

Article 4: Relating to Taxes (Section 2: Sales Tax Reduction)

Article 4, Section 2 reduces the State’s sales and use tax rate from 7.00 percent to 6.85 percent starting on October 1, 2023.

FISCAL IMPACT

The fiscal impact of Article 4’s changes to the sales tax is summarized in the following table.

Initiative	FY2024	Full Year
Sales Tax	(\$25.0)	(\$34.7)
Total	(\$25.0)	(\$34.7)

\$ in millions

Methodology: Historically, sales and use tax collections represent the second largest source of revenue for Rhode Island, trailing only personal income tax, and just ahead of lottery receipts. Collections averaged \$1,071.2 million over the ten-year period from 2012 and 2022.

The November 2022 consensus revenue estimates for the FY2023 and FY2024 sales and use tax collections are \$1,575.0 million and \$1,580.0 million, respectively. These estimates also represent 37.0 and 31.0 percent of total general revenue for each respective fiscal year.

The Office of Revenue Analysis (ORA) used these estimates and the Office of Management and Budget’s (OMB) most recent five-year forecast to calculate the fiscal impact of the changes in Article 4. ORA divided each fiscal year’s estimate by the current 7.0 percent rate to get an estimate of total taxable sales for each fiscal year. These sales are then multiplied by the proposed rate of 6.85 percent to establish a revised revenue collection figure. When these amounts are subtracted from the original base revenue estimates the full-year revenue losses are \$33.9 million for FY2024 and \$34.7 million in FY2025. ORA then adjusts the FY2024 to \$25.0 million to account for the October 1, 2023, start date, reflecting the 26.3 percent average proportion of revenue that August through October collections represent. The table at right is provided for demonstration purposes and shows the amount of revenue lost and in-state household savings associated with each marginal 0.1 percentage point decrease from the current rate of 7.0 percent down to 5.0 percent.

Consumer Impact: The Governor’s proposed sales tax reduction is estimated to save households an average of \$39 annually. ORA’s sales tax model considers both in-state and out-of-state consumers and business spending when estimating taxpayer savings. The current modeling has business activity comprising 49.7 percent of taxable activity, in-state consumer purchases comprising 47.5 percent and out-of-state consumers purchases at 2.8 percent. The following table summarizes the savings related to Article 4’s sales tax changes:

Sales Tax Rate	Revenue Loss (\$ millions)	Avg. In-State Household Savings
6.9%	(\$22.6)	\$24
6.8%	(45.1)	48
6.7%	(67.7)	72
6.6%	(90.3)	95
6.5%	(112.9)	119
6.4%	(135.4)	143
6.3%	(158.0)	167
6.2%	(180.6)	191
6.1%	(203.1)	215
6.0%	(225.7)	239
5.9%	(248.3)	263
5.8%	(270.9)	286
5.7%	(293.4)	310
5.6%	(316.0)	334
5.5%	(338.6)	358
5.4%	(361.1)	382
5.3%	(383.7)	406
5.2%	(406.3)	430
5.1%	(428.9)	454
5.0%	(451.4)	477

Note: Data was calculated using the November 2022 sales and use tax estimate for FY2024 and a full year of the rate in effect.

Article 4 - Consumer Savings

	FY2024	Full Year
Total Savings	\$25.00 million	\$34.70 million
Business Savings	\$12.41 million	\$17.27 million
In-State Consumer	\$12.00 million	\$16.50 million
Out-of-State Consumer	\$0.70 million	\$1.00 million
Household Savings	\$12.56 million	\$17.48 million
Per Household Savings (in-state)	\$26	\$37

Source: Office of Management and Budget

The point of purchase savings under the proposed 0.15 percentage point tax reduction as compared to the current rate is shown below. For each \$666.67 in spending, a consumer would save \$1.00 in sales tax.

Purchase Amount	Sales Tax		Taxpayer Savings
	7.00%	6.85%	
\$50	\$3.50	\$3.43	\$0.075
\$100	7.00	6.85	0.150
\$150	10.50	10.28	0.225
\$200	14.00	13.70	0.300
\$250	17.50	17.13	0.375
\$300	21.00	20.55	0.450
\$350	24.50	23.98	0.525
\$400	28.00	27.40	0.600
\$450	31.50	30.83	0.675
\$500	35.00	34.25	0.750
\$550	38.50	37.68	0.825
\$600	42.00	41.10	0.900
\$650	45.50	44.53	0.975
\$700	49.00	47.95	1.050

ANALYSIS AND BACKGROUND

Comparative Sales Tax Information: Comparing sales and use taxes across states can be done in various ways. First, there are five states that do not have statewide sales taxes: Alaska, Delaware, Montana, New Hampshire, and Oregon. Of these, Alaska allows localities to charge local sales taxes. Among the remaining 45 states, Rhode Island has the second highest state-level sales tax rate at 7.0 percent, with only California’s 7.25 percent rate higher. Excluding New Hampshire, the lowest sales tax rate in New England is Maine’s 5.5 percent. The border states of Massachusetts and Connecticut impose a 6.25 percent and 6.35 percent rate, respectively.

The state sales tax rate, however, is only one dimension of assessing a jurisdiction’s sales tax burden. Thirty-eight states also permit local sales taxes (although no New England state does). When considering the combined state and local sales tax burden, Rhode Island drops to the 24th highest. Moreover, the composition of the sales tax base is important. What states permit to be taxed and at what rate varies significantly across the country. Some states for instance exempt groceries and clothing, while others tax them at limited rates. When accounting for the breadth of the sales tax base, Rhode Island drops even further to 36th highest.

The following table shows 2022 comparative data for New England and the U.S. from the Tax Foundation.

State	State		State and Local Combined					Sales Tax Base			
	Rate	U.S Rank	Per Capita		Avg. Rate	Combined Rate	U.S Rank	Per Capita			
			Collections	U.S Rank				Collections*	U.S Rank	Base	U.S Rank
Rhode Island	7.00%	2	\$1,055	25	-	7.00%	24	\$1,097	35	26%	36
Massachusetts	6.25%	13	970	27	-	6.25%	35	992	37	20%	45
Connecticut	6.35%	12	1,271	11	-	6.35%	33	1,287	19	26%	35
New Hampshire	-	46	-	-	-	-	47	-	-	-	-
Vermont	6.00%	17	671	40	0.24%	6.24%	36	687	45	23%	42
Maine	5.50%	29	1,223	15	-	5.50%	42	1,200	25	41%	9
Lowest	2.90%/CO	45	\$575/GA	45		1.76%/AK	46	\$359/AK	46	20%/MA	45
Highest	7.25%/CA	1	\$2,541/HI	1		9.55%/LA	1	\$2,888/HI	1	111%/HI	1
US Average	-	-	1,031	-	-	-	-	1,322	-	-	-

Source: Tax Foundation 2022 data

*2019 data

Article 4 Changes: Section 2 of Article 4 reduces rate of the State’s sales and use tax by amends RIGL 44-18. Specifically, the article contains the following amendments:

- **Sales Tax Imposed (RIGL 44-18-18):** Article 4 adds language setting the sales tax rate at 6.85 percent starting on October 1, 2023.
- **Collection of Sales Tax by Retailer (RIGL 44-18-19):** The article also adjusts the delineated sales tax amounts a retailer must collect from consumers starting on October 1, 2023, according to the following table:

Tax	Sales Amount	
	Current Law	Article 4
No Tax	\$0.01 to \$0.07	\$0.01 to \$0.07
\$0.01	0.08 to 0.21	0.08 to 0.21
0.02	0.22 to 0.35	0.22 to 0.36
0.03	0.36 to 0.49	0.37 to 0.51
0.04	0.50 to 0.64	0.52 to 0.65
0.05	0.65 to 0.78	0.66 to 0.80
0.06	0.79 to 0.92	0.81 to 0.94
0.07	0.93 to 1.07	0.95 to 1.09
7.0% of sales price	\$1.08 and above	N/A
6.85% of sales price	N/A	\$1.09 and above

- **Use Tax Imposed (RIGL 44-18-20):** The article repeals the 7.0 percent use tax rate, and replaces it with a 6.85 rate starting October 1, 2023.

Sales and Use Tax Background: Rhode Island levies a sales and use tax equivalent to 7.0 percent of the retail sales price of certain goods and services. The sales tax is charged by retailers at the point of purchase, and retailers are required to remit sales tax receipts the month after the sales were made. Sellers are also required to carry a valid sales tax permit that is issued by the Division of Taxation.

In addition to the sales tax, the State also has a 7.0 percent use tax that applies to goods purchased outside of the State, including remote sales, but stored, used or consumed in Rhode Island. Contrary to sales tax collections, the user or purchaser is responsible for filing use taxes in Rhode Island. In essence, any purchase that would be subject to the sales tax had the purchase been made within the State, is subject to the use tax.

- **Tax Rate History:** Historically, proposals to change the State’s sales tax rate were tied to the establishment of a State personal income tax. However, when the latter occurred in 1971, the 6.0 percent rate at the time remained the same. The State sales and use tax rate was last amended in 1990, when it was increased from 6.0 percent to the 7.0 percent it is today under current law. The increase was

intended to be a temporary response to recessionary pressure in the Rhode Island economy at that time. The amendment included a provision that the rate be lowered to 6.5 percent on July 1, 1991, and then 6.0 percent on July 1, 1992. However, these provisions were repealed the following year in response to a financial crisis involving the failure of the Rhode Island Share and Deposit Indemnity Corporation (RISDIC). The State took on a \$290.0 million liability to pay back RISDIC depositors and used revenue from the higher sales tax rate to help pay for it. The rate has remained the same since.

- **Tax Base History:** The sales tax base refers the total mix of goods and services that are subject to the sales and use tax. Generally, in Rhode Island, the sales tax is applicable to most tangible personal property that is not to be resold and some services. According to a 2021 Urban Institute/Brookings analysis, Rhode Island’s sales tax base includes 95.0 percent of all durable goods, such as vehicles, furnishings, and appliances; 20.0 percent of non-durable goods like paper products; 20.0 percent of services such as pet care and security services; and 28.0 percent of overall household spending.

The General Assembly has specifically limited the sales base over time by enacting 89 different exemptions. These exemptions vary from very specific items such as feminine hygiene products to large categories of items such as food and clothing. The total foregone revenue from these exemptions was \$1,432.8 million in FY2019.

Recent initiatives to expand the sales tax base include the addition of digital downloads, including video, audio, and books in 2019. In 2011, then Governor Chafee introduced a proposal that would have greatly expanded base, by subjecting previously exempt goods and services to a lower 1.0 percent sales tax rate. In 2019 the General Assembly enacted significant changes to who is required to collect and remit sales taxes and the mechanism for how this is to be done. The changes were directed at out-of-state, or remote, sellers selling goods and services into Rhode Island using various methods and digital platforms. Historically a seller was obligated to charge sales tax only if physically located in state. Remote sellers using platforms such as Amazon could avoid charging sales tax because they lacked this “nexus”. Increasing internet sales over the past 20 years led to significant erosion of sales tax bases. A US Supreme Court decision in 2018 eliminated the need nexus and states, including Rhode Island put in place new laws requiring remote sellers to collect and remit sales taxes.

Rhode Island is also a participant in the Streamlined Sales and Use Tax Agreement (Agreement). The agreement is the result of a cooperative effort aimed at simplifying and providing uniformity to sales and use tax collections in various jurisdictions. The Agreement reduces administrative costs for retailers conducting business in multiple taxing jurisdictions, and encourages “remote sellers” to apply sales taxes on purchases.