

# Governor's FY 2019 Budget: Articles

Staff Presentation to the House Finance  
Committee  
March 8, 2018

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# 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

# Secs. 3 & 4 – Collections Unit

- 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

# Secs. 3 & 4 – Collections Unit

- 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

Item	FY 2019 Impact	FY 2020
Software as a Service	\$4.8 million	\$6.6 million
Security Services	\$9.7 million	\$9.8 million
<b>Total</b>	<b>\$14.5 million</b>	<b>\$16.4 million</b>

# 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

# Sec. 5 – Sales and Use Taxes

- 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

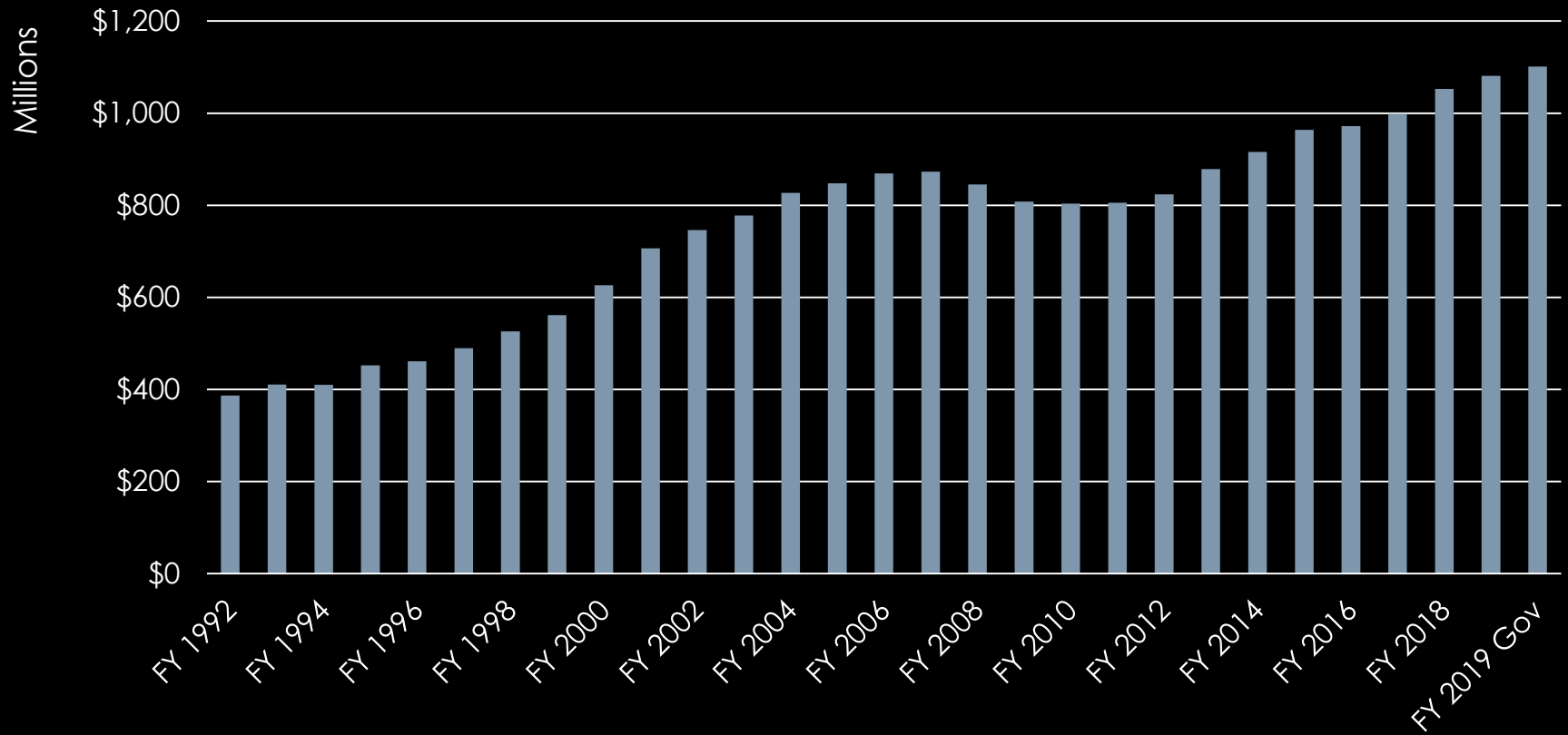
- Who Pays
- Rates
- Comparison
- Recent proposed and enacted changes



# 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

Effective Date	Rate
July 1, 1947	1%
June 1, 1951	2%
June 1, 1964	3%
June 1, 1964	3.5%

Effective Date	Rate
June 1, 1965	4%
June 1, 1967	5%
June 1, 1976	6%
July 1, 1990	7%*

*\*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

# Comparison

- 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.

# 2011 – Chafee Budget Article

- 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

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