<b>5% Hotel Tax</b>	<b>FY 2015</b>	<b>FY 2016*</b>	<b>FY 2017</b>	<b>FY 2018</b>
Regional Districts	\$6.9	\$7.6	\$7.8	\$7.8
Municipalities	\$4.0	\$4.6	\$4.6	\$5.1
State/ Commerce	\$3.6	\$4.6	\$4.7	\$6.2
Providence/ Warwick CVB	\$2.2	\$2.4	\$2.4	\$2.4
Convention Center	\$0.3	\$0.2	-	-
<b>Total</b>	<b>\$17.1</b>	<b>\$19.4</b>	<b>\$19.6</b>	<b>\$21.5</b>
*Base expansion and redistribution first shows here				
<i>\$ In millions</i>				

# Regional Occupancy Taxes

Municipality	Sales Tax	State Tax	Local Tax	Conv. Center Tax	Total Tax
<b>Rhode Island</b>	7.0%	5.0%	1.0%	-	13.0%
<i>Rhode Island – Art. 5</i>	<b>7.0%</b>	<b>6.0%</b>	<b>1.0%</b>	-	<b>14.0%</b>
<b>Connecticut</b>	-	15.0%	-	-	15.0%
<b>Massachusetts</b>					
Bolton	-	5.7%	2.0%	-	7.70%
51 Communities	-	5.7%	4.0%	-	9.70%
124 Communities	-	5.7%	6.0%	-	11.70%
West Springfield	-	5.7%	4.0%	2.75%	12.45%
Springfield & Chicopee	-	5.7%	5.0%	2.75%	13.45%
Boston, Cambridge, & Worcester	-	5.7%	6.0%	2.75%	14.45%

# Sales Tax

- Article 5 expands the application of the state sales tax to more items and services
  - Budget assumes \$10.8 million of revenues
- The sales tax base has been changed in some way nearly annually
  - Keeping pace with buying habits and technology
  - Other policy choices

# Sec. 5 – Sales and Use Taxes

- Expand items subject to RI's 7% sales tax effective October 1, 2019
  - Projected impacts revised since budget submission

<b>Item/Service</b>	<b>FY 2020 Original</b>	<b>FY 2020 Revised</b>	<b>FY 2021</b>
Hunting, Trapping, & Shooting Ranges	\$0.6	\$0.6	\$1.1
Digital Downloads	2.6	2.6	4.7
Lobbying	0.9	0.3	0.5
Interior Design	0.5	0.8	1.4
Commercial Building Services	6.2	10.1	18.2
<b>Total</b>	<b>\$10.8</b>	<b>\$14.4</b>	<b>\$25.8</b>

# Sec. 5 – Sales and Use Taxes

- Budget also assumes implementation expenses for Division of Taxation

<b>Sales Tax Expansion</b>	<b>FY 2020 Original</b>	<b>FY 2020 Revised</b>	<b>FY 2021</b>
Revenues	\$10.8	\$14.4	\$25.8
Staffing (3.0 FTE)	(0.3)	(0.3)	(0.3)
Notices/Outreach	(0.3)	(0.3)	-
<b>Net Impact</b>	<b>\$10.3</b>	<b>\$13.9</b>	<b>\$25.5</b>

\$ in millions

# Sec. 5 – Sales and Use Taxes

- Hunting & Trapping -114210
  - Animal trapping, game preserves, commercial
  - Fishing, hunting preserves
  - Game retreats, propagation
  - No taxation on assessments or fees for capital expenditures used within 3 years

# Sec. 5 – Sales and Use Taxes

- All Other Amusement & Recreation Industries - 713990
  - Shooting services include
    - Shooting galleries, ranges, clubs, trapshooting, skeet shooting, rifle clubs
  - Other services within same code not proposed for taxation include
    - Recreational billiard or pool parlors, miniature golf
    - Dance halls, riding stables, boating club
    - Recreational: youth sports teams; sports clubs not operating sports facilities; day camps

# Sec. 5 – Sales and Use Taxes

- Lobbying Services - 541820
  - Includes entities covered by the Rhode Island Lobbying Act
    - Services with respect to action or inaction by any member of the executive or legislative branch of state government or any public corporation
    - Only includes lobbying activities in-state
  - Estimate revised to exclude non-profit and reflect Oct. 1 start



# Sec. 5 – Sales and Use Taxes

- Commercial Building Services
  - Exterminating & Pest Control 561710
    - Bird proofing, exterminating, fumigating, mosquito, termite & other pest services
  - Janitorial Services 561720
    - Aircraft, interior building cleaning, deodorizing, maid, restroom, window, venetian blind, disinfection, kitchen, and service station cleaning
  - Carpet & Upholstery Cleaning Services 561740
    - Carpet, rug, furniture, & upholstery cleaning

# Sec. 5 – Sales and Use Taxes

- Commercial Building Services
  - Landscaping Services - 561730
    - Arborist, fertilization, hydroseeding, lawn, mowing, sod, spraying, weed control, cemetery plot, and interior landscaping
  - Other Services - 561790
    - Building exterior, chimney, driveway, swimming pool, duct, and gutter cleaning; parking lot cleaning & plowing
- Interior design - 561710
  - Design or decorating consulting services

# Sec. 5 – Sales and Use Taxes

- Digital products services
  - Software access not transferred to the user
    - Digital video
      - Streaming & on-demand rentals
    - Digital music
    - Digital books
- Other states
  - Connecticut taxes at 1.0%
  - Massachusetts does not tax
  - 26 other states have some form of this tax

# Sec. 5 – Sales and Use Taxes

- Since 2011, sales tax has applied to digital media with tangible products, or 'load and leave'
  - Example downloading tax software
- 2018 expansion included third-party hosted subscription services
  - Example using tax software via cloud service

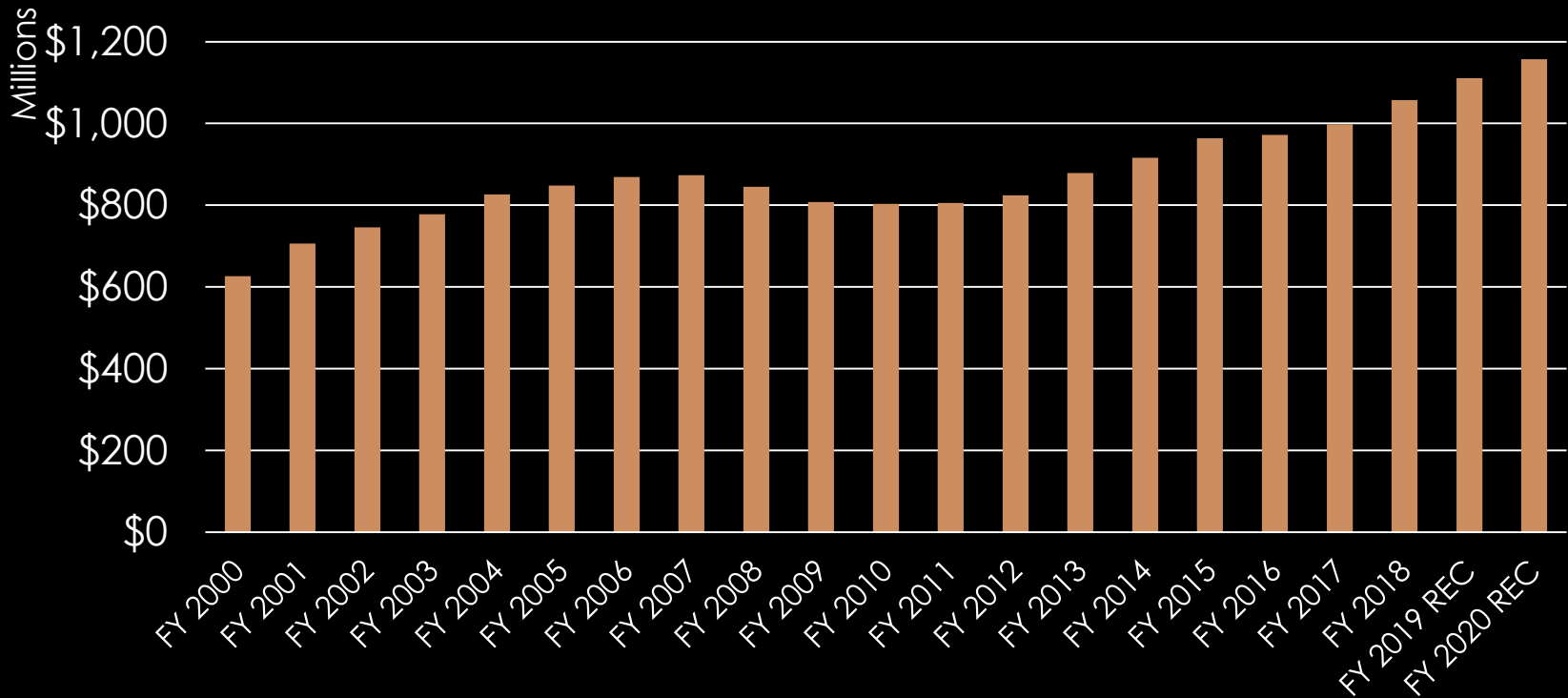
# Sales and Use Tax

- Who Pays
- Rates
- Comparison
- Recent proposed and enacted changes

# Sales and Use Tax

- The purchaser pays at the time of sale
  - Use tax is generally self reported
- Retailer remits to the state monthly, by the 20th day of the month following the month in which the sale was made
- Small retailers, whose six months average is less than \$200 per month, file quarterly

# Sales and Use Tax: 2000-2020



# Sales and Use Tax Rates

Effective Date	Rate
July 1, 1947	1%
June 1, 1951	2%
June 1, 1964	3%
June 1, 1964	3.5%

Effective Date	Rate
June 1, 1965	4%
June 1, 1967	5%
June 1, 1976	6%
July 1, 1990	7%*

*\*Increase from 6% to 7% as originally enacted was to decrease to 6.5 % on July 1, 1991; the law was amended in 1991 to retain 7% rate*



# Meals & Beverage Tax Rate

- Meals and Beverage Tax
  - 7% sales tax – General Fund
  - 1% on tax on gross receipts from sale of food and beverages sold in or from eating and drinking establishments effective August 1, 2003 - locals

# Hotel Tax Rates

- Hotel Tax
  - 7% sales and use tax – general fund
  - 5.0% charge for occupancy – regional tourism, state tourism and locals
  - 1% tax – locals

# Comparison

- 45 states impose
- Only 1 state tax rate above 7%
  - California is 7.25%
- Many states have local option taxes increasing the total sales tax in some cases over 9%
- Rhode Island ranks 23rd on total sales tax rate – down 1 from 2018

# Comparison

- Rhode Island's tax rate is applied to a narrow base
- Exempts clothing and food
  - 60+ other categories
  - Generally does not tax services
- Differences among states more apparent outside New England

# Sales and Use Tax

- Who Pays
- Rates
- Comparison
- Recent proposed and enacted changes

# 2011 – Chafee Budget Article

- Sales and use tax rate reduction from 7% to 6%
- Expansion of sales tax base
- 1.0 % sales tax on certain items currently exempt
  - Sunset if Congress acts on remote sales tax collection

# 2011 – Chafee Budget Article

- Drop rate from 7% to 6%
  - \$118 million reduction in revenues for each 1 percent change
- Apply 6% percent tax to items currently not taxed - \$198 million add
  - Goods - \$22 million
  - Services - \$123 million
  - Recreation & entertainment - \$21 million
  - Labor on maintenance & repairs - \$27 million
  - Other - \$5 million

# 2011 – Chafee Budget Article

- Goods - \$22 million
  - **Prewritten software delivered electronically**
  - **Non Prescription Drugs**
  - Newspapers
  - **Trade-in value on insurance proceeds**
- Services - \$123 million
  - Home & blding services
  - Taxi cabs/transp
  - **Scenic & sightseeing tours**
  - Employment agencies
  - Pet Services
  - Personal Care - Salons
  - Business support services
  - Laundry & dry cleaning



# 2011 – Chafee Budget Article

- Recreation & entertainment - \$21 million
  - Amusement Parks
  - Campgrounds
  - Membership Clubs
- Labor on Maintenance & Repairs - \$27 million
  - Motor vehicles
  - Appliances, Clothing etc.

# 2011 – Chafee Budget Article

- Apply 1% to some exempt items = \$86.8 million including
  - Manufacturing inputs & equip. - \$45.0 million
  - Sales to non profits - \$10.6 million
  - Clothing and footwear - \$6.6 million
  - Auto trade-in values - \$2.5 million
  - Home heating fuel - \$2.2 million

# Changes Since 2011

- 2012 Assembly
  - *Repealed* sales tax on package tours & sightseeing services
  - Removed exemption on clothing & footwear costing > \$250 per item
  - Added taxis, limos, charter bus services and pet care services

# Changes Since FY 2012

- 2012 Assembly
  - Added provision that if Congress enacts legislation to require remote sellers to collect & remit taxes, the tiered clothing system would be repealed
  - 2013 Assembly added provision to lower rate from 7% to 6.5% upon federal action
    - Would maintain 8% on Meals and Beverage and Hotel with extra 0.5% going to locals

# Changes Since FY 2012

- 2013 Assembly
  - Exempted retail wine and spirit sales from December 1, 2013 – March 31, 2015
    - 2014 Assembly extended to June 30, 2015
    - 2015 Assembly made it permanent
  - Exempted qualified original art
- 2014 Assembly
  - Established safe harbor for filers that use lookup table to estimate taxes owed on taxable items purchased from vendors that do not collect or remit sales tax

# Changes Since FY 2012

- 2015 Assembly
  - Exempted commercial energy sales from sales tax
  - Expanded lodging covered by sales tax
- 2016 Assembly
  - Clarified inclusion of transportation network companies

# Changes Since FY 2012

- 2017 Assembly
  - Exempted seeds for food
  - Strengthened collection efforts of existing taxable goods by remote sellers
- 2018 Assembly
  - Added software as a service
  - Added security services
  - Exempted kegs for alcoholic beverages

# Art. 5, Secs. 1 & 18 Weapons Dealers & Firearms Excise Tax

- Governor proposes imposing a 10% excise tax on firearms and firearm ammunition effective Oct. 1
  - As defined under federal law
- Retailer shall collect
  - 10% in addition to 7% sales tax
  - Must be separately stated from retail price
  - Exemptions for
    - Police and certain Military uses



# Art. 5, Secs. 1 & 18 Weapons Dealers & Firearms Excise Tax

- Budget assumes \$0.8 million in revenues
  - FY 2021 impact \$1.1 million
- Revenue estimates
  - Starts with sporting equipment sales and assumes 13% of those are for items covered
    - About half would be from hand guns for which high compliance is assumed because of the nature of the sale
    - Other half would be for long guns but only partial compliance assumed because of ease of out of state purchase

# Art. 5, Secs. 1 & 18 Weapons Dealers & Firearms Excise Tax

- Proposal includes penalties for non-compliance
- Firearms & Ammunition subject to federal excise tax
  - Excise of 10% for handguns; 11% for long guns & ammunition
    - Upon importation or manufacture

# Art. 5, Secs. 1 & 18 Weapons Dealers & Firearms Excise Tax

- Dealer Licensing
  - Article adds language to make licensure of firearms dealers conditional upon compliance with Division of Taxation statutes
  - Collections compliance measure

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