



OFFICE OF MANAGEMENT & BUDGET

State Budget Office

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State Fiscal Note for Bill Number:

2024-H 7684

Date of State Budget Office Approval: Friday, April 5, 2024

Date Requested: Thursday, February 15, 2024

Date Due: Thursday, April 4, 2024

<i>Impact on Expenditures</i>		<i>Impact on Revenues</i>	
FY 2024	\$0	FY 2024	\$0
FY 2025	\$0	FY 2025	\$(36,249)
FY 2026	\$0	FY 2026	\$(71,209)
*		**	

Explanation by State Budget Office:

This act would amend Rhode Island General Laws § 44-3-3 entitled “Property Subject to Taxation” by adding to the list of property exempt from taxation real and tangible personal property of urban and small farmers.

This act would also amend § 44-11-11 entitled “Business Corporation Tax – “Net Income” defined” to exempt from net income subject to the business corporation tax any income from the production of food by urban and small farmers.

Further, this bill would amend § 44-18-30(32) “Gross receipts exempt from sales and use tax – Farm equipment” to exempt urban farmers from any annual, gross sales amount thresholds.

This bill would amend § 44-18-30(44) “Gross receipts exempt from sales and use tax – Farm structure construction materials” to add any other structures used in connection to urban farming as qualifying items for the sales and use tax exemption.

Also, the bill would add to § 44-18-30 “Gross receipts exempt from sales and use tax” a sales and use tax exemption for farm products used to grow food by urban and small farmers.

For all sections, an urban area is defined as any municipality incorporated as a city or has a population density of greater than 3,000 residents per square mile. A small farm is a farm with agricultural or horticultural land less than five acres.

Summary of Facts and Assumptions:

The effective date of the bill is upon passage, but the implementation date for the business corporation tax provision is for tax years beginning on or after January 1, 2025. The Office of Revenue Analysis (ORA) assumed an implementation date of October 1, 2024 for the sales and use tax change. Rhode Island is a signatory to the Streamlined Sales and Use Tax Agreement (SSUTA). Under the SSUTA and R.I. Gen. Laws § 44-18.1-5, it is necessary to allow for at least a 90-day period for such a tax change and to limit the effective date of a change to the beginning of a calendar quarter. The Department of Revenue, Division of Taxation noted several technical concerns with the bill as drafted and likely will be sending a letter of concern for the hearing on the bill.



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ORA included only the estimated revenue loss from general revenue items in this fiscal note as the Division of Municipal Finance is preparing a municipal fiscal note on the revenue impact from the property tax exemption.

According to the U.S. Census Bureau, there are eight municipalities in Rhode Island incorporated as a city and two towns with a population density greater than the 3,000 residents per square mile threshold proposed in this bill. Thus, there are 10 municipalities that would be considered urban areas. The Division of Taxation provided data on farms in these municipalities that fall under certain NAICS codes that include farm-related food production. In these municipalities for TY 2022, there were 37 farms that paid a total of \$14,000 in business corporation tax, for an average of \$378.38 tax liability per farm ($\$14,000 / 37$). Taxation also reported that for the same NAICS codes, there are a total of 197 farms that filed a Rhode Island income tax return. Dividing the 37 farms by the 10 urban municipalities yields an average of 3.7 urban farms per municipality.

ORA assumed all urban farms would fall under the small farm threshold as well. Further, it was assumed that the other 29 municipalities would, on average, have a similar number of small farms (defined as farms below five acres). Thus, there are an estimated 107 farms in the other municipalities ($29 * 3.71$), for a total of 144 small and urban farms in Rhode Island ($37 + 107$). ORA applied the average tax liability to each small and urban farms, which is an estimated total of \$54,487 business corporation tax revenue lost from the passage of this bill ($144 * \$378.38$). NAICS codes are self-reported and may include income from non-food production sources, and it is possible that the urban farms included in the Taxation data are five or more acres. Thus, this estimate should be considered a maximum estimate.

It should be noted that this bill does not exempt small and urban farm income from the state's personal income tax. According to USDA data, most farms are not incorporated and are likely paying tax under the personal income tax.

ORA used the S&P Global consensus economic forecast adopted at the November 2023 Revenue Estimating Conference for farm proprietors' income to calculate growth rates of 11.0297% from CY 2022 to CY 2025 and 7.8158% from CY 2025 to CY 2026. Applying these percentages yields an estimated full-year business corporation tax revenue loss of \$60,496 for TY 2025 ($\$54,487 * (1 + 0.110297)$) and \$65,225 for TY 2026 ($\$60,496 * (1 + 0.078158)$). Employing the Office of Accounts and Control's accrual methodology yields budgetary revenue losses for business corporation tax from the passage of this bill for FY 2025 of \$30,248 (half of the TY 2025 revenue estimate) and for FY 2026 of \$62,861 (half of the TY 2025 and half of the TY 2026 revenue estimates).

To estimate the revenue loss from the proposed sales and use tax exemption for farm products used to grow food by urban and small farmers, ORA used its Sales and Use Tax Macro Simulation Model. Total sales taxes paid by agriculture, forestry, fishing, and hunting was estimated to be \$161,800 in FY 2022. ORA was unable to determine the amount paid just by the agricultural industry, and, thus, this should be considered a maximum revenue loss.



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The USDA reports in the 2022 Census of Agriculture that there are 59,076 acres of farmland, which includes land used for crops, pasture, and woodland. ORA was unable to determine the number of acres for the small and urban farms from this data and instead assumed the maximum estimate of 4.99 acres per farm. This yields, using the average-per-municipality count of farms calculated earlier, an estimated total number of acres for these farms in Rhode Island of 720 (i.e., $3.7 * 4.99 * 39$). The 720-acre estimate is only for small and urban farms that pay the corporate income tax. According to the USDA, 73.0088% of farms with 1 – 9 acres of farmland are family or individual farms that are not incorporated. Assuming that percentage also applies to farms below five acres, ORA estimates that there are 2,668 acres for all small and urban farms that produce food ($720 / (1 - 0.730088)$). It should be noted that ORA was unable to determine the acreage for small and urban farms that produce non-food farm products, which would qualify for the proposed sales and use tax exemptions.

Total estimated farm acreage for small and urban farms is therefore 4.5162% of the total farm acreage in the state ($2,668 / 59,076$). Applying this percentage to the amount of sales tax paid by the industries noted above yields an estimated FY 2022 sales and use tax revenue loss from passage of this bill of \$7,307 ($\$161,800 * (1 + 0.045162)$).

The sales and use tax growth rates based on the estimates adopted at the November REC from FY 2022 to FY 2025 is 11.2717%. Using the Office of Management and Budget's (OMB) projection of sales and tax revenues for FY 2026 yields an estimated FY 2026 growth rate of 2.6779%. Applying these sequentially yields an estimated full-year sales and use tax revenue loss of \$8,131 in FY 2025 (i.e., $\$7,307 * 1.112717$) and \$8,349 in FY 2026 (i.e., $\$8,131 * 1.026779$). To account for the assumed implementation date of October 1, 2024, ORA applied the 5-year average percentage of sales and use tax collections in August – September (collections are, in general, a one-month lag from sales activity) of 26.1916% to produce an estimated partial-year revenue loss of \$6,001 ($\$8,131 * (1 - 0.261916)$) for FY 2025.

The total general loss from passage of the bill is \$36,249 for FY 2025 ($\$30,248 + \$6,001$) and \$71,209 ($\$62,861 + \$8,349$).

Comments on Sources of Funds:

All business corporation and sales and use taxes are general revenue. Property taxes are local revenue for the municipalities.

Summary of Fiscal Impact:

FY 2024: No revenue impact is forecast due to the implementation date of January 1, 2025 for the business corporation tax change and the assumed implementation date of October 1, 2024 for the sales and use tax change.

FY 2025: A maximum general revenue loss of \$36,249 is forecast comprised of a revenue loss of \$30,248 for business corporation tax and \$6,001 for the sales and use tax.



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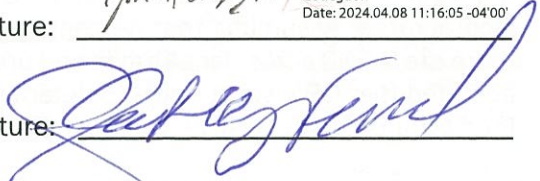
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FY 2026: A maximum general revenue loss of \$71,209 is forecast comprised of a revenue loss of \$62,861 for business corporation tax and \$8,349 for the sales and use tax.

Budget Office Signature:  Digitally signed by Joseph Codega Jr.
Date: 2024.04.08 11:16:05 -04'00'

Fiscal Advisor Signature: 

*NOTE pg 2
Careat about EXCLUSION of Personal Income Tax