

# Governor's FY 2015 Budget: Articles 12, 13, and 14

Staff Presentation to the House Finance  
Committee  
March 6, 2014

## Introduction

- Article 12 – Tax Collections
- Article 13 – Lottery
- Article 14 – Marketplace Fairness Act

## Article 12, Sec. 3 & 4 – Room Resellers & Other Temp Lodging

- Section 3 - Subjects resale mark-up for hotel rooms to sales and hotel taxes
- Section 4 - Defines bed & breakfasts and timeshares with at least one room for rent as hotels
- Section 4 - Subjects entire cost of travel packages to sales and hotel taxes

3

## Article 12, Sec. 3 & 4 – Room Resellers & Other Temp Lodging

- Current statute defines “hotels”
  - Facility offering minimum of 3 rooms for the public to rent and temporarily occupy
    - Period of 30 days or less
  - Includes hotels, motels, tourist homes, tourist camps, lodging houses, and inns

4

## Article 12, Sec. 3 & 4 – Room Resellers & Other Temp Lodging

- Hotel Room Rental subject to taxes:
  - Sales tax – 7.0%
    - General Fund
  - Hotel tax – 5.0%
    - General Fund and regional tourism districts
  - Local Hotel tax – 1.0%
    - Municipalities

5

## Article 12, Sec. 3 & 4 – Room Resellers & Other Temp Lodging

Room Rental from Hotel	
Room Charge	\$150.00
Sales Tax	\$10.50
Hotel Tax	\$7.50
Local Hotel Tax	\$1.50
<b>Total Charge to Occupant</b>	<b>\$169.50</b>
<b>Total Taxes Collected</b>	<b>\$19.50</b>

6

## Article 12, Sec. 3 & 4 – Room Resellers & Other Temp Lodging

Room Rental from Hotel		General Fund	Local Revenue	Tourism Districts
Room Charge	\$150.00	-	-	-
Sales Tax	\$10.50	\$10.50	-	-
Hotel Tax	\$7.50	\$2.21	\$2.63	\$5.66
Local Hotel Tax	\$1.50	-	\$1.50	-
<b>Total</b>		<b>\$12.71</b>	<b>\$4.13</b>	<b>\$5.66</b>

7

## Article 12, Sec. 3 & 4 – Room Resellers & Other Temp Lodging

- Room Resellers
  - Purchase hotel rooms at wholesale prices from hotel operators
    - Pay sales and hotel tax on wholesale cost
  - Sell rooms to occupants
    - Offer service – purchase rooms at wholesale prices. Sell at markup to consumers
      - Markup cost not currently subject to taxes
  - Examples: Priceline, Hotwire, Expedia, Hotels.com

8

## Article 12, Sec. 3 & 4 – Room Resellers & Other Temp Lodging

- Article defines room resale as a service subject to taxes
  - Sales Tax
  - Hotel Tax
  - Local Hotel Tax
  
- Travel packages - room rental bundled with other amenities or attractions
  - Total cost subject to sales and hotel taxes

9

## Article 12, Sec. 3 & 4 – Room Resellers & Other Temp Lodging

	Current Law	Section 3
Wholesale Room Cost	\$120.00	\$120.00
Sales Tax	\$8.40	\$8.40
Hotel Tax	\$6.00	\$6.00
Local Hotel Tax	\$1.20	\$1.20
<b>Total Paid by Reseller</b>	<b>\$135.60</b>	<b>\$135.60</b>
25% Markup	\$33.90	\$33.90
<b>Taxes on Markup</b>	<b>-</b>	<b>\$4.41</b>
<b>Total Charge to Occupant</b>	<b>\$169.50</b>	<b>\$173.91</b>
<b>Total Taxes Collected</b>	<b>\$15.60</b>	<b>\$20.01</b>

10

## Article 12, Sec. 3 & 4 – Room Resellers & Other Temp Lodging

Current Law		General Fund	Local Revenue	Tourism Bureaus
Room Charge	\$120.00	-	-	-
Sales Tax	\$8.40	\$8.40	-	-
Hotel Tax	\$6.00	\$1.26	\$1.50	\$3.24
Local Hotel Tax	\$1.20	-	\$1.20	-
Markup	\$33.90	-	-	-
<b>Total Taxes Distributed</b>		<b>\$9.66</b>	<b>\$2.70</b>	<b>\$3.24</b>

11

## Article 12, Sec. 3 & 4 – Room Resellers & Other Temp Lodging

Section 3		General Fund	Local Revenue	Tourism Bureaus
Room Charge	\$120.00	-	-	-
Sales Tax	\$8.40	\$8.40	-	-
Hotel Tax	\$6.00	\$1.26	\$1.50	\$3.24
Local Hotel Tax	\$1.20	-	\$1.20	-
Markup	\$33.90	-	-	-
Sales Tax	\$2.37	\$2.37	-	-
Hotel Tax	\$1.70	\$0.36	\$0.43	\$0.91
Local Hotel Tax	\$0.34	-	\$0.34	-
<b>Total Taxes Distributed</b>		<b>\$12.39</b>	<b>\$3.52</b>	<b>\$4.15</b>

12

## Article 12, Sec. 3 & 4 – Room Resellers & Other Temp Lodging

- Article expands definition of “hotel”
  - 1 or more rooms for rent
  - Includes Bed & Breakfasts and Timeshares
- Governor’s FY 2013 budget proposed subjecting bed & breakfasts and rental of vacation homes to sales and hotel taxes
  - Assembly did not concur

13

## Article 12, Sec. 3 & 4 – Room Resellers & Other Temp Lodging

- 2015 Proposed budget includes new revenues of \$1.4 million
  - Room resellers - \$0.9 million
    - Sales tax - \$0.8 million
    - Hotel tax - \$0.1 million
  - Other temporary lodging - \$0.5 million
    - Sales Tax - \$0.4 million
    - Hotel Tax - \$0.1 million

14

## Article 12, Sec. 6 – E-Cigarettes

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- Defines electronic cigarettes as “other tobacco products” – like smokeless tobacco
- Makes e-cigarettes subject to tax of 80% of wholesale cost
  - Currently subject to sales tax only
- Budget assumes \$0.8 million in new revenues

15

## Article 13 – Lottery

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- Section 1 – Eliminates 25% transfer requirement from traditional lottery revenues
- Section 1 – Conforms to new GASB reporting requirements
- Section 2 – Increases state share of table game revenue to 18%

16



## Article 13 – Lottery

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- Current law requires transfer of 25.0% of net revenues to General Fund
  - Established to ensure maximum transfer when Lottery was quasi-state agency
  - Operations expenses now subject to appropriations process
  - In response to Audit finding
- Slot machine oversight included in costs funded from traditional sales

17

## Article 13 – Lottery

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- Higher prices for instant ticket games require higher prize payouts
  - Games with tickets of \$20 can pay more than 70%
- Instant ticket sales are more than half of traditional lottery sales
  - 47% for FY 2004
  - 53% for FY 2012

18

## Article 13 – Lottery

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- Article eliminates 25% minimum transfer requirement
- Lottery operations expenditures subject to appropriation
- Lottery remains obligated to transfer all funds net of prizes and operations costs

19

## Article 13 – Lottery

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- Requires transfer of lottery funds to General Fund reflect contribution to retirement system
  - Consistent with current law, but in response to new reporting requirement
- GASB statement 68 established new reporting requirements for pension liability
  - Unfunded liability must be reported proportionate to the employer's share

20

## Allocation of net gaming revenue

- Industry had estimated that approximately 70% of table gaming revenue is needed to support overall operating costs, including, but not limited to:
  - Labor
  - Marketing and promotions
  - Facility costs
  - Supplies and equipment

21

## Allocation of net gaming revenue by facility

<i>Revenue Protection Act Assumptions</i>	<b>Twin River Allocation</b>	<b>Estimated Revenue (\$M)</b>
Labor	35%	\$21.0
Marketing	15%	\$9.0
Facility Operations	10%	\$6.0
Table Operations	10%	\$6.0
State Tax Rate	18%	\$10.8
Operator Share	12%	\$7.2
Total	100%	\$60.0 *

22

## Article 13 – Lottery

- Current law establishes state's 16% share of table game revenue
  - State receives 18% only until Twin River experiences an annual loss in slot revenue
  - Loss not explicit to Mass gaming, but that was intent
- Section 2 establishes 18% state share of table game revenue
- Limits 2% decrease in state share to four fiscal years
  - 1% increase for Twin River
  - 1% increase for Lincoln

23

## Article 13 – Lottery

- Prior to any decrease in state share:
  - Massachusetts gaming must begin
  - Twin River must experience fiscal year-over-year decrease in slot revenue
- FY 2015 budget does not assume a fiscal impact

24

## Article 14 – Marketplace Fairness

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- Purchases made out of state or from remote sellers who do not charge RI sales tax are subject to use tax
  - Payment is the responsibility of the purchaser
- Streamlined Sales and Use Tax Agreement
  - Cooperative effort between 44 member states to simplify sales tax laws and collection procedures
    - Rhode Island and 23 other states passed legislation to conform to the Agreement

25

## Article 14 – Marketplace Fairness

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- Congress has power to require remote sellers collect and remit sales taxes
- 2011 and 2013 Assemblies enacted legislation to reflect future federal passage of legislation
  - Reduce sales tax from 7.0% to 6.5%
  - Increase meals and beverage to 1.5%
  - Increase local hotel tax to 1.5%

26

## Article 14 – Marketplace Fairness

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- Marketplace Fairness Act of 2013:
  - Federal legislation that enables states require remote sellers collect and remit sales taxes
    - Passed Senate May 6, 2013
    - Currently before House of Representatives

27

## Article 14 – Marketplace Fairness

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- Section 1 - Reduces corporate income tax from 9.0% to 6.0% upon passage of MFA (or similar legislation)
- Section 2 - Exempts sale of electricity and gas to all businesses from sales tax
  - Already exempt for manufacturing businesses

28

## Article 14 – Marketplace Fairness

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- Section 2 - Reverses actions of 2011 and 2013 Assemblies
  - Sales tax remains 7.0%
  - Meals and beverage remains 1.0%
  - Local hotel tax remains 1.0%

29

## Article 14 – Marketplace Fairness

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- Budget does not include fiscal impact
  - Action requires passage of federal legislation
- Both sections result in revenue losses
  - Corporate tax – Between \$35 and \$40 million for full fiscal year
  - Electricity and gas – Approximately \$20 million for full fiscal year
- Assumed to be offset by increase in sales tax collections
  - Interface with use tax safe harbor not addressed

30

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