



May 16, 2024

The Honorable Marvin L. Abney, Chairman
The Honorable Scott A. Slater, First Vice Chairman
The Honorable Alex Marszalkowski, Second Vice Chairman
The Honorable Members of the House Committee on Finance

Re: Testimony Supporting Amendment #19 to H7225 – Financial Institutions Tax

Dear Chair Abney, First Vice Chair Slater, Second Vice Chair Marszalkowski, and Members of the House Committee on Finance:

On behalf of Citizens Bank, N.A. and its 4,200 Rhode Island employees, thank you for this opportunity to provide our testimony on Governor McKee's requested Amendment Number #19 to H7225. Citizens submits its testimony in **support** of this requested amendment, which allows financial institutions the opportunity to elect a single sales factor apportionment methodology in calculating their income tax liabilities.

Historically, all Rhode Island corporations calculated taxable income by applying an equally weighted, three-factor apportionment formula based on property, payroll, and sales. In 2015, for all non-bank corporations, Rhode Island replaced this three-factor formula with a single sales apportionment factor: the proportion of their Rhode Island sales to their total sales everywhere. In 2018, the Division of Taxation explained the benefits of this legislation in their annual report, stating, "a Rhode Island corporation typically has a greater portion of its property and payroll in Rhode Island than does an out-of-state corporation doing business in Rhode Island." See Pub. 2018-02 (Mar. 15, 2018). **Accordingly, the shift to a single sales factor "levels the playing field" between instate and out-of-state taxpayers "because the distorting factors of payroll and property are no longer taken into account" (emphasis added).**

By contrast, the Rhode Island bank tax continues to mandate the use of the three-factor apportionment formula that allows for an uneven playing field between in-state and out-of-state banks. The current three-factor formula penalizes banks who have a large workforce and physical presence in Rhode Island. Disincentivizing banks from employing Rhode Islanders is simply counterproductive to the great work this legislature and administration have done to promote the creation of good jobs in Rhode Island.

In the past, Rhode Island has been the unintended beneficiary of other states utilizing similar three-factor apportionment formulas, as it meant there was not as much difference between the tax outcomes for a bank in Rhode Island versus a bank elsewhere. But this is no longer the case. Twenty-six states have since passed single sales factor for banks and, effective January 1, 2025, Massachusetts will also use a single sales factor apportionment formula for all corporations and financial institutions. Rhode Island truly is an outlier, placing it at a severe competitive disadvantage. This is simply bad tax policy for the state.



If this legislature fails to act, Rhode Island banks will soon be incentivized to create and/or move existing jobs just over the border to Massachusetts to dramatically reduce their state tax liability. Stated another way, it will cost banks millions of dollars more in taxes every year to locate their employees in Rhode Island rather than in Massachusetts. Rhode Island is now considerably less competitive with our neighbor to the north.

The Governor's requested Amendment #19 to H7225 is the answer. This bill levels the playing field for in-state and out-of-state banks and removes the economic inducements to invest in jobs and property elsewhere.

Citizens Bank proudly traces its roots in Rhode Island back to 1828 and continues to maintain its headquarters in Providence. Citizens is among Rhode Island's largest private employers, with 4,200 employees and \$400 million in annual payroll in the state. Between 2016 and 2018, the Bank invested \$285 million in the state of Rhode Island by building its corporate campus in Johnston and paid for half the cost of constructing new on and off ramps on I-295.

Once Massachusetts' transition to single sales factor takes effect on January 1, 2025, Citizens or any large bank would strongly consider expanding its corporate footprint and employee base outside of Rhode Island because of the differing tax treatment among the states. No Rhode Island representative, regardless of party, should want this outcome.

On a final note, **Amendment #19** will not dramatically reduce Citizens' income tax payments to the state from prior years. The bill does not lower the 9% bank tax rate to match the 7% rate imposed on all other Rhode Island corporations. Further, should this bill pass, it will offset other job-related tax credits Citizens previously received, causing the bank to pay virtually the same income tax it has in prior years. The true benefit Citizens and other banks will receive from the passage of this bill is the certainty that Rhode Island tax policy will continue to incentivize rather than penalize banks to invest in Rhode Island jobs and property.

Citizens has over 100 branches and ATMs statewide, which is over twice as many bank branches in the state as its closest banking competitor. Citizens is integral to Rhode Island's economy, serving over 200,000 residents and over 30,000 small businesses. We are proud of our contributions to the state. With the passage of the **Governor's requested Amendment #19 to H7225**, the legislature will create the necessary conditions to allow those contributions to continue to grow as Citizens thrives as a national bank headquartered in our home state of Rhode Island.

Thank you for your consideration of my testimony.

Michael Knipper

Mike Knipper
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Citizens Financial Group, Inc.