

**Date of State Budget Office Approval:**

**Date Requested:** Friday, March 08, 2013

**Date Due:** Monday, March 18, 2013

**Impact on Expenditures**

FY 2013 n/a  
 FY 2014 n/a  
 FY 2015 n/a

**Impact on Revenues**

FY 2013 \$(1,132,000)  
 FY 2014 \$(2,264,000)  
 FY 2015 \$(3,396,000)

**Explanation by State Budget Office:**

This act would amend Rhode Island General Law Chapter 44-11, entitled "Business Corporation Tax" by reducing the business corporation minimum tax to \$250 for the first three (3) years an entity files a tax return. After three years, the business corporation minimum tax would be \$500 for the entity. Under current law, the business corporation minimum tax is \$500 for all business entities subject to the tax regardless of the length of time the taxpayer has been in business.

Only limited liability companies (LLC), limited partnerships (LP), and limited liability partnerships (LLP) would be affected by this change as C corporations are required to pay the greater of the tax imposed under Rhode Island General Law Chapter 44-11 or Rhode Island General Law Chapter 44-12, entitled "Franchise Tax." Subchapter S corporations are subject only to the tax imposed under Rhode Island General Law Chapter 44-12. This act reduces only the business corporation minimum tax under Rhode Island General Law Chapter 44-11. The minimum tax imposed under Rhode Island General Law Chapter 44-12 would remain at \$500 and thus, Subchapter S corporations and C corporations would continue to have a tax liability of at least \$500 under the act.

**Comments on Sources of Funds:**

All business corporation taxes are considered to be general revenues.

**Summary of Facts and Assumptions:**

This act takes effect upon passage.

The Office of Revenue Analysis (ORA) consulted the Rhode Island Secretary of State's (SOS) website under Business Services and collected data on the number of new entities that filed incorporation papers with the Secretary of State to establish a new business in the State. The SOS website listed the number of new entities that filed papers with the Secretary of State's office on a weekly basis for the period August 12, 2012 through March 31, 2013. A total of 4,600 businesses filed incorporation papers with the Secretary of State's Office during this 34 week period, or an average of 135 new business incorporations per week. Of this amount, 62.6 percent were limited liability companies (LLCs), 28.2 percent were for profit corporations, 6.5 percent were non-profit corporations, 1.0 percent were limited partnerships (LPs), 1.0 percent were limited liability partnerships (LLPs), 1.0 percent were professional services corporations, and less than 1.0 percent were banks, consumer cooperatives and power of attorneys.

ORA annualized the average number of new business incorporations per week to

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arrive at an estimated total for FY 2013 of 7,020 (i.e.,  $135 * 52$ ). ORA then applied the percentages noted above to estimate the number of new LLC, LP, and LLP business incorporations in FY 2013. These totals were: LLCs: 4,392; LPs: 67; and LLPs: 69. Thus, a total of 4,528 new LLC, LP, and LLP incorporations are estimated for FY 2013. ORA assumed that the same number of new LLC, LP and LLP business incorporations would occur in FY 2014 and FY 2015 also.

The act allows for newly incorporated LLCs, LPs, and LLPs to pay \$250 in business corporation minimum tax for the first three years of their existence. Under current law these newly incorporated entities would pay \$2,264,000 in business corporation minimum tax (i.e.,  $4,528 * \$500$ ). Under the act, these same entities would pay \$1,132,000 in business corporation minimum tax so the revenue foregone under the act for a single year is \$1,132,000. The act allows newly incorporated LLCs, LPs, and LLPs to pay the reduced business corporation minimum tax for three years. ORA assumed that all the newly incorporated entities would remain in business over this time horizon. Thus, in FY 2013, a total of \$1,132,000 in revenue is foregone, in FY 2014 a total of \$2,264,000 of revenue is foregone and in FY 2015 a total of \$3,396,000 in revenue is foregone. Given that it is unlikely that all newly formed LLCs, LPs and LLPs will remain in business for all three years in which such entities pay a lower business corporation minimum tax, these estimated revenue losses should be viewed as the maximum losses under the act.

ORA assumed that only LLCs, LPs, and LLPs incorporated on or after this act takes effect are eligible for the lower business corporation minimum tax. The act should, however, clarify whether entities that were newly incorporated one year and two years prior to the passage of the act are eligible for the \$250 reduced business corporation minimum tax in the second and third years of their new incorporation.

The Governor's recommended FY 2014 Budget projects a closing balance of \$1.4 million in FY 2014 and a deficit of \$170.5 million in FY 2015. Passage of the act would reduce the Governor's FY 2014 closing balance and increase the FY 2015 projected deficit.

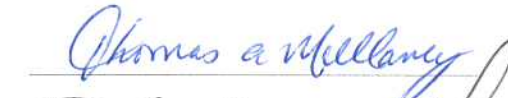
*Summary of Fiscal  
Impact:*

FY 2013: □ A revenue loss of \$1,132,000 is forecast,

FY 2014: □ A revenue loss of \$2,264,000 is forecast.

FY 2015: □ A revenue loss of \$3,396,000 is forecast.

Budget Office Signature:



Fiscal Advisor Signature:

