Governor’s FY 2019 Budget: Articles

Staff Presentation to the House Finance Committee
March 8, 2018
Introduction

- Article 4
  - Sections 3 and 4 - Collections Unit
  - Section 5 - Sales and Use Tax
    - Software as a Service
    - Security Services
Secs. 3 & 4 – Collections Unit

- Authorizes Department of Revenue to establish a collections unit
  - Collect debts owed to other agencies that meet specific criteria
  - More expansive than current Taxation refund offset program
- Adds fees and penalties to the debt
- Assumes initial pilot program
  - FY 2019 impact $0.8 million
Secs. 3 & 4 – Collections Unit

- Collections Unit
  - Goal to assist agencies with collecting delinquent debts owed to the state
  - Director may enter into agreements with any state agency
  - Indemnified by referring agency against liabilities arising from collection efforts
  - Direct staffing and third-party collections contracts
Governor’s FY 2019 Budget includes $0.6 million to support operations
- Includes 7.0 full-time equivalent positions
  - 3.0 Senior accountants
  - 2.0 Collections clerks
  - 1.0 Chief compliance & collections
  - 1.0 Billing specialist
- Assumes $1.3 million in revenues
  - Net impact $0.8 million
Agency referral requirements

- 30-day prior notice to debtor of the intent of referral
  - Include recipient’s right to an appeal
- Notice to the collections unit of the intended debt, specific criteria, legal compliance
  - Provide collections support and resources
Secs. 3 & 4 – Collections Unit

- Collections unit referral requirement
  - Upon referral debt subject to interest
    - 18.0% - 21.0%
    - Prime rate + 2%
  - Notice of referral to debtor
    - Amount owed
    - 12.0% collections fee applies after 30 days
      - Fee established in the article
      - Calculated on principal and interest
Secs. 3 & 4 – Collections Unit

- Unit funding subject to appropriation
  - 12% collection fee deposited into a restricted receipt account
    - To help defray costs of unit
    - Annually transferred to General Fund or “credited” against future operations
- Payments upon collection in order
  - Third-party collector
  - Reimburse federal funds
  - 12.0% to restricted account
  - Referring agency
Sec. 5 – Sales and Use Taxes

- Expand items subject to RI’s 7% sales tax effective July 1, 2018
  - Software as a Service
  - Security Services
- Technical correction to prior legislation on seeds exemption

<table>
<thead>
<tr>
<th>Item</th>
<th>FY 2019 Impact</th>
<th>FY 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Software as a Service</td>
<td>$4.8 million</td>
<td>$6.6 million</td>
</tr>
<tr>
<td>Security Services</td>
<td>$9.7 million</td>
<td>$9.8 million</td>
</tr>
<tr>
<td>Total</td>
<td>$14.5 million</td>
<td>$16.4 million</td>
</tr>
</tbody>
</table>
Sec. 5 – Sales and Use Taxes

- Software as a Service
  - Software access not transferred to the user
    - Office 365
    - Google Apps
    - Citrix GoToMeeting
    - Salesforce
- Currently taxed in both MA and CT
Sec. 5 – Sales and Use Taxes

- Since 2011, sales tax has applied to digital services with tangible products, or ‘load and leave’
  - Regulation SU 11-25 clarifies that it specifically does not apply to digital products and vendor-hosted software
- Estimate appears to assume an Oct. 1 effective date
  - Article is effective July 1
Security Services – what’s included

- Identified by North American Industrial Classification System (NAICS) code 5161:
  - 611 - Investigation Services
    - Investigation and detective services
  - 612 - Security Guards and Patrol Services
    - Bodyguard, guard dog, and parking security services
  - 613 - Armored Car Services
    - Picking up and delivering money, receipts, or other properties in transit
Sec. 5 – Sales and Use Taxes

Investigation
- Background checks
- Fingerprint
- Private Investigation
- Skip Tracing
- Poly Graph

Guard and Patrol
- Bodyguard Services
- Parking Security
- Property Protection
  • Except security systems
- Patrol Services

Armored Car
- Armored car services
Sec. 5 – Sales and Use Taxes

- State’s sales tax model used to develop estimate of $9.7 million in FY 2019
  - Consumption of services in RI
    - Excluding items not proposed for taxation
- Revenues assume full year of collections
  - Consistent with July 1 start date
Sec. 5 – Sales and Use Taxes

- Seeds for Human Consumption
  - Exemption included in FY 2018 budget
  - Included more language than necessary
    - Excess language may cause an issue with the Rhode Island’s compliance Streamlined Sales Tax agreement
  - Article 4 section 5 strikes excess language
    - Technical
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: 1992-2018
Sales and Use Tax

- Who Pays
- Rates
- Comparison
- Recent proposed and enacted changes
Sales and Use Tax Rates

<table>
<thead>
<tr>
<th>Effective Date</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 1, 1947</td>
<td>1%</td>
</tr>
<tr>
<td>June 1, 1951</td>
<td>2%</td>
</tr>
<tr>
<td>June 1, 1964</td>
<td>3%</td>
</tr>
<tr>
<td>June 1, 1964</td>
<td>3.5%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Effective Date</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 1, 1965</td>
<td>4%</td>
</tr>
<tr>
<td>June 1, 1967</td>
<td>5%</td>
</tr>
<tr>
<td>June 1, 1976</td>
<td>6%</td>
</tr>
<tr>
<td>July 1, 1990</td>
<td>7%*</td>
</tr>
</tbody>
</table>

*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
Sales and Use Tax

- Who Pays
- Rates
- Comparison
- Recent proposed and enacted changes
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 22nd on total sales tax rate
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 per 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.
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
Governor’s FY 2019 Budget: Articles

Staff Presentation to the House Finance Committee
March 8, 2018