SENATE FISCAL OFFICE
REPORT

2015
REVENUE REPORT

FEBRUARY 24, 2015

Senate Committee on Finance

Daniel Da Ponte
Chairperson

Louis P. DiPalma
1st Vice Chairperson

Walter S. Felag, Jr.
2nd Vice Chairperson

James E. Doyle II
Secretary

Maryellen Goodwin

Edward J. O'Neill

Ryan W. Pearson

Christopher S. Ottiano

Juan M. Pichardo

V. Susan Sosnowski

Jamie Plume
Committee Clerk

Richard Kirby
Legal Counsel

Revenue Report – Table of Contents

Revenues

Business Taxes

Sales and Use Taxes

Other Taxes

Other Revenues

Other Taxes (Local)

Tax Credits and Incentives

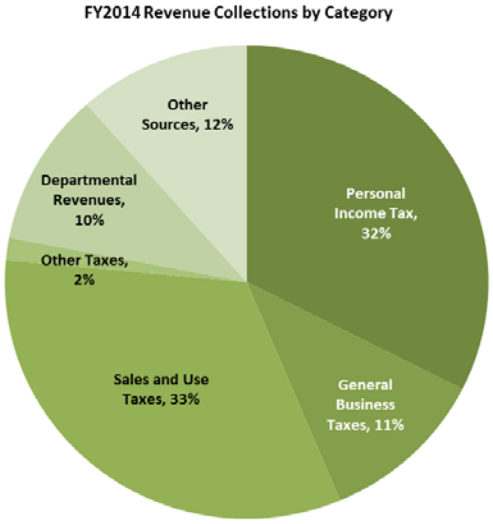
Tax Incentives for Economic Development

Special Reports

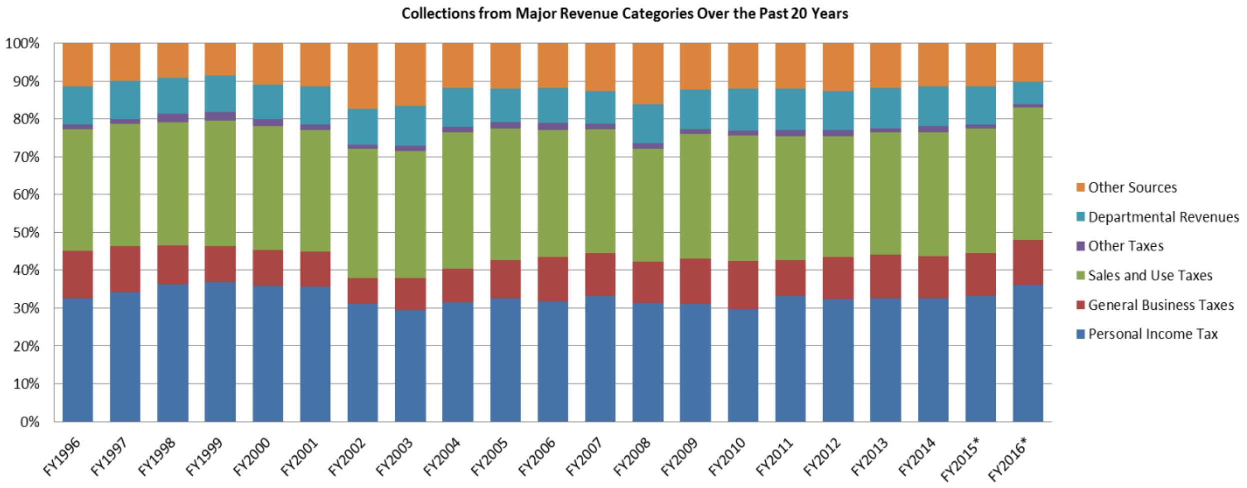
2015 Revenue Report – Summary

The following report provides information regarding the major revenue sources in Rhode Island that fund the general revenue component of the State Budget. While the State receives resources from a wide variety of sources, such as federal funds, employment funds, and tuitions for higher education, these are not included in the report. For each major revenue item, the report provides insight into each source, discussing trends, rate structure, any major changes in the revenue source, and regional comparisons. The report is designed to serve as a quick reference guide to major revenue sources to the State.

In FY2015, the State is projected to collect $3,508.9 million in taxes and other sources, which represents a 2.1 percent increase from FY2014. FY2015 personal income tax collections of $1,167.7 million represent the largest single tax source to the State – exactly one-third, 33.3 percent, of total collections. Sales and excise tax collections, Rhode Island's second largest tax source, represent another one-third, 33.1 percent, of the State's collections. In recent years, the lottery transfer had been the third highest source of revenue; however, in FY2015, general business taxes show stronger collections at 11.2 percent over the lottery's 10.9 percent. For FY2016, general business taxes again outpace lottery collections at 11.9 percent of total collections versus 9.9 percent. Decreases in lottery revenue over these two fiscal years are attributable to the onset of casino gaming in Massachusetts.


FY2014 Revenue Collections by Category

Over the past 20 years, Rhode Island has collected revenues primarily from three revenue categories: personal income tax, sales and use taxes, and "other sources," in which the main revenue stream is lottery collections. Prior to FY2000, general business tax collections annually outpaced lottery as the third highest revenue source. Year over year growth from lottery collections averaged 17.1 percent over five years prior to FY2000, far outpacing the 2.3 percent year over year growth of business corporations tax collections for the same period. This significant growth is in part attributable to the addition of almost 800 video lottery terminals (VLTs) which were added over those five years. Lottery collections continue to outpace general business tax collections, which have experienced significant volatile changes following the 2008 Recession. Also of note, while lottery collections generally make up the bulk of "other sources," collections in this category were unusually high in FY2002 and FY2003 as a result of a settlement with Blue Cross Blue Shield of Rhode Island ($5.9 million) and tobacco securitization payments under the Master Settlement Agreement ($187.6 million); and another increase again in FY2008 from sales of tobacco bonds.


Collections from Major Revenue Categories Over the Past 20 Years

Revenue Collections Summary

	FY2000	FY2005	FY 2010	FY 2011	FY 2012	FY 2013	FY2014	FY2015*	FY2016*
Personal Income Tax	$817.1	$979.1	$898.1	$1,021.3	$1,060.5	$1,085.8	$1,115.5	$1,167.7	$1,216.6
General Business Taxes									
Business Corporations	75.7	116.0	146.8	84.5	123.1	131.8	115.2	112.8	119.1
Public Utilities Gross Earnings	73.0	86.4	95.8	103.7	100.6	99.6	101.4	103.6	105.0
Financial Institutions	7.7	(1.5)	2.3	2.5	3.6	12.6	22.0	16.0	16.5
Insurance Companies	31.3	53.3	95.9	60.6	89.5	92.7	102.4	113.6	116.0
Bank Deposits	0.9	1.5	1.9	2.0	2.0	2.9	2.5	2.5	2.5
Health Care Provider Assessment	24.6	46.8	40.3	40.8	41.9	41.6	42.1	43.2	44.3
Sales and Use Taxes									
Sales and Use	631.3	847.7	803.4	813.0	851.1	878.9	916.1	955.0	1,000.0
Motor Vehicle	43.0	47.1	48.3	47.7	48.4	49.4	52.4	49.9	39.6
Motor Fuel	0.6	2.0	1.0	1.1	0.7	0.4	0.5	0.5	0.5
Cigarettes	59.4	136.3	138.3	134.1	131.1	132.5	139.5	136.8	134.2
Alcohol	9.2	10.5	11.3	11.7	11.9	12.2	18.3	19.0	13.0
Other Taxes									
Inheritance and Gift	35.6	33.0	29.1	46.9	46.4	28.5	43.6	27.0	19.2
Racing and Athletics	5.4	4.0	1.5	1.3	1.3	1.2	1.2	1.1	1.1
Realty Transfer	2.2	14.4	7.0	6.4	6.4	7.4	8.0	8.8	9.3
Total Taxes	1,817.0	2,376.8	2,320.9	2,377.4	2,518.4	2,577.5	2,680.6	2,757.5	2,836.9
Departmental Receipts	207.4	268.0	333.1	332.7	339.9	356.8	360.3	349.3	199.3
Total Taxes and Departmentals	***2,024.4***	***2,644.7***	***2,654.0***	***2,710.1***	***2,858.3***	***2,934.3***	***3,040.9***	***3,106.8***	***3,036.2***
Other Sources									
Gas Tax Transfer	15.0	9.0	-	-	-	-	-	-	-
Other Miscellaneous	83.4	28.2	12.5	11.1	20.1	4.2	6.4	7.8	1.1
Lottery	150.3	307.5	344.7	354.9	377.7	379.2	376.3	383.3	334.8
Unclaimed Property	3.5	15.6	5.9	7.6	14.6	6.3	12.7	11.0	8.1
Total General Revenues	**$2,276.7**	**$3,005.1**	**$3,017.0**	**$3,083.7**	**$3,270.7**	**$3,324.0**	**$3,436.4**	**$3,508.9**	**$3,380.2**
Individual Revenue Components:									
Personal Income Tax									
Estimated	$187.0	$198.9	$158.8	$171.5	$192.0	$194.5	$196.4	$204.1	$217.9
Finals	131.8	164.6	157.2	187.7	174.6	196.9	170.9	175.8	178.9
Refunds	(129.6)	(188.0)	(291.4)	(262.3)	(269.1)	(279.7)	(272.6)	(276.3)	(289.9)
Withholding	627.2	803.6	885.1	928.7	970.8	977.3	1,015.0	1,057.2	1,112.2
Net Accrual	0.6	0.0	(11.6)	(4.2)	(7.9)	(3.2)	5.9	6.9	(2.5)
Total Personal Income Tax	*817.1*	*979.1*	*898.1*	*1,021.3*	*1,060.5*	*1,085.8*	*1,115.5*	*1,167.7*	*0.0*
Insurance Companies									
Personal and Casualty	31.3	53.3	62.3	27.2	52.8	58.0	58.2	60.0	61.5
Medical/HMO	0.0	0.0	33.7	33.4	36.7	34.7	44.1	53.6	54.5
Total Insurance Companies	*31.3*	*53.3*	*95.9*	*60.6*	*89.5*	*92.7*	*102.4*	*113.6*	*116.0*
Health Care Provider									
Group Homes	7.4	10.9	0.8	(0.0)	-	-	-	-	-
Nursing Homes	17.2	35.9	39.4	40.8	41.9	41.6	42.1	43.2	44.3
Total Health Care Provider	*24.6*	*46.8*	*40.3*	*40.8*	*41.9*	*41.6*	*42.1*	*43.2*	*44.3*
Motor Vehicle									
Motor Vehicle	40.2	44.3	45.8	44.9	46.1	46.7	49.6	49.9	39.6
Rental Surcharge	2.7	2.9	2.5	2.8	2.3	2.7	2.8	0.0	0.0
Total Motor Vehicle	*43.0*	*47.1*	*48.3*	*47.7*	*48.4*	*49.4*	*52.4*	*49.9*	*39.6*
Cigarettes									
Cigarettes	58.5	134.4	134.4	130.7	127.4	128.7	134.6	131.8	129.0
Smokeless	1.2	1.9	3.8	3.3	3.7	3.8	4.9	5.0	5.2
Total Cigarettes	*59.7*	*136.3*	*138.2*	*134.0*	*131.1*	*132.5*	*139.5*	*136.8*	*134.2*
Departmental Receipts									
Licenses and Fees	108.9	164.0	257.7	262.5	259.8	271.9	284.9	275.9	130.1
Fines and Penalties	27.9	33.7	35.7	33.4	38.7	34.5	28.2	30.8	29.0
Sales and Services	33.4	40.6	17.3	14.0	10.7	12.3	12.6	13.1	12.4
Miscellaneous	37.2	29.7	22.5	22.8	30.8	38.1	34.6	29.5	27.8
Total Departmental Receipts	*207.4*	*268.0*	*333.1*	*332.7*	*339.9*	*356.8*	*360.3*	*349.3*	*199.3*
Lottery									
All Games	58.5	63.6	55.6	53.8	57.0	63.4	58.1	56.5	56.5
VLT	91.8	244.0	289.1	301.0	320.7	316.4	306.5	314.9	266.1
Table Games	-	-	-	-	-	(0.6)	11.7	11.9	12.2
Total Lottery	*150.3*	*307.5*	*344.7*	*354.9*	*377.7*	*379.2*	*376.3*	*383.3*	*334.8*

$ in millions

*November 2014 REC Estimates

In June 2010, legislation was enacted that reformed the State's Personal Income Tax beginning in tax year 2011. This revised structure reduced the top marginal tax rate from 9.9 percent to 5.99 percent, eliminated the alternative flat rate income tax and disallowed the use of federal itemized deductions in the computation of Rhode Island taxable income. Personal Income taxes are deposited as general revenues.

Payments are due based on the following schedule:

- Final Payments are due by April 15 of the following calendar year;
- Withholding Payments are due weekly for large employers (greater than $24,000 in monthly withholdings) and monthly or quarterly for smaller employers;
- Estimated Payments are due in quarterly installments in April, June, September, and December/January.

COLLECTION HISTORY

	Amount	% Change
FY2006	$996.8	
FY2007	1,065.4	6.9%
FY2008	1,073.8	0.8%
FY2009	940.5	-12.4%
FY2010	898.1	-4.5%
FY2011	1,021.3	13.7%
FY2012	1,060.4	3.8%
FY2013	1,085.8	2.4%
FY2014	1,115.5	2.7%
FY2015*	1,167.7	4.7%
FY2016*	1,216.6	4.2%

$ in millions

**November 2014 REC Estimate*

Rhode Island:

- Bases Rhode Island's personal income tax on federal Adjusted Gross Income (AGI);
- Permits only a standard deduction to determine Rhode Island taxable income. For tax year 2014, deductions begin to phase out at the taxable adjusted gross income level of $187,700;
- Establishes exemption amount of $3,750 for each tax filer and dependent, and annually adjusts for inflation. For tax year 2014, exemptions begin to phase out at the taxable adjusted gross income level of $187,700;
- Creates three taxable income brackets with a top rate of 5.99 percent;

Income Between…	Is Taxed at…
$0 and $55,000	3.75%
$55,000 and $125,000	4.75%
$125,000 and above	5.99%

The 2010 reforms also:

- Eliminated the alternative minimum tax;
- Continued to treat capital gains as ordinary income; and
- Permit nine credits against the tax.

RECENT AMENDMENTS

In 2010, the five bracket progressive tax rate system and the optional flat tax were eliminated in favor of a more streamlined tax system. This revised structure also reduced the top marginal tax rate from 9.9 percent to 5.99 percent.

In 2013, an accelerated depreciation schedule was implemented that allows businesses to depreciate expenses in the year in which the asset was placed in service, instead of depreciating the asset evenly over the useful life of the asset. As a result, the State realized a revenue loss in the first year and an increase in revenue during the subsequent years when no depreciation deduction is taken against the assets. An

Accelerated Depreciation Fund was established by transferring $10.0 million in general revenue to the account, intended to be used to help offset the initial $30.0 million revenue loss anticipated in FY2015.

The 2013 General Assembly also changed the domestic production activities tax deduction, requiring corporations to add back the federal deducted amount to their state taxable income. S-corporations file business taxes under a personal income tax return. Prior to this change, State laws effectively allowed for filers to claim the federal domestic production activities deduction on State income taxes, as the State taxes are based on the net income on federal tax forms. The domestic production activities deduction is a federal tax break that allows companies to claim a tax deduction equal to a percentage of certain profits from U.S. based operations. The deduction initially was limited to 3.0 percent of qualifying income; however, in 2007, this rate increased to 6.0 percent, and on January 1, 2010, the rate increased to 9.0 percent. Twenty-one states and the District of Columbia have decoupled from the federal provision. The FY2014 legislation amends the definition of net income under the tax on business corporations to include the federal domestic production activities deduction allowed by Section 199 of the Internal Revenue Code.

REGIONAL COMPARISON

	Top Rate	Applies to Taxable Income Above:
Vermont	8.95%	$405,100
Maine	7.95%	20,900
Connecticut	6.7%	250,000
Rhode Island	5.99%	135,000
Massachusetts	5.2%	-
New Hampshire	*None*	

Source: Federation of Tax Administrators, Feb. 2014

TAX MODIFICATIONS

The following credits are allowable reductions to personal income tax liabilities:

- Child and Dependent Care Tax Credit
- Credit for Taxes Withheld
- Earned Income Tax Credit
- Historic Structures Tax Credit
- Income Taxes Paid to Other States
- K-12 Scholarship Contributions Credit
- Lead Paint Abatement Credit
- Motion Picture Productions Credit
- Property Tax Relief Credit/Refund

RIGL 44-11 and 44-12

Business Corporations Tax

Corporations are required to remit the corporate tax of 9.0 percent on net income or the minimum tax amount, whichever is greater. Beginning in tax year 2015, Rhode Island imposes a corporate tax equivalent to 7.0 percent of net income attributable to Rhode Island corporations and any affiliated companies under common ownership, known as combined reporting. Under combined reporting, companies are required to report all income made by all subsidiaries, regardless of the state in which it was earned, and then remit state corporate income taxes on the basis of the entity's economic activity in the state as determined by an apportionment formula.

COLLECTION HISTORY

	Amount	% Change
FY2006	$165.1	
FY2007	148.1	-10.2%
FY2008	151.4	2.2%
FY2009	104.4	-31.0%
FY2010	143.6	37.5%
FY2011	84.5	-41.2%
FY2012	119.4	41.3%
FY2013	131.8	10.4%
FY2014	115.2	-12.6%
FY2015*	112.8	-2.1%
FY2016*	119.1	5.6%

$ in millions

**November 2014 REC Estimate*

Rhode Island also imposes a minimum tax of $500 annually, which increased from $250 beginning in 2004. Prior to the 2014 General Assembly session, Rhode Island had the highest corporate tax rate in New England at 9.0 percent. The decrease in the corporate tax rate places Rhode Island roughly in the middle of the pack nationally, and the State now has lowest top rate in New England. The State also had a franchise tax, with a similar $500 annual minimum; however, recent legislation eliminated the separate tax in favor of one minimum tax for both C- and S-corporations.

Payments are generally due based on the following schedule:

- Estimated payments for the current year require 40 percent of estimated liability due by March 15, and 60 percent by June 15.
- Final payments are due by March 15 of the following calendar year.

Business Corporations taxes are deposited as general revenues.

Based on TY2012 data, of the 58,720 corporate filers, 53,968 (91.9 percent) claimed the minimum tax liability ($500), representing approximately 28.1 percent of total collections.

Multi-State Apportionment – Beginning in TY2015, Rhode Island requires C-corporations to use a single sales factor apportionment formula for calculating the amount of tax due to the State for business that operate in more than one State. This formula calculates a corporation's tax based on its sales in Rhode Island versus its total corporate and affiliate sales, and disregards property and payroll factors. States use one of two primary methods to calculate a company's apportionment under a single sales apportionment formula: the Joyce or Finnigan methods. They differ in their treatment of the concept called "nexus," which relates to the corporation's presence in a state (for tax purposes). Generally speaking, the Joyce method excludes entities that do not have nexus in Rhode Island. The Finnigan method captures income from all sales of the unitary group that are attributable to Rhode Island. 11 states, including Rhode Island, require the Finnigan method be used to calculate apportioned income.

REGIONAL COMPARISON

	Top Rate	Applies to Taxable Income Above:	Minimum Tax
Maine	8.93%	$250,000	$-
New Hampshire	8.5%	Flat Rate	-
Vermont	8.5%	25,000	250
Massachusetts	8.0%	Flat Rate	456
Connecticut	7.5%	Flat Rate	250
Rhode Island	**7.0%**	**Flat Rate**	**500**

Source: Federation of Tax Administrators, Feb. 2014

An example comparing the three-factor apportionment with the single-weighted sales apportionment can be found in the Corporate Tax Reform report in the Special Reports section of this book.

RECENT AMENDMENTS

The 2009 General Assembly required Rhode Island business corporations to report in 2009 and 2010 income from the discharge of business indebtedness that is deferred on federal returns until 2014 to 2018. Prior to the change, Rhode Island law treated the cancellation of business income under the same guidelines as the federal government. No estimated revenue impact was included; however the Center on Budget and Policy Priorities estimated that Rhode Island could lose up to $4.0 million in personal income, business corporations and insurance tax income in FY2010 if the change were not implemented.

The 2011 General Assembly expanded the corporate tax base by requiring limited liability partnerships (LLPs) and limited partnerships (LPs) to annually pay the $500 corporate minimum tax. The law also made it clear that any limited liability company (LLC) that is not taxed as a corporation for federal and Rhode Island tax purposes must pay the $500 corporate minimum tax. The law also adjusted the due date for the payment of this tax and filing of a return from the 15th day of third month to the 15th day of the fourth month after the close of the calendar year or fiscal year, dependent on the fiscal structure the company operates.

In 2013, the General Assembly modified RIGL 44-61 to conform to federal law known as the Section 179 deduction. Instead of depreciating a qualified asset evenly over the useful life of the asset, the depreciation schedule allows businesses to depreciate expenses in the year in which a qualified asset was placed in service. The law applies to all qualified assets placed in service on or after and became effective on January 1, 2014.

Rhode Island corporations are no longer able to obtain a state tax benefit for the federal domestic production activities deduction (DPAD). The 2013 change requires corporations to add back any amount deducted at the federal level through DPAD to their state taxable income. The law is effective for tax years beginning on or after January 1, 2014.

In 2014, the General Assembly completed major corporate tax reforms, including a reduction in the corporate tax rate from 9.0 percent to 7.0 percent, instituting combined reporting, and the repeal of the franchise tax. *A more in depth analysis of these reforms can be found in the Corporate Tax Reform report in the Special Reports section of this book.*

TAX MODIFICATIONS

The following tax incentives may be applied against the Business Corporations Tax:

- Adult & Child Day Care Assistance and Development Tax Credit
- Adult Education Tax Credit
- Americans' with Disabilities Act Accommodations Credit
- Apprenticeship Credit
- Biotechnology Investment Tax Credit
- Building Rehabilitation Investment Tax Credit
- Deduction for Capital Investment in Small Business
- Deduction / Modification for Hiring Unemployed or Welfare Recipients
- Education Assistance and Development Tax Credit
- Employment Tax Credit
- Enterprise Zone
- Historic Structures Credit
- Hydroelectric Power Credit
- Investment Tax Credit
- Innovation and Growth Tax Credit
- Jobs Development Act Rate Reduction
- Jobs Growth Act
- Job Training Tax Credit
- Juvenile Restitution Credit
- K-12 Scholarship Contributions Credit
- Motion Picture Production Credit
- Research & Development- Expense Credit
- Research & Development- Property Credit
- Residential Renewable Energy System Credit
- Small Business Investment Exemption
- Small Business Investment Modification

An annual excise tax applied based on the gross earnings of public service corporations engaged in the following activities:

Activity	Rate
Steamboat/Ferryboat	1.25%
Gas	3.00%
Electric	4.00%
Telegraph	4.00%
Telecommunications	5.00%
Cable (Public Service)	8.00%

Payments are due based on the following schedule:

- 40 percent of the estimated liability is due by March 15;
- 60 percent is due by June 15;
- Final payments are due by March 1 of following year.

Public Service Corporation taxes are deposited as general revenues. The minimum tax is $100 annually.

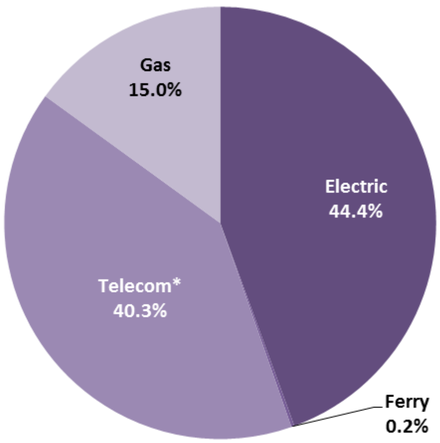
COLLECTION HISTORY

	Amount	% Change
FY2006	$96.0	
FY2007	102.1	6.3%
FY2008	99.4	-2.6%
FY2009	126.7	27.4%
FY2010	95.8	-24.4%
FY2011	103.7	8.3%
FY2012	100.6	-3.0%
FY2013	99.6	-1.0%
FY2014	101.4	1.7%
FY2015*	103.6	2.2%
FY2016*	105.0	1.4%

$ in millions

**November 2014 REC Estimate*

FY2014 Distribution of Collections from Utilities



RECENT AMENDMENTS

The 2011 General Assembly passed legislation requiring Rhode Island electric and gas companies to implement a Low Income Home Energy Assistance Program (LIHEAP) Enhancement Charge to be retained by said companies and used to "provide a credit to customers' accounts that are receiving federal LIHEAP assistance payments." The LIHEAP Enhancement charge is no more than $10 per customer account, such that the total projected revenue from this charge is no less than $6.5 million and no more than $7.5 million per year.

The 2014 General Assembly transferred administrative responsibilities associated with the LIHEAP Enhancement Plan from the Office of Energy Resources (OER) to the Department of Human Services (DHS), completing the transfer of the LIHEAP program from OER to DHS, which began in FY2012. Unlike the LIHEAP program, which is funded entirely with federal funds, the LIHEAP Enhancement Plan program is funded through a monthly assessment on every National Grid electric and gas customer and is used to augment the pool of federal aid available to National Grid customers who may be eligible to receive a credit on their gas or electricity bill. DHS is now responsible for the full administration of the program, including being the responsive agency during the annual regulatory review of the program with the Public Utilities Commission.

REGIONAL COMPARISON

Rhode Island	The public service corporation tax is imposed in lieu of both the business corporation tax and the franchise tax. (See previous table for rates.)
Massachusetts	Effective January 1, 2014, utility corporations are treated as regular corporations subject to the corporate excise tax. Previously, utility corporations were required to pay a franchise tax of 6.5% of net income in lieu of all other corporation income taxes.
Connecticut	Gross earning from residential services: 6.8%; gross earning from non residential services: 8.5%; Cable TV: 5.0%; Public utilities companies are subject to the corporation business tax unless specifically exempt.

Source: Office of Revenue Analysis, 2014

TAX MODIFICATIONS

The following uses are exempt from the public service corporation tax:

- Electricity used in manufacturing
- Gas used in manufacturing

The following tax incentives may be applied against the public service corporation tax:

- Adult & Child Day Care Assistance and Development Tax Credit
- Adult Education Tax Credit
- Deduction for Cap. Investment in Small Business
- Education Assistance Tax Credit
- Employment Tax Credit
- Historic Structures Tax Credit
- Jobs Development Act Rate Reduction
- Jobs Growth Act
- Job Training Credit
- K-12 Scholarship Contributions Credit

Banking institutions subject to the Financial Institutions tax include every state bank, federal savings bank, trust company, national banking association, mutual savings bank, building and loan association, and loan and investment company, excluding credit unions. The tax is assessed at 9.0 percent of net income, or $2.50 per $10,000 of authorized capital stock, whichever is greater. The minimum tax is $100 annually.

Payments are due based on the following schedule:

- 40 percent of the estimated liability is due by March 15;
- 60 percent is due by June 15;
- Final payments are due by March 15 of following year.

Financial Institutions taxes are deposited as general revenues.

COLLECTION HISTORY

	Amount	% Change
FY2006	$4.0	
FY2007	4.4	10.9%
FY2008	1.8	-58.6%
FY2009	2.9	58.6%
FY2010	4.1	39.9%
FY2011	2.5	-39.4%
FY2012	1.4	-44.9%
FY2013	12.6	829.9%
FY2014	22.0	74.5%
FY2015*	16.0	-27.2%
FY2016*	16.5	3.1%

$ in millions

**November 2014 REC Estimate*

RECENT AMENDMENTS

None

REGIONAL COMPARISON

	Tax on Net Income	Minimum Tax
Massachusetts	9.0%	$456
Rhode Island	9.0%	100
Vermont	8.5%	250
New Hampshire	8.5%	Flat Rate
Connecticut	7.5%	250

Source: Federation of Tax Administrators, 2014

TAX MODIFICATIONS

The following are exempt from the tax:

- Credit Unions (they are subject to the Bank Deposits tax)

The following tax incentives may be applied against the Financial Institutions tax:

- Adult & Child Day Care Assistance and Development Tax Credit
- Adult Education Tax Credit
- Deduction for Capital Investment in Small Business
- Education Assistance and Development Tax Credit
- Employment Tax Credit
- Historic Structures Credit
- Investment Tax Credit
- Jobs Development Act Rate Reduction
- Jobs Growth Act
- Job Training Tax Credit
- K-12 Scholarship Contributions Credit
- Motion Picture Production Credit

Rhode Island levies a tax equal to 2.0 percent of gross premiums on all insurance contracts and renewals covering property and risks within the State, and written in the State during a calendar year (RIGL 44-17-2). Every domestic, foreign, or alien insurance company, mutual association, organization, or other insurer must file with the Tax Administrator by March 1 of each year.

- 40 percent of the estimated liability is due by March 15;
- 60 percent is due by June 15;
- Final payments are due by March 1 of following year.

Insurance taxes are deposited as general revenues.

COLLECTION HISTORY

	Amount	% Change
FY2006	$52.9	
FY2007	56.6	7.1%
FY2008	52.7	-6.9%
FY2009	48.6	-7.7%
FY2010	62.3	28.1%
FY2011	27.2	-56.3%
FY2012	52.8	94.1%
FY2013	58.0	9.9%
FY2014	61.6	6.1%
FY2015*	60.0	-2.6%
FY2016*	61.5	2.5%

$ in millions

**November 2014 REC Estimate*

RECENT AMENDMENTS

The 2010 General Assembly increased the tax on surplus lines insurance from 3.0 percent to 4.0 percent of gross premiums, consistent with Massachusetts and Connecticut. Surplus lines insurance is a segment of the insurance market where an insured may obtain coverage from an out-of-state insurer for a risk that traditional or standard insurers are unable or unwilling to insure. Due to the change, an additional $1.1 million in collections were projected beginning in FY2011.

REGIONAL COMPARISON

	RI	MA	CT
General	2.0%	2.3%	1.8%
Surplus Line Brokers	4.0%	4.0%	4.0%
Life Insurance Companies	-	2.3%	-
Fire/Marine Insurance Companies	-	5.7%	-

Source: Office of Revenue Analysis, 2014

TAX MODIFICATIONS

The following insurance premiums are exempt from the gross premiums tax:

- Ocean Marine Insurance
- Fraternal Benefit Society

The following tax incentives may be applied against the Insurance Premiums Tax:

- Adult Education Tax Credit
- Employment Tax Credit
- Historic Structures Credit
- Innovative Technology Credit
- Investment Credit
- Jobs Growth Act
- Job Training Credit
- K-12 Scholarship Contributions Credit
- Motion Picture Production Credit

Health maintenance organizations (HMOs), any medical malpractice insurance joint underwriters association, and any nonprofit hospital or medical service corporation, are required to file taxes under the insurance premiums tax (RIGL 44-17) equal to 2.0 percent of gross premiums on all insurance contracts and renewals written in the State during a calendar year. HMOs are either single public or private organizations which:

- Provide or offer health care services to enrolled participants,
- Is compensated, except for copayments, for the provision of basic health care services, and;
- Provide physicians' services primarily directly through physicians who are either employees or partners of the organization; or through arrangements with individual physicians or groups of physicians organized on a group practice or individual practice basis.

COLLECTION HISTORY

	Amount	% Change
FY2006	$0.0	
FY2007	0.0	-
FY2008	15.3	-
FY2009	29.4	92.2%
FY2010	33.7	14.5%
FY2011	33.4	-0.8%
FY2012	36.7	9.9%
FY2013	34.7	-5.4%
FY2014	44.1	27.1%
FY2015*	53.6	21.5%
FY2016*	54.5	1.7%

$ in millions

**November 2014 REC Estimate*

HMOs must file with the Tax Administrator by March 1 of each year.

- 40 percent of the estimated liability is due by March 15;
- 60 percent is due by June 15;
- Final payments are due by March 1 of following year.

HMO insurance taxes are deposited as general revenues.

RECENT AMENDMENTS

The 2008 General Assembly included non-profit dental insurers to the defined pool of insurers subject to the tax, and increased the non-profit health insurer rates from 1.1 percent of gross premiums to 1.75 percent of gross premiums. The FY2009 Budget as Enacted included $10.8 million in additional estimated collections from the change.

The 2009 General Assembly increased the tax rate for health insurers from 1.75 percent to 2.0 percent of gross premiums in the FY2009 Supplemental Budget. The tax was amended to apply to Managed Care plans under Title XIX (Medicaid). The Budget included $12.7 million in additional collections from the change.

REGIONAL COMPARISON

Rhode Island	2.0%	of gross premiums, including HMOs
Massachusetts	2.8%	on gross premiums, less certain deductions
Connecticut	1.8%	of net premiums; 2.0% on hospital and medical insurance companies

Source: Office of Revenue Analysis, 2014

TAX MODIFICATIONS

The following tax incentives may be applied against the Insurance Premiums Tax:

- Adult Education Tax Credit
- Employment Tax Credit
- Historic Structures Credit
- Innovative Technology Credit
- Investment Credit
- Jobs Growth Act
- Job Training Credit
- K-12 Scholarship Contributions Credit
- Motion Picture Production Credit

Credit unions are subject to a tax on deposits that bear interest or are entitled to dividends, subject to a variable rate based on total institutional deposits in a calendar year.

Total deposits less than $150.0 million:

- $0.0625/$100 in deposits (equivalent to 0.0625 percent)

Total deposits greater than $150.0 million:

- $0.0695/$100 in deposits (equivalent to 0.0695 percent)

Payments are due based on the following schedule:

- 40 percent of the estimated liability is due by March 15;
- 60 percent is due by June 15;
- Final payments are due by June 15 of following year.

Bank Deposit taxes are deposited as general revenues.

COLLECTION HISTORY

	Amount	**% Change**
FY2006	$1.5	
FY2007	1.7	12.0%
FY2008	1.7	2.2%
FY2009	1.8	5.4%
FY2010	1.9	3.2%
FY2011	2.0	5.8%
FY2012	2.0	1.7%
FY2013	2.9	43.8%
FY2014	2.5	-14.1%
FY2015*	2.5	1.2%
FY2016*	2.5	0.0%

$ in millions

**November 2014 REC Estimate*

TAX MODIFICATIONS

The following are exempt from the Bank Deposits tax:

- Banking institutions, other than credit unions, were exempted from the tax beginning in CY1998. *(They are subject to the Financial Institutions Tax.)*

The following tax incentives may be applied against the public service corporation tax:

- Adult Education Tax Credit
- Employment Tax Credit
- K-12 Scholarship Contributions Credit

REGIONAL COMPARISON

Rhode Island	0.0625 percent to 0.0695 percent, based on total institutional deposits in a calendar year.
Massachusetts	Credit Unions are exempt from the financial institutions excise tax.
Connecticut	Credit Unions are considered financial service companies if their loan assets exceed $50.0 million, and would be subject to the 7.5 percent corporate tax rate.

Source: Office of Revenue Analysis, 2014

Health Care Provider Tax

(Nursing Facilities)

The State levies Health Care Provider taxes on gross patient revenue of nursing facilities, and prior to FY2010, on residential facilities for the developmentally disabled (group homes). Gross patient revenue means the gross amount received on a cash basis by the provider for all patient care services, and excludes charitable contributions and donated goods and services.

The tax rate for nursing facilities is 5.5 percent, and because many patients are Medicaid eligible, the State and Federal governments pay a large portion of the tax.

Payments are due on the 25th day of the month following the month of receipt of gross patient revenue.

COLLECTION HISTORY

	Amount	% Change
FY2006	$47.0	
FY2007	48.0	2.1%
FY2008	53.4	11.3%
FY2009	46.0	-13.8%
FY2010	40.3	-12.5%
FY2011	40.8	1.3%
FY2012	41.9	2.8%
FY2013	41.6	-0.8%
FY2014	42.1	1.4%
FY2015*	43.2	2.5%
FY2016*	44.3	2.5%

$ in millions

**November 2014 REC Estimate*

RECENT AMENDMENTS

The 2009 General Assembly eliminated the health care provider assessment levied against group homes for developmentally disabled individuals (RIGL 44-50) in order to comply with terms set forth in the Global Medicaid Waiver. The change resulted in an $11.1 million reduction for FY2010.

The General Assembly suspended the cost-of-living-adjustment (COLA) that nursing home providers were scheduled to receive each year since FY2012. The increased revenues to nursing homes would have been subject to the 5.5 percent health care provider assessment.

REGIONAL COMPARISON

Rhode Island	6.0 percent on gross patient revenues.
Massachusetts	No provider tax; however, MA has a Cost-Containment Rule- a tax on hospitals and health systems: •With more than $1 billion in assets; and •Collect less than half of their revenue from public payers, like Medicare and Medicaid. Revenue is held in a fund intended to help less well-off hospitals invest in health reform initiatives.
Connecticut	A resident day user fee is levied on each Medicaid nursing home bed; rate is determined annually or biennially with the Department of Social Services.

Source: Office of Revenue Analysis, 2014

TAX MODIFICATIONS

None

Rhode Island levies a sales and use tax equivalent to 7.0 percent of the retail sales price of certain goods. The sales tax is charged by retailers at the point of purchase, and retailers are required to remit sales tax receipts by the 20th day of the month following the month in which the sales were made. Retailers are required to carry a valid sales tax permit that is issued by the Division of Taxation.

Sales taxes are applied in accordance with the following:

Sales Amount	Tax
$0.01 to $0.07	No Tax
0.08 to 0.21	$0.01
0.22 to 0.35	0.02
0.36 to 0.49	0.03
0.50 to 0.64	0.04
0.65 to 0.78	0.05
0.79 to 0.92	0.06
0.93 to 1.07	0.07
$1.08 and above	7.0% of sales price

COLLECTION HISTORY

	Amount	% Change
FY2006	$869.2	
FY2007	873.2	0.5%
FY2008	845.4	-3.2%
FY2009	808.1	-4.4%
FY2010	803.4	-0.6%
FY2011	812.8	1.2%
FY2012	851.2	4.7%
FY2013	878.9	3.2%
FY2014	916.1	4.2%
FY2015*	955.0	4.2%
FY2016*	1,000.0	4.7%

$ in millions

**November 2014 REC Estimate*

Use Tax – In addition to the sales tax, the State has a 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.

RECENT AMENDMENTS

The 2009 General Assembly enacted what has been termed the “Amazon” tax, which applies the sales tax to internet purchases from companies that have formal business relationships within the State. Any sales that would be subject to the new law were already subject to the use tax — the law does not increase the final tax liability due for the product. The law applies to companies with referred sales in excess of $5,000 during a period of the four preceding quarters. In response, Amazon.com and other remote sellers eliminated its affiliate sales program in Rhode Island.

Several amendments were initiated by the 2011 General Assembly. The General Assembly discontinued sales tax incentives related to projects involving the Rhode Island Industrial Facilities Corporation after June 30, 2011. The Budget eliminated “project status” sales tax exemptions for future projects, resulting in an estimated $100,000 in additional sales tax revenues for FY2012. Previously, the Rhode Island Economic Development Corporation (now the Rhode Island Commerce Corporation) and the Rhode Island Industrial Facilities Corporation could authorize sales tax exemptions for construction materials when companies met certain employment benchmarks. Eligible companies paid sales taxes during the construction period, but later applied for sales tax refunds up to contractually-defined amounts. The changes did not impact projects that were already approved under the programs.

That year, the General Assembly also broadened the sales tax base to include:

- Pre-written computer software that is delivered electronically, or downloaded. Consumers currently pay the tax for the same or similar software if it is purchased in a store.
- Nonprescription medications, including medical marijuana.

- Travel and tour companies that sell travel, tour, and transportation services effective October 1, 2011. This law was repealed by the 2012 General Assembly.
- The value of insurance proceeds received from stolen or destroyed passenger vehicles that are used to purchase a replacement vehicle are currently treated similarly to a used vehicle trade-in allowance, and are exempt from the state's Sales and Use Tax.

The 2012 General Assembly expanded the 7.0 percent sales and use tax to include each sale of clothing and footwear with a sales price of more than $250. For clothing that costs more than $250, the tax applies to the marginal value above the $250 threshold. The tax became effective for sales after October 1, 2012.

The sales tax base was further expanded to include sales tax on taxicabs and other road transportation services and non-veterinary pet services, as defined by the North American Industry Classification System (NAICS) Code.

The Taxation of Beverage Containers, Hard-to-Dispose Material and Litter Control Participation Permittee Act was enacted in 1984 to provide funding for the litter reduction and recycling program, and the hard-to-dispose material – control and recycling program. A tax of four cents ($0.04) is levied on each case of beverage containers sold by a beverage wholesaler to a beverage retailer or consumer within this state, excluding reusable and refillable beverage containers. The tax is collected by the beverage wholesaler and deposited as general revenue. The 2012 General Assembly expanded this tax to include all non-alcoholic drinks for human consumption, excluding milk.

The 2013 General Assembly eliminated the sales tax on original and creative works of art created and sold by writers, composer and artists residing in and conducting business in Rhode Island. The exemption also applies to sales by galleries located in the State. Under former law, the exemptions were only applied in designated areas within certain municipalities. The legislation became effective December 1, 2013.

The Budget also enacted legislation to allow the Division of Taxation to collect necessary data to evaluate the impact of excise tax changes in comparison with neighboring states. From December 1, 2013, through March 31, 2015, the state sales and use tax will not apply to wine and spirits sold at package stores and liquor stores ("Class A" licensees under RIGL Title 3) and no alcoholic beverages sold at retail will be subject to the State's minimum markup. Beer and other malt beverages will continue to be subject to the sales tax. The 2014 General Assembly extended the pilot program end date to June 30, 2015.

The 2014 General Assembly required the Division of Taxation to establish a lookup table referencing taxpayers' federally adjust gross income (AGI) for the purpose of calculating use tax owed beginning in tax year 2014. In 2011, The Division of Taxation reported that only 958 returns (0.2 percent) of 492,402 personal income tax returns reported use tax. The legislation also added a "safe harbor" provision for taxpayers electing to report use tax owed to the State through the use of the lookup table on the personal income tax return. The Use Tax is owed to the State on tangible personal property purchased from vendors that do not collect and remit sales tax to Rhode Island.

REGIONAL COMPARISON

State	Rate
Rhode Island	**7.00%**
Connecticut	6.35%
Massachusetts	6.25%
Vermont	6.00%
Maine	5.50%
New Hampshire	None

Source: Tax Foundation, 2014

TAX MODIFICATIONS

Rhode Island exempts nearly all services and sales of unprepared food, clothing, and prescription medications from the sales and use tax. While these are major categories of exemptions, there are numerous other exemptions contained in the Rhode Island General Laws. The 2014 Tax Expenditures Report published by the Department of Revenue estimates the total value of sales tax exemptions in 2011 at $1.2 billion.

STREAMLINED SALES AND USE TAX AGREEMENT

The Streamlined Sales and Use Tax Agreement (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. The ultimate project goal is to achieve federal implementation of a uniform system, thereby requiring collection of sales taxes by remote sellers and removing their competitive advantage over “brick-and-mortar” store locations.

The 2006 General Assembly adopted changes to conform the sales tax statutes to the Agreement. Rhode Island became one of 19 “full member” states on January 1, 2007, meaning the State is in compliance with the agreement through applicable laws, rules, regulations and policies. At this writing 23 states were full or associate member states, representing more than one-third of the nation’s population.

The Streamlined Sales Tax Governing Board focuses on improving sales and use tax administration systems for all sellers and for all types of commerce through the following:

- State level administration of sales and use tax collections;
- Uniformity in the State and local tax bases;
- Uniformity of major tax base definitions;
- Central, electronic registration system for all member states;
- Simplification of State and local tax rates;
- Uniform sourcing rules for all taxable transactions;
- Simplified administration of exemptions;
- Simplified tax returns;
- Simplification of tax remittances; and
- Protection of consumer privacy.

MEMBER STATES UNDER AGREEMENT

The following states are members under the Streamlined Sales and Use Tax Agreement:

Full Members

Arkansas
Georgia
Indiana
Iowa
Kansas
Kentucky
Michigan
Minnesota
Nebraska
Nevada
New Jersey
North Carolina
North Dakota
Ohio
Oklahoma
Rhode Island*
South Dakota
Utah
Vermont
Washington
West Virginia
Wisconsin
Wyoming

**In 2012, the General Assembly enacted legislation taxing individual items of clothing over $250 per item. As a result, the Streamlined Sales Tax Governing Board (SSTGB) voted Rhode Island out of compliance. The State, however, is still a member of the SSUTA and no further action has been taken.*

Associate Members

(laws, rules, regulations and policies scheduled to take effect in next 12 months)

Tennessee

MARKETPLACE FAIRNESS ACT

The federal Marketplace Fairness Act of 2013 (MFA) would grant states the authority to compel online and catalog retailers, known as “remote sellers,” no matter where they are located, to collect use tax at the time of a transaction. Local brick and mortar retailers are already required to collect sales tax on these same transactions. In order to realize full potential revenues from use taxes on items sold to state residents, remote sellers would be required to remit use taxes to states where the item was purchased. Remote sellers currently are not required to remit this use tax as it is the responsibility of the purchaser of the taxable product to remit use tax. The federal legislation derived from the need to simplify sales and use tax rates across all states and enable states to increase collection and enforcement efforts based upon their existing sales and use tax laws.

The MFA would require remote sellers to collect the use tax on behalf of states when completing a taxable transaction with the resident of that state provided that the state has simplified their local sales and use tax laws. States may meet this requirement by implementing the simplification mandates as listed in the federal legislation, or voluntarily adopt the simplification measures of the Streamlined Sales and Use Tax Agreement (SSUTA). Any state which is in compliance with the SSUTA and that has achieved Full Member status as a SSUTA implementing state will have collection authority beginning 180 days after the State publishes notice of the State’s intent to exercise the authority under this Act.

In anticipation of the passage of the Agreement, the 2011 General Assembly enacted a sales tax rate reduction that is only triggered upon change in the federal law. In the event that the MFA is enacted, the State sales and use tax would drop from the current 7.0 percent to 6.5 percent; the 1.0 percent local meals and beverage tax would increase to 1.5 percent; and, the 1.0 percent local hotel tax would increase to 1.5 percent.

The 2013 General Assembly amended the State sales and use tax laws so that Rhode Island will be in compliance with the agreement. The State changes to the sales and use tax will become effective on the first day of the first state fiscal quarter following the enactment of the federal legislation. The new federal legislation would require states to provide 180 days’ notice to remote sellers before requiring them to collect the State’s sales tax. The Assembly amended the effective dates required under current State law, so the State will not lower its sales tax rate or make other changes required until the date remote sellers are required to collect and remit state sales and use taxes under federal law. To date, the MFA has not been enacted.

RIGL 31-6 and 31-10 Motor Vehicle Registration & License Fees

The State levies motor vehicle registration (RIGL 31-6) and operator license fees (RIGL 31-10).

Registration Fees: Motor vehicle registration fees are based on the type of vehicle and the gross vehicle weight (RIGL 31-6-2). Fees range from $30 annually (automobiles under 4,000 pounds) to more than $1,000 for heavy vehicles. An abbreviated current fee schedule is shown below.

Motor Vehicle Registration Fees

More than (pounds)	Not more than (pounds)	Fee
0	4,000	$30
4,000	10,000	40 - 78
10,000	30,000	106 - 316
30,000	50,000	422 - 660
50,000	74,000	712 - 972
74,000	and above	972 + $24/ton

COLLECTION HISTORY

	Amount	% Change
FY2006	$49.7	
FY2007	43.7	-11.9%
FY2008	45.8	4.7%
FY2009	45.3	-1.0%
FY2010	45.8	1.0%
FY2011	44.9	-2.0%
FY2012	46.1	2.7%
FY2013	46.7	1.4%
FY2014	49.6	6.1%
FY2015*	49.9	0.6%
FY2016*	39.6	-20.6%

$ in millions

**November 2014 REC Estimate*

License Fees: General operator licenses for motor vehicles cost $25 for the first license and $30 for a five-year renewal.

Registration and License fees are currently deposited as general revenues, and will be shifted to RIDOT through a dedicated Rhode Island Highway Maintenance Account (RIHMA) as follows: 25.0 percent in FY2016, 75.0 percent in FY2017, and 100.0 percent in FY2018 and beyond. Fees are deposited to RIHMA within the Intermodal Surface Transportation Fund and are payable at the time of registration.

Motor Vehicle License Fees

Operator First License	$25
Chauffeur's License	25
Learner's Permit (Motorcycle)	25
Operator First License (Motorcycle)	25
License Renewal	30
License Renewal (Age > 75)	8
Duplicate License	25
Certified Copy of License	10
Duplicate Instruction Permit	10
Information Update	5
First License Examination	5
Surrender of Out-of-State License	5

In addition to the funds deposited into the Highway Maintenance Account from the surcharges on driver's licenses and vehicle registrations, the following monies will also be directed to the Account:

Highway Projects Match Plan (Federal Program): The FY2012 Budget as Enacted increased driver's license fees and registration fees for all vehicles, phased-in over a 3-year period beginning on July 1, 2013 (FY2014), and deposits the revenues from the increases into the Rhode Island Highway Maintenance Account. Two-year registrations and driver's licenses are

	FY2013	FY2014	FY2015	FY2016
One-year registration fee	$30.00	$35.00	$40.00	$45.00
Two-year registration fee	60.00	70.00	80.00	90.00
License fee	30.00	40.00	50.00	60.00

each increased by $30 ($10 per year for three years), while one-year registrations increased by $15 ($5 per year for three years).

RECENT AMENDMENTS

The 2010 General Assembly increased the bus registration fee and the identification card fee to $25 each. Previously, the bus registration fee was $3.00 and the issuance of a State Identification Card was $15. The changes resulted in an estimated $167,000 increase in collections for FY2011.

The 2014 General Assembly enacted legislation that changed the deposit of revenues from motor vehicle registration and license fees from the general fund to the Rhode Island Highway Maintenance Account. These fees are currently deposited as general revenues, and will be shifted to RIDOT as follows: 25.0 percent in FY2016, 75.0 percent in FY2017, and 100.0 percent in FY2018 and beyond. This change was enacted as part of an initiative to create a sustainable funding stream for transportation infrastructure.

REGIONAL COMPARISON

	Operator's License	First License	Road Test Fee	Learner's Permit
Rhode Island	*$61.50	$34.50	$26.50	$11.50
Connecticut	50.00	50.00	35.00	30.00
Massachusetts	72.00	72.00	40.00	19.00

**Includes $1.50 technology fee*

Source: Office of Revenue Analysis, 2014

TAX MODIFICATIONS

RIGL 31-6-6 through 31-6-10 lists organizations exempt from motor vehicle registration fees. The list is largely comprised of emergency response organizations, disabled veterans, and certain listed non-profit organizations. There are no tax incentives for this program.

RIGL 31-34.1 Rental Vehicle Surcharge

The State levies an 8.0 percent surcharge on the gross receipts of rental vehicle contracts for the first consecutive 30 days of a rental period. Gross receipts include the total charges assessed to the customer, inclusive of gasoline, insurance, etc. The surcharge is applied prior to assessment of the State sales tax.

Rental vehicle companies are required to submit 40.0 percent of collected surcharge revenues quarterly, and may retain 60.0 percent to pay for motor vehicle licensing, title, transfer, and registration fees and excise taxes. Any surcharge amounts remaining after payment of aforementioned fees must be annually remitted to the State not later than February 15.

As of July 1, 2014, rental vehicle surcharge receipts are deposited to the Intermodal Surface Transportation Fund through a dedicated Rhode Island Highway Maintenance Account. Previously, these funds were deposited as general revenues.

COLLECTION HISTORY

	Amount	% Change
FY2006	$3.0	
FY2007	3.1	6.4%
FY2008	2.8	-10.3%
FY2009	2.6	-8.1%
FY2010	2.5	-4.3%
FY2011	2.8	12.3%
FY2012	2.3	-16.8%
FY2013	2.7	17.3%
FY2014	2.8	4.2%
FY2015*	2.8	-1.0%
FY2016*	-	-

$ in millions

**November 2014 REC Estimate*

RECENT AMENDMENTS

The 2012 General Assembly enacted legislation that increased the rental vehicle surcharge from 6.0 percent to 8.0 percent and decreased the State's share of total rental vehicle surcharge revenues from 50.0 percent to 40.0 percent. However, if surcharge collections exceed the amount of licensing fees, title fees, transfer fees, registration fees, and excise taxes paid, the rental company is required to remit these additional collections for deposit in the general fund.

The 2014 General Assembly enacted legislation that changed the deposit of revenues from rental vehicle surcharges from the general fund to the Rhode Island Highway Maintenance Trust Fund. This change was enacted as part of an initiative to create a sustainable funding stream for transportation infrastructure.

REGIONAL COMPARISON

Rhode Island	8.0 percent surcharge on rental vehicle contracts, in addition to 7.0 percent sales tax
Massachusetts	The Convention Center Financing (CCF) Surcharge ($10 flat surcharge) is imposed upon each vehicular rental transaction contract by a rental company for 30 continuous days or less in Boston, in additional to the 6.25 percent sales tax
Connecticut	3.0 percent surcharge for private passenger vehicle rentals, plus $1 daily Tourism Account Surcharge

Source: Office of Revenue Analysis, 2014

TAX MODIFICATIONS

None

CUSTOMER FACILITY CHARGE – RIGL 1-2-17.1

The Rhode Island Airport Corporation (RIAC) levies a customer facility charge (CFC) on all vehicle rentals from companies operating at T. F. Green Airport. Revenues from the CFC are to be used to pay for the construction, expansion, reconfiguration, operation, and maintenance of the Warwick Intermodal Transit Station. The CFC rate is set by the Board of Directors of RIAC and is currently $6.00 per rental per vehicle per day.

In addition, the State levies an 8.0 percent surcharge on the gross receipts of rental vehicle contracts, including the CFC, for the first consecutive 30 days of a rental period. The surcharge is subject to the State sales tax.

All sales taxes and rental vehicle surcharges applied to the CFC are deposited into a restricted receipt account for payment to the City of Warwick. In FY2013, this payment totaled $889,508.

The State imposes a pro-rated motor fuel tax (currently $0.32/gallon) on qualified motor vehicles that operate in two or more jurisdictions (interstate), and are designed or maintained for transportation of persons or property, and have two axles and a gross vehicle weight or registered gross vehicle weight exceeding 26,000 pounds; or have three or more axles regardless of weight; or is used in combination, when the weight of such combination exceeds 26,000 pounds gross vehicle or registered gross vehicle weight. Essentially, the motor carrier fuel tax is a tax system whereby the State charges for the use of roads by the trucking industry.

COLLECTION HISTORY

	Amount	% Change
FY2006	$0.0	
FY2007	1.3	4118.0%
FY2008	1.0	-24.4%
FY2009	1.3	33.6%
FY2010	1.0	-26.9%
FY2011	1.1	8.9%
FY2012	0.7	-30.5%
FY2013	0.4	-40.2%
FY2014	0.5	19.5%
FY2015*	0.5	-4.6%
FY2016*	0.5	0.0%

$ in millions

**November 2014 REC Estimate*

In-State Purchases: For in-State fuel purchases, motor carriers pay the fuel tax at the point of purchase.

Out-of-State Purchases: Motor carriers are also subject to the fuel tax for fuel purchased at locations outside of the State. Quarterly reports are filed with the Division of Taxation detailing the number of miles travelled within Rhode Island and the total miles travelled. Taxes due the State are based on the percentage of miles travelled within the State.

Tax Due: The total tax due to Rhode Island is calculated by subtracting the total tax due from the amount of motor fuel taxes paid in-State. For motor carriers who owe additional tax, quarterly payments are required. For those who paid more in-State than is due, the balance may be carried forward and applied against the tax liability for the subsequent eight quarters, or the carrier may request a refund.

Motor fuel tax receipts are deposited as general revenues.

RECENT AMENDMENTS

In 2009, the General Assembly increased the State's motor fuel tax by $0.02 to $0.32 per gallon. The increased revenue from the $0.02 per gallon increase is dedicated for use by the Rhode Island Public Transit Authority (RIPTA). Also, one-half cent of the $0.01 per gallon surcharge on motor fuel that was designated for the Underground Storage Tank Review Board was transferred to RIPTA.

The same year, the General Assembly enacted legislation that exempts the biodiesel portion of certain gallons of blended petro-diesel motor fuel from the motor fuel tax. For example, if a company blends several different fuels, with 10.0 percent of it being biodiesel, then the company could utilize the 10.0 percent exemption off of the total motor fuel tax they pay to the state.

REGIONAL COMPARISON

Per Gallon Fuel Taxes

	Gasoline	Diesel
Rhode Island	$0.32	$0.32
Massachusetts	0.24	0.24
Connecticut*	0.25	0.55

**CT subjects motor fuel to the petroleum products gross earnings tax which is equal to 8.1 percent of the wholesale price. According to the American Petroleum Institute, all state taxes total 47.4 cents/gallon as of October 2014.*

TAX MODIFICATIONS

The following tax modifications may be applied against the Motor Carrier Fuel Use Tax:

- Exemption for Biodiesel Portion of Blended Gallon of Diesel Fuel
- Exemption for Lubricating Oils, Marine Diesel Fuel, Aviation Fuel, and Heating Oil

The State levies taxes on cigarettes sold or held in the State. Rhode Island taxes cigarettes at $3.50 per pack of twenty, or the equivalent of $0.175 per cigarette, effective July 1, 2012. Dealers and distributors are required to purchase cigarette stamps which are then affixed to packages of cigarettes and provide proof of payment. Stamp rolls are discounted for bulk purchases as a means of compensating dealers for the costs associated with affixing the tax stamps.

When tax increases occur, existing stocks of cigarettes that remain unsold in stores may be assessed a floor stock tax. Taxes are due upon purchase of the tax stamps. Sales and use taxes are also assessed upon tobacco products, and are applied after inclusion of the tobacco taxes into the price.

Cigarette taxes are deposited as general revenues.

COLLECTION HISTORY

	Amount	% Change
FY2006	$123.8	
FY2007	117.9	-4.8%
FY2008	112.1	-4.9%
FY2009	127.7	13.8%
FY2010	134.4	5.3%
FY2011	130.7	-2.7%
FY2012	127.4	-2.5%
FY2013	128.7	1.0%
FY2014	134.6	4.6%
FY2015*	131.8	-2.1%
FY2016*	129.0	-2.1%

$ in millions

**November 2014 REC Estimate*

Cigarette Tax History

Year	Tax/Pack	% Increase
1993	$0.44	
1994	0.56	27.3%
1995	0.61	8.9%
1997	0.71	16.4%
2001	1.00	40.8%
2002	1.32	32.0%
2003	1.71	29.5%
2004	2.46	43.9%
2009	3.46	40.7%
2012	3.50	1.2%

RECENT AMENDMENTS

The 2009 General Assembly increased the cigarette tax rate by $1.00 per pack, to $3.46 per pack of 20 cigarettes, effective April 10, 2009. The increase was estimated to yield $12.0 million (inclusive of floor stock tax) in additional cigarette tax revenue in FY2009, and $27.5 million in FY2010.

The 2012 General Assembly raised the cigarette tax rate by $0.04 per pack, to $3.50 per pack of 20 cigarettes. The increase was estimated to yield $1.8 million in additional revenues. The law also broadened the definition of little cigars, allowing this product to be taxed like cigarettes.

REGIONAL COMPARISON

	Amount per 20 Pack	National Rank
Massachusetts	$3.51	2
Rhode Island	3.50	3
Connecticut	3.40	4
Vermont	2.75	8
Maine	2.00	12
New Hampshire	1.78	18

Source: Tobaccofreekids.org, 2014

At $3.50 per pack, Rhode Island has the second highest state cigarette excise tax rate in the nation. However, the total cost of a pack of cigarettes can vary based upon minimum markup and other pricing provisions. A comparison of per-pack costs is included in the minimum markup section. While Rhode Island has a higher tax rate, the average price for a pack of cigarettes is below that in both Massachusetts and Connecticut.

TAX MODIFICATIONS

RIGL 44-20-16 allows a person to hold up to 10 packages (1 carton) of out-of-state cigarettes without a Rhode Island tax stamp. Quantities in excess are a violation of the law and are subject to the tax and penalties.

RIGL 44-20-19 provides a 1.25 percent discount on the sale of stamp rolls to licensed dealers to compensate for costs associated with affixing the tax stamps.

MINIMUM MARKUP

Numerous states, including Rhode Island, include some minimum pricing provisions related to the sale of cigarettes. These minimums can impact the end price as much or more than tobacco taxes. Thus, when comparing cigarette taxes between states, the average total price per pack should also be accounted for to capture the impacts of tobacco tax rates, minimum pricing and markup provisions, and applicable sales taxes. The table below compares the end price of a pack of cigarettes in Rhode Island and the neighboring states.

Regional Cigarette Pricing Summary

	RI		MA		CT	
Base Price Per Pack		$4.12		$4.12		$4.12
Excise Tax		3.50		3.51		3.40
Wholesale Markup	2.00%	0.15	2.00%	0.15	6.50%	0.49
Wholesale Cartage	0.75%	0.06	0.75%	0.06	0.00%	0.00
Retail Markup	6.00%	0.47	25.00%	1.96	8.00%	0.64
Total Base Cost		8.31		9.80		8.65
Sales Tax	7.00%	0.58	6.25%	0.61	6.00%	0.52
Total Price Per Pack		**$8.89**		**$10.41**		**$9.17**

The State assesses a tax equivalent to 80.0 percent of the wholesale cost of tobacco products other than cigarettes, including cigars, chewing tobacco, and pipe tobacco. The tax on cigars is capped at $0.50 per cigar, and snuff is taxed at $1.00 per ounce. "Little cigars," as defined under RIGL 44-20.2, are taxed in the same manner and rate as cigarettes.

Sales and use taxes are also assessed upon tobacco products, and are applied after inclusion of the tobacco taxes into the price. Tobacco taxes are deposited as general revenues.

COLLECTION HISTORY

	Amount	% Change
FY2006	$2.5	
FY2007	2.5	1.4%
FY2008	2.5	0.3%
FY2009	2.9	12.2%
FY2010	3.8	34.0%
FY2011	3.3	-13.6%
FY2012	3.7	10.7%
FY2013	3.8	3.3%
FY2014	4.9	28.5%
FY2015*	5.0	3.0%
FY2016*	5.2	4.0%

$ in millions

**November 2014 REC Estimate*

RECENT AMENDMENTS

The 2009 General Assembly increased the tax on other tobacco products from 40 percent of the wholesale cost to 80 percent of wholesale, effective April 10, 2009. Cigars maintained a cap of $0.50 tax per cigar. The changes were estimated to yield $333,333 and $1.0 million in FY2009 and FY2010.

The 2012 General Assembly raised the cigarette tax rate by $0.04 per pack, to $3.50 per pack of 20 cigarettes. The increase was estimated to yield $1.8 million in additional revenues. The law also broadened the definition of little cigars, allowing this product to be taxed like cigarettes.

In 2014, the Governor proposed legislation that would expands the definition of "other tobacco products" to include electronic cigarettes (e-cigarettes) and subject them to tax equal to 80.0 percent of the wholesale cost. Currently, e-cigarettes are subject to only sales and use tax. E-cigarettes are considered an alternative to traditional cigarettes. An e-cigarette is a personal vaporizer or electronic nicotine delivery system which generally utilizes a heating element that vaporizes a liquid solution containing nicotine or a nicotine derivative. The product is designed to deliver nicotine, flavor, and chemicals to the user. The Division of Taxation estimated the 80.0 percent tax on e-cigarettes sales of $1.9 million would increase revenues in FY2015 by $750,000; however, the legislation was not passed by the 2014 General Assembly.

REGIONAL COMPARISON

	RI	MA	CT
Smokeless Tobacco Products Tax Rate	80.0% of the wholesale cost (except snuff)	210.0% of the wholesale price	50.0% of the wholesale price (except snuff)
Snuff Tax Rate	$1.00 per ounce	210.0% of the wholesale price	$1.00 per ounce
Cigars Tax Rate	80.0% of the wholesale cost, up to 50¢ per cigar	40.0% of the wholesale price	50.0% of the wholesale price, up to 50¢ per cigar

Source: Office of Revenue Analysis, 2014

TAX MODIFICATIONS

None

RIGL 3-4 and 3-10 Alcohol Taxes

The State levies taxes on alcoholic beverages imported, manufactured, rectified, blended, or reduced for sale in the State. The 2013 General Assembly temporarily restructured the State’s tax on alcohol. The intent of this pilot program is to allow for the Division of Taxation to collect necessary data to evaluate the impact of excise tax changes in comparison with neighboring states. The pilot program rates are through FY2015 and will revert back to the original excise tax rates on July 1, 2015. Changes to alcohol tax rates are coupled with the elimination of sales tax on wine and spirits during the pilot program study period. The table below shows both tax rates:

Alcohol Tax Rates

	Rate	*Pilot Rate*	Per Unit
Beer	$3.00	$3.30	Barrel
Still Wines *(Entirely RI Grown)*	0.30	0.30	Gallon
Still Wines	0.60	1.40	Gallon
Sparkling Wines	0.75	0.75	Gallon
Whiskey, Rum, Gin,	3.75	5.40	Gallon
Whiskey, Rum, Gin, Etc. *(≤30 Proof)*	1.10	1.10	Gallon
Ethyl Alcohol *(Beverage Use)*	7.50	7.50	Gallon
Ethyl Alcohol *(Non-Beverage Use)*	0.08	0.08	Gallon

COLLECTION HISTORY

	Amount	% Change
FY2006	$10.9	
FY2007	10.7	-1.5%
FY2008	11.1	4.1%
FY2009	10.8	-3.0%
FY2010	11.3	4.2%
FY2011	11.7	3.7%
FY2012	11.9	1.6%
FY2013	12.2	2.5%
FY2014	18.3	49.9%
FY2015*	19.0	4.1%
FY2016*	13.0	-31.6%

$ in millions

**November 2014 REC Estimate*

Alcohol taxes are payable monthly for imported beverages and quarterly for beverages manufactured within the State. Alcohol taxes are deposited as general revenues.

RECENT AMENDMENTS

In 2013, the General Assembly temporarily restructured the State’s tax on alcohol. The intent of this pilot program is to allow for the Division of Taxation to collect necessary data to evaluate the impact of excise tax changes in comparison with neighboring states. The Budget eliminates the sales tax on spirits and wine for the time period of December 1, 2013, to June 30, 2015, and increases the excise tax on beer from $3.00 per barrel to $3.30, spirits from $3.75 per gallon to $5.40, and wine from $0.60 per gallon to $1.40 from July 1, 2013, (as of the 2014 General Assembly) through June 30, 2015. Revenues are estimated to decrease by $7.2 million for sales taxes, but are expected to be partially offset by $6.0 million in additional excise taxes. As of July 1, 2015, the excise and sales taxes will return to the former levels.

REGIONAL COMPARISON

	RI	RI (pilot)	MA	CT
Beer (Barrel)	$3.00	$3.30	$3.30	$7.20
Wine (Gal)	0.60	1.40	0.55	0.72
Sparkling Wine (Gal)	0.75	0.75	0.70	1.80
Spirits (Gal)	3.75	5.40	4.05	5.40
Low-Proof Spirits (Gal)	1.10	1.10	1.10	2.46

Source: Federation of Tax Administrators, 2014

TAX MODIFICATIONS

Sacramental wines, which are wines used for sacramental or other religious purposes, are not subject to any tax if sold directly to a member of the clergy for use by the purchaser, or his or her congregation. (RIGL 3-10-1(b))

A **Brewery** that has been owned, managed, and operated in this State for at least twelve (12) consecutive months receives a tax exemption on the first one hundred thousand (100,000) barrels of beer that it produces and distributes in this state in any calendar year. The brewer must hold a manufacturer's license authorized under RIGL 3-10 through the Tax Administrator.

RIGL 44-49 Marijuana and Controlled Substances

The State requires possessors of real or counterfeit illegal marijuana or other controlled substances to pay a tax according to the following schedule:

Marijuana: $3.50/gram or portion thereof;

Controlled Substances: $200/gram or portion thereof; or $400 for each 10 dosage units of substances that are not sold by weight, or portion thereof.

The tax is due to be paid prior to taking possession of the illegal drugs, and payment of the tax does not provide immunity from criminal prosecution for possession and dealing under applicable Rhode Island laws. Of note, taxpayers are not required to give their name, address, social security number, or any other identifying information on the tax form.

The Division of Taxation distributes stamps to be affixed to the drugs as proof of payment. Marijuana and Controlled Substances tax receipts are deposited as general revenues.

Analyst's Note: The Division of Taxation distributes stamps indicating proof of payment of the tax; however, few stamps are ever sold, and it is thought that the few sold have been to stamp collectors. While the tax does not provide any significant revenue to the State, it has remained in the General Laws as a prosecutorial tool against illicit drug dealers.

Medical Marijuana

The 2011 General Assembly enacted a new law establishing a 4.0 percent surcharge on net patient revenues of nonprofit "compassion" centers registered under RIGL 21-28.6-12 that are involved in dispensing marijuana for medicinal purposes. Payments are filed monthly and must be made electronically. Per RIGL 44-67-11, these surcharge revenues are deposited into the general fund as departmental revenues.

COLLECTION HISTORY

The Division of Taxation could not provide detail on any Marijuana and Controlled Substance tax collections; however, the 2.0 FTE Special Investigations Unit, which was created in FY2014, is looking to be more active with the controlled substance tax.

RECENT AMENDMENTS

None

REGIONAL COMPARISON

Both Massachusetts and Connecticut have the same tax schedule as Rhode Island.

TAX MODIFICATIONS

Persons in lawful possession of marijuana or other controlled substances are not subject to the tax. There are no incentives for this program.

The State assesses a tax on the transfer of the net estate of every resident or nonresident decedent as a tax upon the right to transfer. Prior to the 2014 General Assembly, the State assessed this tax through a formula that included a threshold exemption amount. In the 2014 session, the Assembly replaced the exemption threshold amount with a flat credit amount against estate taxes owed for decedents whose deaths occur on or after January 1, 2015.

Under current law, the estates of decedents whose deaths occur prior to January 1, 2015 are subject to an exemption threshold amount. If an estate's net taxable value is less than the exemption threshold amount, then that estate is not subject to the estate and transfer tax. If an estate's net taxable value is more than the exemption threshold amount, then the entire taxable value of the estate is subject to the estate and transfer tax.

COLLECTION HISTORY

	Amount	% Change
FY2006	$39.2	
FY2007	34.7	-11.5%
FY2008	35.3	1.9%
FY2009	28.1	-20.5%
FY2010	29.1	3.4%
FY2011	46.9	61.3%
FY2012	46.4	-0.9%
FY2013	28.5	-38.6%
FY2014	43.6	53.0%
FY2015*	27.0	-38.1%
FY2016*	19.2	-28.9%

$ in millions

**November 2014 REC Estimate*

Effective for deaths occurring on or after January 1, 2015, all estates are subject to tax beginning at the first $1 regardless of the net taxable value of the estate. In lieu of the exemption threshold amount; however, estates are granted a non-refundable credit against estate taxes owed of $64,400. Estates with a net taxable value in excess of $1.5 million will owe tax, but because of the credit, tax is not owed on the first $1.5 million in estate value. Under RIGL 44-22-1.1, the credit amount will be adjusted annually by the percentage increase in the Consumer Price Index for all Urban Consumers (CPI-U).

An example of a $1.5 million taxable estate illustrated on the Rhode Island Estate Tax Calculation Form can be found in the Estate Tax Modification special report in this book.

Property is determined to be allocable to Rhode Island if:

- It is real estate or tangible personal property and has actual situs (where the property is treated as being located for legal purposes) within the State of Rhode Island; or,
- It is intangible personal property and the decedent was a resident.

Payments are due within nine months of the death of the decedent. Estate taxes are deposited as general revenues.

RECENT AMENDMENTS

The 2009 General Assembly increased the Estate Tax exemption amount from $675,000 to $850,000 effective for TY2010. The exemption is indexed to the Consumer Price Index – All Urban Consumers (CPI-U) inflation index beginning in TY2011, and is only applied in years when the index shows a positive inflationary number. The change resulted in an estimated $802,320 reduction in revenues for FY2010.

The 2013 General Assembly revised RIGL 44-22 for purposes involving the calculation of the estate tax on farmland. All farmland included as part of an estate for the purposes of assessing the estate tax shall be valued at its current use value rather than its full and fair cash value when determining the value of a decedent's estate.

The 2014 General Assembly modified the estate tax by removing the exemption threshold and adding a credit to offset any estate tax owed on assets valued at under $1.5 million. Effective July 1, 2014, for all deaths on or after January 1, 2015, all estates are subject to tax beginning at the first $1; however, estates are granted a non-refundable credit valued at $64,400. Estates in excess of $1.5 million will owe tax, but because of the credit, tax is not owed on the first $1.5 million in estate value. Under RIGL 44-22-1.1, the credit amount will be adjusted annually by the percentage increase in the Consumer Price Index for all Urban Consumers (CPI-U). Prior to this change, the estate tax was imposed only on estates valued at $850,000 adjusted by CPI-U beginning January 1, 2011, (for FY2014, this amount totaled $921,655). Instead of a credit, estates valued under this amount were exempt from the estate tax and the filing requirement.

More information can be found in the Estate Tax Modification special report in this book.

REGIONAL COMPARISON

	Exemption	**Rate (Min. to Max.)**
Vermont	$2,750,000	0.8% - 16.0%
Maine	2,000,000	8.0% - 12.0%
Connecticut*	$2,000,000	7.2 - 12.0%
Rhode Island (new)	**1,500,000**	**0.8 - 16.0%**
Massachusetts	1,000,000	0.8 - 16.0%
Rhode Island (current)	921,655	0.8 - 16.0%
New Hampshire	None	

**CT has an inheritance and gift tax in addition to the estate and transfer tax.*

Source: Tax Foundation, 2014

TAX MODIFICATIONS

None

Racing and Athletics Taxes
(Simulcast)

The State receives commission payments from licensees who operate pari-mutuel betting pools on simulcast betting facilities. The commissions vary based on the type of wager and activity.

The State used to receive commissions for dog races and jai alai; however, both activities have since been prohibited in the locations in which they were operating.

Simulcast: The State is paid 4.0 percent on straight wagers (win, place or show) and 5.5 percent on wagers on three or more animals. The amounts paid out are rounded down to a 10 cent interval. The State also receives 50.0 percent of this rounding loss, or “breakage.”

Racing and Athletics taxes are paid by licensees at the close of racing each day and deposited as general revenues.

COLLECTION HISTORY

	Amount	% Change
FY2006	$3.5	
FY2007	2.9	-16.3%
FY2008	2.8	-3.7%
FY2009	2.5	-12.9%
FY2010	1.5	-39.1%
FY2011	1.3	-11.2%
FY2012	1.3	0.1%
FY2013	1.2	-11.7%
FY2014	1.2	0.5%
FY2015*	1.1	-6.5%
FY2016*	1.1	0.0%

$ in millions

**November 2014 REC Estimate*

RECENT AMENDMENTS

The 2010 General Assembly enacted legislation (2010-H-8070 Sub A) that prohibits the licensing of dog racing in the Town of Lincoln, effectively ending dog racing at the Twin River gaming facility. Racing and Athletics tax revenue estimates were reduced by $300,000 in the FY2011 Budget as Enacted to account for the change.

Jai alai, a live-player game derived from handball and racquet sports, was played at Newport Grand until 2003. That year, the General Assembly passed legislation that prohibited the Department of Business Regulation, Division of Racing and Athletics, from licensing jai alai in the city of Newport. Newport Grand still offers jai alai games simulcast year-round from Dania and Miami/Fort Pierce, Florida.

TAX MODIFICATIONS

None

RIGL 44-25 Real Estate Conveyance Tax

The State imposes a tax on each deed, instrument or writing by which interests in real estate are conveyed to a purchaser, and when the value of the transfer is greater than $100. The tax rate is $2.30 for each $500, or fractional part, of the purchase price, equating to a 0.5 percent tax rate.

Payments are due upon making, execution, delivery, acceptance, or recording the instrument of conveyance. The municipality collects the fee at the time the deed is recorded and then remits the state share to the state on a monthly basis.

Real Estate Conveyance Tax collections are shared between the State, and the municipality in which the property is situated, based on the following distribution:

COLLECTION HISTORY

	Amount	% Change
FY2006	$14.6	
FY2007	12.7	-12.7%
FY2008	10.2	-19.7%
FY2009	6.8	-33.4%
FY2010	7.0	2.7%
FY2011	6.4	-8.9%
FY2012	6.4	1.0%
FY2013	7.4	15.0%
FY2014	8.0	7.6%
FY2015*	8.8	10.5%
FY2016*	9.3	5.7%

$ in millions

**November 2014 REC Estimate*

Real Estate Conveyance Tax Distribution

	Per $500	Effective Rate
State	$1.20	0.24%
General Revenue	*0.60*	*0.12%*
Distressed Communities	*0.30*	*0.06%*
Housing Resources Commission	*0.30*	*0.06%*
Local Government	1.10	0.22%
Total	**$2.30**	**0.46%**

Top 5 Municipal Collections in FY2014

	Collections	Rank	YOY%
Providence	$993,604	1	11.4%
Warwick	649,334	2	8.1%
Cranston	494,523	3	18.7%
New Shoreham	472,709	4	-5.6%
West Warwick	423,691	5	-5.5%

In FY2013, local government collections ranged from a low of $24,503 (Foster) to a high of $891,672 (Providence). Below is a table of the top five municipal collections totals for FY2013. A breakdown of municipal collections can be found on the following page.

RECENT AMENDMENTS

The tax was increased from $1.40 per $500 to $2.00 per $500 in 2002, with the additional $0.60 deposited as general revenues.

The 2014 General Assembly increased this tax by $0.30 per $500 of value, from $2.00 to $2.30, with the additional $0.30 deposited into a restricted receipt account administered by the Department of Administration, Office of Housing and Community Development, through the Housing Resources Commission. The increase applies to real estate closings on or after July 1, 2014. The restricted receipt account was established in the FY2015 Budget for funding to be dedicated to housing assistance, lead abatement, and homelessness prevention.

REGIONAL COMPARISON

Rhode Island	$2.30 per $500, or equivalent to 0.46 percent
Massachusetts	$2.28 per $500, or equivalent to 0.46 percent
Maine	$2.20 per $500, or equivalent to 0.44 percent
New Hampshire	$0.75 per $100, or equivalent to 0.75 percent
Connecticut	0.75 percent for consideration below $800,000 with .25 percent additional municipal tax; 1.25 percent for amounts over $800,000 (*"Mansion tax"*)
Vermont	0.0125 percent of property value

TAX MODIFICATIONS

The tax does not apply to transactions where the State or its political subdivisions are the purchaser of real estate. There are no tax incentives for this program.

Real Estate Conveyance Collections - Municipal Portion

	FY2011	FY2012	FY2013	FY 2014
Barrington	$167,575	$222,343	$205,219	$204,678
Bristol	137,869	122,365	155,546	201,631
Burrillville	56,164	63,412	67,569	76,929
Central Falls	42,175	18,679	27,052	37,953
Charlestown	133,301	116,117	140,295	135,020
Coventry	133,808	208,428	188,051	248,233
Cranston	319,408	392,216	416,483	494,523
Cumberland	181,717	180,995	201,942	273,675
East Greenwich	189,788	153,173	212,098	177,079
East Providence	164,407	195,499	278,238	250,308
Exeter	44,928	51,362	46,720	53,259
Foster	18,208	22,984	24,503	20,720
Glocester	39,289	44,981	43,765	67,587
Hopkinton	37,157	40,548	53,780	45,978
Jamestown	125,991	113,615	151,286	153,447
Johnston	156,103	121,179	131,323	130,281
Lincoln	110,156	110,168	127,994	179,192
Little Compton	54,480	82,481	119,734	71,682
Middletown	172,852	145,663	149,825	232,226
Narragansett	250,087	259,859	298,665	302,916
Newport	59,246	89,183	78,137	116,439
New Shoreham	312,111	316,571	500,792	472,709
North Kingstown	214,843	192,657	272,049	281,471
North Providence	132,643	129,305	154,926	178,688
North Smithfield	85,759	78,344	100,254	153,700
Pawtucket	189,253	202,783	239,421	238,919
Portsmouth	162,785	196,594	171,841	202,235
Providence	789,047	893,553	891,672	993,604
Richmond	39,624	78,092	45,381	44,752
Scituate	49,998	44,028	56,810	74,536
Smithfield	116,649	92,276	126,774	162,007
South Kingstown	301,587	211,435	295,335	274,968
Tiverton	100,946	83,506	116,927	132,733
Warren	48,817	60,431	74,874	66,885
Warwick	472,691	433,102	600,578	649,334
Westerly	24,121	33,360	41,721	41,780
West Greenwich	96,452	118,018	117,391	142,061
West Warwick	337,026	325,891	448,483	423,691
Woonsocket	119,486	95,393	105,232	172,244
Total	**$6,188,546**	**$6,340,589**	**$7,478,685**	**$8,180,074**

Source: Division of Taxation, 2014

The State assesses a number of non-tax related revenue items, including:

- Licenses and Fees;
- Fines and Penalties;
- Sales and Services; and
- Other Miscellaneous Revenues.

Licenses and Fees: License and other fees are assessed to individuals or businesses in part to cover administrative and oversight costs related to regulatory activities.

Fines and Penalties: Fines and penalties are assessed for certain violations of State laws or regulations. Most are deposited as General Revenues and are used to offset regulatory compliance costs.

Sales and Services: Sales and services include fees or charges for the use of State facilities or when consumers receive a "good or service" from the State. This category includes lease revenues from outside use of State property.

COLLECTION HISTORY

	Amount	% Change
FY2006	$287.3	
FY2007	277.8	-3.3%
FY2008	352.1	26.8%
FY2009	319.4	-9.3%
FY2010	333.1	4.3%
FY2011	334.7	0.5%
FY2012	197.3	-41.1%
FY2013	356.8	80.9%
FY2014	360.3	1.0%
FY2015*	349.3	-3.1%
FY2016*	199.3	-42.9%

$ in millions

**November 2014 REC Estimate*

Note: FY2016 does not include the hospital licensing fee because it is enacted annually. For FY2015, this amounted to $156.1 million.

Other Miscellaneous: This category is a "catch- all" for revenues not otherwise accounted for in the first three categories. Indirect cost recovery assessments on restricted receipt accounts are deposited as miscellaneous general revenues.

Departmental Revenues are generally due at the time of assessment. For example, license fees are generally payable upon application, etc.

RECENT AMENDMENTS

The 2014 General Assembly enacted a number of changes affecting departmental revenues. These include:

Hospital Licensing Fee: The hospital licensing fee expires at the end of each fiscal year and must be reinstated in the following year. For FY2015, the General Assembly set the rate at 5.703 percent of FY2012 net patient revenues. The fee is estimated to yield $145.9 million in FY2014, an increase of $2.1 million from 2013, and $156.1 million in FY2015.

Department of Revenue – Public Employee Misclassification Act: The Budget established the Public Employee Tax Compliance Act requiring all State and municipal employees to comply with Rhode Island personal income tax laws as a condition of employment. If a State or municipal employee is found to have an outstanding liability, the employee must agree to a payment plan or have their wages garnished.

Department of Revenue – Registration Block on New Registrations: The Division of Motor Vehicles (DMV) will not be allowed to register any motor vehicle or transfer the registration of any motor vehicle for any person until all State taxes, fines and penalties are paid in full or a payment plan is implemented. Upon payment of taxes owed, or once the taxpayer has entered into a payment agreement, the Division of Taxation will issue a certificate of good standing within 5 business days, after which the DMV will issue the registration. Revenues are estimated at $488,000 with $268,400 deposited as personal income tax revenue and $219,600 as interest and penalties under the Department of Revenue.

- **Department of Transportation – RI Highway Maintenance Account:** As part of an initiative to create a sustainable source of revenue for transportation funding, the 2014 General Assembly increased and redirected two departmental revenues to be deposited in the Rhode Island Highway Maintenance Account (RIHMA) within the Intermodal Surface Transportation Fund. Fees for Inspection Stickers increased from $39 to $55; and, the Good Driving Surcharge will increase the cost for good driver dismissals by $25, from a $35 court fee to $60 total. The additional $25 will be deposited in the RIHMA; the Good Driving surcharge base revenue will remain as departmental receipts. These revenues were previously deposited as general revenues; as a result, FY2015 departmental revenues are expected to decrease by $5.4 million. Additionally, the $50 fee collected by the Division of Motor Vehicles for the issuance of a certificate of title will be deposited to the Highway Maintenance Account beginning in FY2015. This fee, which generates approximately $9.0 million annually, was deposited into the General Fund.

FY2015 Departmental Revenue Shifts to IST Fund

	FY2015	FY2016	FY2017	FY2018	FY2019
Fines & Fees:					
Inspection Sticker (Increase from $39 to $55)	$4.8	$5.9	$6.0	$6.1	$6.2
Good Driving Surcharge (Increase of $25)	0.6	0.6	0.6	0.6	0.6
Total	**$5.4**	**$6.5**	**$6.6**	**$6.7**	**$6.8**

RIGL 31-36 Motor Fuel (Gas) Tax

The State imposes a motor fuel tax (currently $0.32/gallon) that is required to be paid by purchasers at the point of purchase. Taxes are paid on all fuel purchases; however, purchasers may apply for refunds for “non-highway” fuel use.

Tax proceeds are used to support transportation purposes. Motor fuel tax receipts are deposited as restricted receipts in the Intermodal Surface Transportation Fund.

Tax Due

Distributors are responsible to remit tax receipts for the previous month by the 20th day of the subsequent month.

COLLECTION HISTORY (General Fund)

	Amount	% Change
FY2006	$4.3	
FY2007	4.7	8.8%
FY2008	4.5	-4.1%
FY2009	4.3	-4.1%
FY2010	0.0	-100.0%
FY2011	0.0	-
FY2012	0.0	-
FY2013	0.0	-
FY2014	0.0	-
FY2015*	0.0	-
FY2016*	0.0	-

$ in millions

**November 2014 REC Estimate*

RECENT AMENDMENTS

The FY2010 Budget increased the Motor Fuel Tax by $0.02 per gallon, from $0.30 to $0.32 per gallon and dedicated the additional $0.02 to the Rhode Island Public Transit Authority (RIPTA). Additionally, the FY2010 Budget included the transfer of the final $0.01 of the Motor Fuel Tax not already allocated for transportation purposes from the General Fund to the Rhode Island Department of Transportation (RIDOT).

The 2014 General Assembly modified the distribution of the gas tax as part of an initiative to create a sustainable revenue system for transportation funding. Beginning in FY2016, the gas tax will be increased biennially, tied to increases in the Consumer Price Index for all Urban Consumers (CPI-U). It is estimated to bring in additional revenues of $4.2 million in that year. The gas tax cannot fall below $0.32 per gallon. The General Assembly also modified the distribution schedule, diverting 3.0 cents per gallon from the RIDOT to the Rhode Island Turnpike and Bridge Authority (RITBA).

The following table shows the distribution of the motor fuel tax proceeds:

Gas Tax Distribution
Changes- FY2014 to FY2016

	FY2014	FY2015	FY2016
RIDOT	21.75	18.25	19.25
RIPTA	9.25	9.25	9.25
RITBA	-	3.5	3.5
DHS (RIde)	1.00	1.00	1.00
Total Cents/Gallon	**32.00**	**32.00**	**33.00**

** An additional $0.01/gallon Environmental Protection Regulatory Fee is levied at the point of purchase and distributed equally to RIPTA and the Underground Storage Tank (UST) Fund.*

TAX MODIFICATIONS

Fuel purchased for “non-highway” use may be exempt and subject to refund. There are no tax incentives for this program.

Motor Fuel Tax Distribution: Cents/Gallon

	General Revenue	RIDOT / Highway	RIPTA / Transit [3]	RITBA	UST Fund	Total
FY2003	$2.25	$20.50	$7.25	-	$1.00	$31.00
FY2004 [1]	1.40	20.75	7.85	-	1.00	31.00
FY2005	2.00	20.75	7.25	-	1.00	31.00
FY2006	1.00	20.75	8.25	-	1.00	31.00
FY2007	1.00	20.75	8.25	-	1.00	31.00
FY2008	1.00	20.75	8.25	-	1.00	31.00
FY2009 [2]	1.00	20.75	8.75	-	0.50	31.00
FY2010	0.00	21.75	10.75	-	0.50	33.00
FY2011	0.00	21.75	10.75	-	0.50	33.00
FY2012	0.00	21.75	10.75	-	0.50	33.00
FY2013	0.00	21.75	10.75	-	0.50	33.00
FY 2014	0.00	21.75	10.75	-	0.50	33.00
FY 2015 Est.	0.00	18.25	10.75	3.50	0.50	33.00
FY 2016 Est.	0.00	19.25	10.75	3.50	0.50	34.00

[1] *Distribution for May and June included 3.2 cents/gallon for general revenue; 6.25*

[2] *One-half cent/gallon of the UST fee is dedicated to RIPTA*

[3] *Total includes UST fees*

Motor Fuel Tax Distribution: $ millions

	General Revenue	RIDOT / Highway	RIPTA / Transit [3]	RITBA	UST Fund	Total [3]
FY2003	$10.5	$95.3	$33.7	-	$4.6	$144.1
FY2004 [1]	6.6	98.6	37.3	-	4.7	147.2
FY2005	4.8	98.7	34.5	-	4.8	142.7
FY2006	4.7	98.5	39.2	-	4.7	147.2
FY2007	4.7	97.6	38.8	-	4.7	145.8
FY2008	4.5	93.7	37.2	-	4.5	139.9
FY2009 [2]	4.3	89.8	37.9	-	2.2	134.2
FY2010 [4]	0.3	93.3	45.8	-	2.1	141.6
FY2011	0.0	92.2	45.6	-	2.1	139.9
FY2012	0.0	91.5	45.2	-	2.1	138.8
FY2013	0.0	90.0	44.5	-	2.1	136.5
FY2014	0.0	92.1	45.5	-	2.1	139.8
FY2015 Est. [5]	0.0	78.5	46.2	15.0	2.1	141.9
FY2016 Est. [5]	0.0	82.3	46.0	15.0	2.1	145.3

[1] *Distribution for May and June included 3.2 cents/gallon for general revenue; 6.25*

[2] *One-half cent/gallon of the UST fee is dedicated to RIPTA*

[3] *Total includes UST fee*

[4] *Includes general revenue residual payments from prior years*

[5] *Estimate from the Department of Revenue*

Source: Office of Management and Budget

Other Miscellaneous Revenues

The State collects revenues from various sources that are non-recurring. These can include revenue from land sales, legal settlements, rental and lease payments, payments from restricted funds, audit adjustments, and other sources. The single largest source of these funds in recent years was attributable to the securitization of payments received from the Tobacco Master Settlement Agreement. For FY2014 and FY2015, the following miscellaneous revenues are anticipated to be received:

Estimated Miscellaneous Revenues

	FY2015	FY2016
Airport Lease Payments	$1,596,634	$128,462
DEPCO Settlements	5,000	5,000
DHS Settlements	500,000	250,000
GO Bond Closeouts and Interest	125,000	125,000
Inter-year Adjustments	400,326	399,498
PUC Rent	173,040	173,040
Tobacco Securitization Refinancing	5,000,000	-
Total	**$7,800,000**	**$1,081,000**

COLLECTION HISTORY

	Amount	% Change
FY2006	$31.2	
FY2007	67.5	116.5%
FY2008	182.9	171.1%
FY2009	17.7	-90.3%
FY2010	12.5	-29.4%
FY2011	10.9	-13.4%
FY2012	3.8	-65.1%
FY2013	4.2	9.9%
FY2014	6.4	53.4%
FY2015*	7.8	22.0%
FY2016*	1.1	-86.1%

$ in millions

**November 2014 REC Estimate*

Other miscellaneous revenues sources are due at various times throughout the fiscal year, and are deposited as general revenues.

Miscellaneous Revenue collections vary by a great deal, as they are not consistent sources from year to year. The history above shows a range of actual collections from $3.8 million to $182.9 million. Years showing substantial revenue collections reflect Tobacco Securitization bond proceeds.

RECENT AMENDMENTS

The 2010 General Assembly included the Governor's recommended transfer of $1.0 million in surplus funds from the Rhode Island Health and Education Building Corporation to the State General Fund.

The 2011 General Assembly enacted legislation transferring all proceeds from the sale of real state property (for example, land and/or buildings) to the information technology investment (ITI) fund restricted receipt account. This fund is used for acquiring information technology improvements, including, but not limited to, hardware, software, consulting services, and ongoing maintenance and upgrade contracts for state departments and agencies.

TAX MODIFICATIONS

None

Video Lottery games are operated through approximately 5,600 video lottery terminals (VLTs) at two licensed gambling facilities- Twin River and Newport Grand. The State receives a portion of net terminal income from VLTs. Net terminal income (NTI) represents the net amount after prizes are paid out, and the State receives approximately 60.0 percent of the NTI. The payout scale varies by facility, and is illustrated below:

Distribution of Lottery Revenues: FY2015 Estimate

Distribution	Twin River	Newport Grand
State General Revenues	61.06%	59.19%
Licensed Retailer (Facility)[1]	27.88%	30.13%
Technology Provider	7.00%	7.22%
Central Communications Provider[2]	2.44%	2.44%
Host Municipality[3]	1.45%	1.01%
Narragansett Indian Tribe	0.17%	0.00%
Total	**100.0%**	**100.0%**

[1] Share varies if NTI exceeds $500.0 million. In FY2015, NTI estimate is $520.9 million. In FY2016, NTI estimate is $442.9 million so the rate will revert to 2.5%.

[2] FY2014 and FY2015 included a 2.25% enhanced facility share for Newport Grand. This reverts back to the State general revenue share in FY2016.

[3] Includes enhanced share for Lincoln for 24/7 operations

COLLECTION HISTORY

	Amount	% Change
FY2006	$256.4	
FY2007	257.4	0.4%
FY2008	294.9	14.6%
FY2009	278.3	-5.6%
FY2010	289.1	3.9%
FY2011	301.0	4.1%
FY2012	320.7	6.5%
FY2013	316.4	-1.3%
FY2014	306.5	-3.1%
FY2015*	314.9	2.8%
FY2016*	266.1	-15.5%

$ in millions

**November 2014 REC Estimate*

The Department of Revenue’s Division of Lottery transfers portions of lottery receipts to the State as general revenues. Revenue sources include video lottery terminal (VLT) income, table games at Twin River, as well as revenues from traditional games and Keno sales. Payments from VLT proceeds are due monthly.

RECENT AMENDMENTS

The 2010 General Assembly passed legislation that requires the State to participate, up to a capped threshold, in paying for new marketing programs at Twin River and Newport Grand. FY2011 revenues were reduced by $3.7 million, assuming maximum participation by Twin River. No estimate was included for Newport Grand; however, the maximum State liability was $518,196. Additionally, the share of VLT revenues for Newport Grand was increased to match that of Twin River, resulting in $985,000 in reduced FY2011 revenues. The Division of Lottery authorized 24/7 gambling, effective beginning November 19, 2009. The General Assembly had previously authorized 24/3 gambling at VLT facilities, with increased host community and Permanent School Fund contributions based on increased hours.

The 2011 General Assembly passed legislation authorizing the Lottery Director to implement an offset on lottery prizes of individuals that are delinquent on state taxes. The Director may apply some or the entire prize to reduce the winner’s unpaid taxes. The provision applies only to lottery prizes over $600 and individuals who have unpaid taxes in excess of $600.

In 2013, the General Assembly increased the rate of net terminal income (NTI) payable to Newport Grand LLC for two years beginning July 1, 2013 and ending on June 30, 2015. The slot parlor will receive 30.05 percent of the NTI, an increase of 2.25 percentage points; shares to the State decrease correspondingly.

The 2014 General Assembly authorized a voter referendum at the statewide general election in November 2014 to approve State-operated casino gaming at the Newport Grand facility in Newport, Rhode Island. The expansion of casino gaming would only take place if, in addition to statewide and local (Newport) voter approval, there was also a statewide voter approval of a constitutional amendment outlining changes in the location of where casino gaming is permitted in any city or town. While the voters approved the referendum on the statewide ballot on November 4, 2014, the measure was not approved by voters in the host municipality of Newport and ultimately failed.

The FY2015 Enacted Budget directs the Division of Lottery to contract for increased State shares of marketing expenses at Twin River. Twin River approached the State about an expanded cost-share program to help minimize the negative fiscal impact of Massachusetts casinos that are set to begin operations in FY2016. The State share is equal to the percentage that the State captures of video lottery terminal net terminal income (61.05 percent). Currently, the State participates in the first $10.0 million in qualified marketing expenses annually. Twin River is responsible for the first $6.0 million in marketing investments, and the State participates in the next $4.0 million. The Budget expands State participation in the marketing program requiring the State to reimburse Twin River for qualified marketing expenses above the current $10.0 million at the existing rate of the State share up to $17.0 million.

Current		**Expanded**	
Twin River First	$4.0	Twin River First	$4.0
Shared (61.05% State)	6.0	Shared (61.05% State)	6.0
	10.0		10.0
		Next $7.0 million	
		Twin River First	4.0
		Shared (61.05% State)	3.0
			7.0
Total Potential Investment		**Total Potential Investment**	
Twin River	6.3	Twin River	11.5
State	3.7	State	5.5
	$10.0		$17.0

$ in millions

The FY2015 Budget accounts for $1.1 million in reduced revenues based on the change. This amounts to approximately one-half of the State cost. Full cost is not accounted for because it is assumed that Twin River will not use the full $17.0 million allotment in this fiscal year.

REGIONAL COMPARISON

Rhode Island	Net terminal income minus commission payments and incentive program reimbursements is remitted to the State. Video lottery commissions are paid to the facility operators, technology providers, the central communications provider, and others based on various percentages of net terminal income. Twin River - approx. 61% Newport Grand - approx. 59.2%
Massachusetts	Slots Facility: 40% of gross gaming revenue Resort Casino: 25% of gross gaming revenues
Connecticut	The state receives 25% of slot revenue.

Source: Office of Revenue Analysis, 2014

Traditional Games include instant scratch card tickets, numbers drawings (including PowerBall and Mega Millions), raffles (limited periods), and Keno sales. When traditional lottery (instant tickets) began, the State enacted legislation requiring that the Division of Lottery remit 25.0 percent of the gross profits to the State general fund. The remaining 75.0 percent would be allocated to the Division for operating expenses, including prize payments. The 2014 General Assembly, however, removed the requirement that 25.0 percent of the total revenue received from the sale of lottery tickets and all other income earned from the lottery, and no less than 15.0 percent of the total revenues from Keno, be transferred into the general fund; thus, allowing the Division to continue to fund all traditional and video lottery operations through traditional ticket sales.

COLLECTION HISTORY

	Amount	% Change
FY2006	$67.5	
FY2007	63.6	-5.7%
FY2008	59.5	-6.6%
FY2009	59.2	-0.4%
FY2010	55.6	-6.2%
FY2011	53.8	-3.1%
FY2012	57.0	5.9%
FY2013	63.4	11.2%
FY2014	58.1	-8.3%
FY2015*	56.5	-2.8%
FY2016*	56.5	0.0%

$ in millions

**November 2014 REC Estimate*

The Department of Revenue’s Division of Lottery transfers portions of lottery receipts to the State as general revenues. Revenue sources include video lottery terminal (VLT) income, table games at Twin River, as well as revenues from traditional games and Keno sales. Payments from Traditional Games’ proceeds are due quarterly.

RECENT AMENDMENTS

The 2011 General Assembly passed legislation authorizing the Lottery Director to implement an offset on lottery prizes of individuals that are delinquent on state taxes. The Director may apply some or the entire prize to reduce the winner’s unpaid taxes. The provision applies only to lottery prizes over $600 and individuals who have unpaid taxes in excess of $600.

The 2014 General Assembly removed the requirement that 25.0 percent of the total revenue received from the sale of traditional lottery tickets and all other income earned from the lottery, and no less than 15.0 percent of the total revenues from Keno, be transferred into the general fund.

REGIONAL COMPARISON

Rhode Island	*Rhode Island Lottery* : Transfer to general fund all revenues in the state lottery fund after payments of prizes and lottery expenses.
Massachusetts	The apportionment of the total revenues: (a) the payment of prizes to the holders of winning tickets or shares (not less than 45% of the total revenues) (b) the payment of costs incurred in the operation and administration of the lottery (not exceed 15% of the total revenues) (c) the balance used to fund budgeted aid to cities and towns.
Connecticut	*Connecticut Lottery Commission* : Weekly transfers of estimated net income (sales revenue less prizes, commissions, and expenses) are made to the Connecticut general fund from the Lottery.

Source: Office of Revenue Analysis, 2014

RIGL 42-61.2 Table Games

COLLECTION HISTORY

	Amount	% Change
FY2013	(0.6)	-
FY2014	11.7	-
FY2015*	11.9	1.6%
FY2016*	12.2	2.5%

$ in millions

**November 2014 REC Estimate*

Note: Table gaming began at Twin River in June 2013; thus, FY2013 reflects only one month of table game revenues. The negative value is due to the costs of operations incurred by the Division of Lottery.

Casino gaming (table games) commenced at Twin River in Lincoln, RI, on June 14, 2013, following the approval by voters in November 2012. Table games at the Casino include traditional games, such as blackjack, roulette, and craps.

Net table game revenue (NTGR) is deposited in the State Lottery Fund for administrative purposes with commissions distributed to Twin River (82.0 percent of NTGR for FY2013), and the balance being remitted to the General Fund. *As of July 1, 2014, Twin River receives 83.0 percent of NTGR for FY2015 through FY2018, reverting to 84.0 percent in FY2019. A decline in overall Video Lottery Terminal (VLT) revenue over one full State fiscal year triggered the provision in State law (RIGL 42-61.2-7) that permanently cuts the State share by 2.0 percent. The additional 2.0 percent will be divided equally between the Town of Lincoln and Twin River for four years; subsequently, Twin River will receive the full 2.0 percent share.*

The Department of Revenue's Division of Lottery transfers portions of lottery receipts to the State as general revenues. Revenue sources include video lottery terminal (VLT) income, table games at Twin River, as well as revenues from traditional games and Keno sales.

RECENT AMENDMENTS

The 2012 General Assembly placed a referendum on the November 2012 general election ballot allowing voters to decide whether or not to allow state-operated casino gaming (table games). The referendum was approved statewide. At the time, according to the State Constitution, the municipality where gambling will take place must approve gambling on a local referendum. Casino gambling won voter-approval in the Town of Lincoln and table gaming commenced in June, 2014; however, the City of Newport rejected the proposal.

The 2014 General Assembly authorized a voter referendum at the statewide general election in November 2014 to approve State-operated casino gaming at the Newport Grand facility in Newport, Rhode Island. The expansion of casino gaming would only take place if, in addition to statewide and local (Newport) voter approval, there was also a statewide voter approval of a constitutional amendment outlining changes in the location of where casino gaming is permitted in any city or town. While the voters approved the referendum on the statewide ballot on November 4, 2014, the measure was not approved by voters in the host municipality of Newport and ultimately failed.

The Town of Lincoln will collect the 1.0 percent share under this provision as it relates to NTI at Twin River.

REGIONAL COMPARISON

Rhode Island	Eff. 7/1/2014: 16% of net table game revenue (Previously, 18% of net table game revenue)
Massachusetts	Resort Casino: 25% of gross gaming revenue
Connecticut	No share

Source: Office of Revenue Analysis, 2014

Unclaimed property consists of money and other assets that are considered lost or abandoned after an owner cannot be located for a specific period of time. It includes bank accounts; stocks and bonds; wages; refunds; safe deposit boxes; insurance payments; gift certificates; credit memos; account receivable credits and payables, etc.

Most property is considered "unclaimed" after three (3) years, unless specifically noted in the law. Wages and property held by the Courts and other public agencies are considered unclaimed after one (1) year.

The RI General Treasurer annually publishes a list of unclaimed property. The list is cumulative and includes assets reported as unclaimed dating back to the 1940s. Claims may be made after the State has liquidated an asset and the State surrenders the value that the State earned at the time of the sale or liquidation of the asset.

COLLECTION HISTORY

	Amount	% Change
FY2006	$14.2	
FY2007	11.5	-19.6%
FY2008	15.4	34.3%
FY2009	8.0	-47.7%
FY2010	5.9	-27.1%
FY2011	5.3	-9.7%
FY2012	5.2	-1.9%
FY2013	6.3	20.6%
FY2014	12.7	103.0%
FY2015*	11.0	-13.6%
FY2016*	8.1	-26.4%

$ in millions

**November 2014 REC Estimate*

The State General Fund receives an annual transfer of a portion of unclaimed property receipts. The transfer to the State general fund is the total revenues from sales of unclaimed property, minus personnel costs of the unclaimed property program; administrative costs of the program; claims paid in the current year; and liability holdback[1].

[1] *The Governmental Accounting Standards Board (GASB) Statement 21 contains guidelines for the amount (25.0 percent) of escheated (unclaimed) property receipts that must be withheld to cover future claims. Rhode Island holds back either 25.0 percent of net revenues from unclaimed property sales, or the five-year average of the percent of claims paid out from previous year revenues, whichever is greater.*

RECENT AMENDMENTS

None

REGIONAL COMPARISON

Rhode Island	All funds are deposited into the General Fund, net of certain allowable administrative costs
Massachusetts	All funds exceeding $500,000 are deposited into the General Fund
Connecticut	Unclaimed property receipts are deposited into the Citizens' Election Fund to provide public campaign grants to participating candidates.

Source: Office of Revenue Analysis, 2014

TAX MODIFICATIONS

Pursuant to RIGL 33-21, unclaimed real estate property becomes the property of the city or town in which the property is located.

The State levies a 5.0 percent gross receipts tax on charges for occupancy of any space furnished in buildings or structures with a minimum of three rooms that are kept, used, maintained, advertised, or held out to the public to be a space where living quarters are supplied for pay for transient use (30 days or less).

The tax is collected by the hotel and remitted to the Division of Taxation on a monthly basis. The tax is in addition to all other taxes and fees currently imposed. An additional 1.0 percent tax was added in FY2005 and is fully allocated to the city or town in which the lodging rental is located.

The Division of Taxation collects the tax and is responsible for the distribution, except for the City of Newport, which is authorized to collect and disburse tax receipts for hotels located within the City. The effective breakdown of tax receipts distribution, inclusive of the 1.0 percent local portion, is as follows[1]:

COLLECTION HISTORY

	Amount	*% Change*
FY2006	$14.9	
FY2007	15.8	*6.0%*
FY2008	16.2	*2.7%*
FY2009	15.5	*-4.8%*
FY2010	14.2	*-8.1%*
FY2011	15.8	*11.2%*
FY2012	16.6	*5.1%*
FY2013	17.1	*3.0%*
FY2014	17.4	*1.8%*
FY2015*	17.9	*2.9%*
FY2016*		

$ in millions

**FY2015 and FY2016 are estimates from the Department of Revenue.*

FY2014 Hotel Tax - Effective Distribution of 6%

Distribution	Warwick	Providence	Statewide	Other Regions
Regional Tourism Districts	25.8%	0.0%	0.0%	39.2%
Providence/Warwick Convention & Visitors Bureau	19.2%	15.0%	5.8%	5.8%
Providence Convention Authority	0.0%	25.8%	0.0%	0.0%
Cities and Towns	37.5%	32.6%	37.5%	37.5%
RICCA	0.0%	5.9%	0.0%	0.0%
State (general revenue)	17.5%	18.7%	56.7%	17.5%
Totals	100.0%	98.0%	100.0%	100.0%
	$2,597,623	**$4,953,577**	**$306,556**	**$11,200,105**

A breakdown of municipal payments can be found on the following page.

RECENT AMENDMENTS

The federal Marketplace Fairness Act of 2013 (MFA) grants states the authority to compel online and catalog retailers, known as "remote sellers," no matter where they are located, to collect sales tax at the time of a transaction. The federal legislation derived from the need to simplify sales tax rates across all states and enable states to increase collection and enforcement efforts based upon their existing sales and use tax laws. *(See Sales and Use Tax section for more information on the MFA.)*

The 2011 General Assembly enacted a tax rate change that would only trigger upon enactment of the federal MFA (this has not occurred). In the event that the Act passes, the 1.0 percent local hotel tax would increase to 1.5 percent.

REGIONAL COMPARISON

RI	**6.0 percent; additional to sales taxes**
MA	5.7 percent State Rate; Local rates up to an additional 6.0 percent; Certain municipalities, including Boston and Worcester, may add up to 2.75 percent tax to fund convention centers; additional to sales taxes
CT	15.0 percent

Source: Office of Revenue Analysis, 2014

HOTEL TAX

	FY 2011	FY 2012	FY 2013	FY 2014
Barrington	$0	$0	$0	$0
Bristol	18,427	16,341	18,289	19,755
Burrillville	-	-	-	-
Central Falls	-	-	-	-
Charlestown	11,846	10,957	10,290	11,031
Coventry	41,745	38,114	36,907	42,607
Cranston	4,127	4,959	4,911	4,856
Cumberland	-	-	-	-
East Greenwich	236	198	286	463
East Providence	17,119	19,223	19,070	22,966
Exeter	-	-	- -	
Foster	93	71	48	130
Glocester	1,031	976	1,020	1,435
Hopkinton	-	-	-	-
Jamestown	4,772	5,511	5,054	4,838
Johnston	3,607	3,531	3,775	3,956
Lincoln	45,652	48,478	52,260	54,589
Little Compton	6,986	4,721	5,593	2,294
Middletown	290,539	329,986	324,520	362,361
Narragansett	46,842	43,190	42,831	43,077
Newport	870,981	930,972	987,976	1,019,982
New Shoreham	124,436	124,807	140,865	157,632
North Kingstown	12,174	35,089	39,046	41,189
North Providence	-	-	-	-
North Smithfield	1,195	1,385	1,724	1,605
Pawtucket	23,935	23,307	25,579	27,595
Portsmouth	3,709	4,533	4,928	6,142
Providence	647,128	695,602	739,900	789,101
Richmond	1,896	1,874	1,995	1,828
Scituate	2,028	2,147	1,822	2,574
Smithfield	65,118	70,332	71,214	78,036
South Kingstown	63,120	67,425	70,955	73,315
Tiverton	-	-	-	-
Warren	-	-	-	-
Warwick	442,491	483,010	520,081	541,171
Westerly	146,043	179,001	204,549	235,071
West Greenwich	44,394	45,601	49,037	50,342
West Warwick	52,532	48,064	46,217	52,350
Woonsocket	21,917	29,114	33,762	27,441
Total	**$3,016,119**	**$3,268,519**	**$3,464,504**	**$3,679,732**

Source: Office of Revenue Analysis, 2014

---

[1] **Regional Tourism Districts (RIGL 42-63.1-5):**

- **South County District:** Westerly, Charlestown, Narragansett, South Kingstown, North Kingstown, Hopkinton, Exeter, Richmond, West Greenwich, East Greenwich, Coventry,
- **Providence District:** Providence
- **Northern RI District:** Pawtucket, Woonsocket, Lincoln, Central Falls, Cumberland, North Smithfield, Smithfield, Glocester, Burrillville
- **Aquidneck Island District:** Newport, Jamestown, Middletown, Portsmouth, Tiverton, Little Compton
- **Warwick District:** Warwick
- **Block Island District:** New Shoreham
- **East Bay District:** Barrington, Bristol, Warren, East Providence
- **Statewide District:** Cranston, Foster, Johnston, North Providence, Scituate, West Warwick

Meal and Beverage Tax (Local)

Beginning August 1, 2003, the State required collection of a 1.0 percent meals and beverage tax, in addition to the 7.0 percent sales tax. Meals are defined as any prepared food that is offered for sale and ready for immediate consumption. Beverages include both alcoholic and non-alcoholic drinks.

The meals and beverage tax is generally collected and submitted to the Division of Taxation by eating and/or drinking establishments on a monthly basis, however some small retailers (under $200 in monthly sales tax collections) may submit quarterly. The Division of Taxation collects the taxes and distributes them monthly, to the city or town in which the meals and beverages are delivered.

A breakdown of municipal collections can be found on the following page.

COLLECTION HISTORY

	Amount	*% Change*
FY2004	$13.5	
FY2005	17.2	*27.3%*
FY2006	17.6	*2.5%*
FY2007	18.8	*6.9%*
FY2008	18.7	*-0.4%*
FY2009	18.8	*0.3%*
FY2010	19.0	*0.9%*
FY2011	18.8	*-1.0%*
FY2012	21.0	*11.7%*
FY2013	21.4	*1.9%*
FY2014	22.3	*4.2%*

$ in millions

In FY2013, collections ranged from a low of $14,837 (Foster) to a high of $4.5 million (Providence).

Meals & Beverage Tax Collections:
Top 5 Municipalities

	FY2014	Rank
Providence	$4,744,243	1
Warwick	2,502,697	2
Newport	1,850,957	3
Cranston	1,565,772	4
East Providence	850,141	5

REGIONAL COMPARISON

Rhode Island	1.0 percent in addition to sales tax
Massachusetts	0.75 percent local option; meals also subject to sales tax
Connecticut	No separate tax, meals subject to sales tax.

Source: Office of Revenue Analysis, 2014

RECENT AMENDMENTS

The 2011 General Assembly enacted a tax rate change that would only trigger upon enactment of the federal law known as the Marketplace Fairness Act. This federal Act would allow states to require remote sellers, those with no physical presence in a state, to collect and remit state sales taxes. In the event that the Act is enacted, the 1.0 percent local meals and beverage tax would increase to 1.5 percent.

MEALS & BEVERAGE

	FY 2011	FY 2012	FY 2013	FY 2014
Barrington	$131,718	$135,686	$137,483	$150,289
Bristol	334,022	340,439	333,801	349,976
Burrillville	173,223	170,110	194,053	188,267
Central Falls	90,607	100,396	95,042	108,588
Charlestown	99,292	106,466	109,250	129,269
Coventry	323,096	359,173	353,161	369,572
Cranston	1,356,135	1,464,102	1,496,186	1,565,772
Cumberland	362,843	377,291	387,440	398,311
East Greenwich	452,153	467,401	505,899	542,163
East Providence	741,924	789,039	815,946	850,141
Exeter	74,367	73,550	77,753	82,729
Foster	13,808	14,081	14,837	15,555
Glocester	61,118	70,135	72,985	72,882
Hopkinton	41,048	47,474	51,648	48,816
Jamestown	76,581	81,039	77,397	82,430
Johnston	468,913	464,125	464,676	477,395
Lincoln	631,659	680,568	680,872	752,037
Little Compton	34,825	32,462	38,168	36,886
Middletown	553,255	609,116	601,666	650,819
Narragansett	455,524	534,213	500,618	523,958
Newport	1,665,241	1,833,841	1,912,423	1,850,957
New Shoreham	223,423	256,173	257,729	287,318
North Kingstown	430,146	463,093	462,381	473,098
North Providence	331,503	333,767	348,156	314,626
North Smithfield	153,960	181,683	195,593	229,300
Pawtucket	637,764	670,833	649,192	707,825
Portsmouth	173,287	172,717	177,469	175,345
Providence	4,099,916	4,443,753	4,555,807	4,744,243
Richmond	109,618	116,580	118,985	121,428
Scituate	53,725	60,262	67,382	63,926
Smithfield	513,658	558,121	582,110	649,927
South Kingstown	572,948	623,204	642,828	705,854
Tiverton	159,608	189,157	188,622	199,203
Warren	204,246	241,958	230,369	249,162
Warwick	2,134,838	2,319,661	2,338,168	2,502,697
Westerly	643,846	704,012	713,100	747,540
West Greenwich	97,397	97,853	103,943	124,809
West Warwick	309,965	311,829	313,596	321,518
Woonsocket	491,232	500,016	488,443	470,248
Total	**$19,482,432**	**$20,995,381**	**$21,355,178**	**$22,334,876**

Source: Office of Revenue Analysis, 2014

Tax Credits and Incentives

The State offers numerous tax credits and other incentives for individuals and businesses. The following summarizes the various credits, illustrates the taxes to which they apply, and, when available, includes estimates of the fiscal impact of the credit or incentive. Although this report lists 36 credits as currently written in the Rhode Island General Laws, many of these credits have gone unused since the reform of the personal income tax beginning TY2011.

The Department of Revenue, Office of Revenue Analysis (ORA) publishes a biennial report in even numbered years entitled the "Tax Expenditures Report." Tax expenditures are credits, deductions, exemptions, exclusions, modifications, preferential rates, tax abatements, or tax deferrals to individual or business tax filers. The report is required under RIGL 44-48.1-1 to report (or estimate) the amount of revenue foregone due to the tax expenditure, and also to compare the expenditure item to determine if similar allowances exist in other New England states. The revenue impacts cited below are from the 2014 Tax Expenditures Reports unless otherwise noted. Values are actual amounts taken in credits, unless noted by an asterisk (*) which indicates a projected amount.

The tax credits and incentives detailed in this summary are State incentives. A number of federal pass-thru incentives are also available to taxpayers but are not included in the report.

Tax Credits: Total Foregone Revenue by Tax Year

Credit	2010	2011	2012*	2013*	2014*	2015*
Accomodations under ADA	-	-	-	-	-	-
Adult and Child Daycare*	$54,299	-	-	$22,980	$25,576	$25,711
Adult Education*	-	-	-	-	-	-
Apprenticeship	-	-	-	-	-	-
Artwork Exhibition*	174	-	-	-	-	-
Biotechnology Investment*	-	-	-	-	-	-
Contributions to Scholarship Organizations	270,095	774,233	774,233	1,274,233	1,274,233	1,274,233
Earned Income	10,511,948	9,895,368	10,311,185	10,744,796	11,195,974	11,666,445
Educational Assistance and Development	79,200	-	-	-	-	-
Employment - Welfare Bonus Program*	-	-	-	-	-	-
Enterprise Zone Wage*	1,296,260	370,000	320,000	508,607	546,328	548,987
Farm to School Income*	-	-	-	-	-	-
Historic Homeownership Assistance*	209,030	-	-	-	-	-
Historic Structures	33,930,678	10,242,324	12,554,810	6,605,436	13,128,481	15,526,079
Historic Preservation	-	-	-	-	382,035	1,003,519
Hydroelectric Power*	-	-	-	-	-	-
Incentives for Innovation and Growth*	125,033	-	-	-	-	-
Interest for Loans to Mill Building Owners*	-	-	-	-	-	-
Investment*	18,331,236	17,760,000	21,696,888	16,305,750	16,730,900	17,877,330
Jobs Training*	927,218	-	1,330,000	586,000	687,200	680,640
Juvenile Restitution*	-	-	-	-	-	-
Lead Paint Abatement	266,360	250,000	250,000	250,000	250,000	250,000
Motion Picture Prouction	2,552,472	4,827,740	2,625,177	4,556,182	6,530,374	10,540,735
Motor Fuel Use Carrier Taxes Paid to RI	3,580,586	3,473,116	3,473,116	3,473,116	3,473,116	3,473,116
Musical and Theatrical Production						
Non-Resident Trust Beneficiary for Accumulating Distribution*	-	-	-	-	-	-
Property Tax Relief	14,331,123	12,423,123	12,423,123	12,423,123	12,423,123	12,423,123
Qualified Widow(er)*	-	-	-	-	-	-
Real or Personal Property Taxed in Another State	-	-	-	-	-	-
Research and Development Expense*	6,537,822	2,655,857	5,077,699	4,739,540	769,448	4,587,337
Research and Development Property*	1,124,074	20,000	1,725	378,889	414,667	383,056
Resident Trust Beneficiary for Accumulating Distribution*	-	-	-	-	-	-
Residential Renewable Energy System*	104,625	-	-	-	-	-
Specialized Investment in Mill Building*	-	-	-	-	-	-
Taxes Paid to Other States	124,489,741	140,340,482	149,361,327	149,361,327	149,361,327	149,361,327
Wages Paid by Employers in Mill Buildings*	-	-	-	-	-	-
Totals	**$218,721,974**	**$203,032,243**	**$220,199,283**	**$211,229,979**	**$217,192,782**	**$229,621,638**

**Credit no longer allowable against the personal income tax beginning TY2011. (Credit may be taken against other tax types; Varies by individual credit.)*

Note: Data for TY2012 through TY2015 are estimates forecasted by the Office of Revenue Analysis. In some cases, TY2012 data was available which is noted in the summary of those credits in this report.

1. Accommodations under Americans' with Disabilities Act (RIGL 44-54): Small businesses (under 30 employees or less than $1.0 million in gross receipts) are allowed a tax credit equal to 10.0 percent of expenses associated with making capital improvements or providing services to increase access for persons with disabilities. The credit is capped at $1,000 per taxpayer in a tax year, and unused portions may not be carried forward. The credit may be applied against the following taxes:

- Business Corporations (RIGL 44-11)
- Public Service (Utilities) Corporations (RIGL 44-13)

No statistics are available for this credit.

2. Adult & Child Day Care Assistance and Development Tax Credit (RIGL 44-47): Allows for an employer to receive a 30.0 percent credit for the purchase of daycare services for dependent children of employees; for costs associated with the operation of a daycare facility; or for rentals/leases foregone from allowing the operation of a licensed daycare facility. The credit is capped at $30,000 annually per taxpayer, and is not refundable. The Daycare credit may be applied against the following taxes:

- Business Corporations (RIGL 44-11)
- Public Service (Utilities) Corporations (RIGL 44-13)
- Banks (RIGL 44-14)
- Insurance Companies (RIGL 44-17)

	Business Corporations		**Personal Income†**	
Fiscal Year	Taxpayers	Amount	Taxpayers	Amount
2010	5	$40,000	15	$14,299
2011	-	-	-	-
2012	-	-	-	-
2013*	5	22,980	-	-
2014*	5	25,576	-	-
2015*	5	25,711	-	-

**ORA Estimates*

†Not allowable beginning TY2011.

3. Adult Education Tax Credit (RIGL 44-46): Employers are allowed a credit equal to 50.0 percent of the cost of certain defined adult education programs, up to a maximum of $300 per employee, and is capped for the employer at $5,000 annually. Employees must remain employed for a minimum of 13 consecutive weeks and work at least 455 paid hours before the employer becomes eligible for the credit. The credit is non-refundable, and it may not be carried forward to subsequent tax years. The Adult Education credit may be applied against the following taxes:

- Business Corporations (RIGL 44-11)
- Public Service (Utilities) Corporations (RIGL 44-13)
- Banks (RIGL 44-14)
- Credit Unions (RIGL 44-15)
- Insurance Companies (RIGL 44-17)

	Personal Income†	
Fiscal Year	Taxpayers	Amount
2010	3	$430
2011	-	-
2012	-	-
2013*	-	-
2014*	-	-
2015*	-	-

**ORA Estimates*

†Not allowable beginning TY2011.

4. Apprenticeship Credit (RIGL 44-11-41): Employers filing Business Corporations taxes who employ machine tool, metal trade, or plastic process technician apprentices may qualify for a tax credit equal to 50.0 percent of the apprentice wages, or $4,800, whichever is less. The credit is non-refundable and may not be carried over to subsequent tax years. The credit may be applied against the following taxes:

- Business Corporations (RIGL 44-11)

No statistics are available for this credit.

5. Biotechnology Investment Tax Credit (RIGL 44-31-1.1): Companies engaged in "commercial biological research and development or manufacturing and sale of biotechnology products or active pharmaceutical ingredients" may be eligible for an investment tax credit worth 10.0 percent of investment in buildings and equipment, with extensions for up to 15 years. Companies must meet wage and employment criteria, including:

- Wages must be equal to or greater than 125.0 percent of wages by companies under the same Standard Industrial Classification (SIC), or if there is only one company, then 125.0 percent of the average wage for all codes in the State; and,
- Companies must maintain average employment levels that are at least 9.5 percent higher than those in the fourth year of initial credit application.

The credit may be applied against the following taxes:

- Business Corporations (RIGL 44-11)

No statistics are available for this credit.

6. Contributions to Scholarship Organizations (RIGL 44-62): The State offers a tax credit for businesses that contribute to scholarship organizations for non-public K-12 schools in Rhode Island. Contributors may claim a 75.0 percent credit for donations for a one-year contribution, and up to 90.0 percent in cases where the contribution is made in two consecutive fiscal years. The credits are capped at $100,000 per business, per fiscal year, and $1.5 million statewide in any given fiscal year. The Division of Taxation issues tax credit certificates to qualifying companies.

An eligible scholarship organization in this State must be exempt from federal taxation under §501(c)(3) of the internal revenue code, and allocate at least 90.0 percent of its annual revenue through a scholarship program for tuition assistance grants to eligible students to allow them to attend any qualified school of their parents' choice represented by the scholarship organization. Eligible students must attend a qualified school and be a member of a household with total income not exceeding 250.0 percent of the federal poverty guidelines.

The credit may be applied against the following taxes:

- Business Corporations (RIGL 44-11)
- Public Utilities (RIGL 44-13)
- Banks (RIGL 44-14)
- Credit Unions (RIGL 44-15)
- Insurance (RIGL 44-17)
- Personal Income Tax (RIGL 44-30)

	Personal Income	
Fiscal Year	Taxpayers	Amount
2010	52	$270,095
2011	84	774,233
2012*	84	774,233
2013*	>84	1,274,233
2014*	>85	1,274,233
2015*	>86	1,274,233

**ORA Estimates*

7. Earned Income (RIGL 44-30-2.6(c)): The Earned Income Tax Credit (EITC) is a refundable tax credit for low and moderate income working individuals whereby the credit can go beyond reducing an individual's tax liability to zero to producing a credit that is greater than the amount of tax owed, thus representing a cash payment to the filer. It is designed to work in tandem with other cash transfer programs to encourage employment among low-income families. As income rises, cash benefits decrease and the EITC transfer increases as an offset, and in essence, replaces cash benefits and thus encourages employment.

Currently, qualified taxpayers are allowed to take 25.0 percent of the allowable federal EITC against personal income taxes owed; and the State will refund 15.0 percent of that credit. The General Assembly modified this credit structure in 2014, reducing the amount of the federal EITC allowable to 10.0 percent of the federal EITC beginning TY2015; however, the State refunds 100.0 percent of that amount.

	Personal Income	
Fiscal Year	Taxpayers	Amount
2010	78,690	$10,511,948
2011	82,690	9,895,368
2012	85,787	10,311,185
2013*	89,001	10,744,796
2014*	92,334	11,195,974
2015**	-	7,373,155

**ORA Estimates*

***ORA and Senate Fiscal Office estimate. Includes ($4.3) million impact from 2014 General Assembly changes to the EITC.*

8. Education Assistance and Development Tax Credit (RIGL 44-42-2): The State allows a business tax credit for contributions in excess of $10,000 to Rhode Island institutions of higher education for the establishment or maintenance of a faculty chair, department, or program for scientific research or education or a work fellowship program that provides training for scientific research or education. Businesses may claim up to 8.0 percent of the amount contributed above $10,000. The credit may be carried forward for up to five years, and may be applied against the following taxes:

- Business Corporations (RIGL 44-11)
- Public Service (Utilities) Corporations (RIGL 44-13)
- Banks (RIGL 44-14)
- Insurance Companies (RIGL 44-17)

	Business Corporations	
Fiscal Year	Taxpayers	Amount
2010	1	$79,200
2011	-	-
2012*	-	-
2013*	-	-
2014*	-	-
2015*	-	-

**ORA Estimates*

9. Employment – Welfare Bonus Program (RIGL 44-39.1-2): The State allows business that participate in the welfare bonus program to apply for a tax credit of $250 per eligible participant that is redeemable after an eligible employee works for 24 consecutive months for a company. The credit is non-refundable, and has no carry-forward provisions. The credit is limited to the first 100 individual recipients who are determined to be eligible to participate in the program. *[Note: The Department of Human Services no longer administers this program; as a result, the credit is effectively eliminated.]*

The credit may be applied against the following taxes:

- Business Corporations (RIGL 44-11)
- Public Service (Utilities) Corporations (RIGL 44-13)
- Banks (RIGL 44-14)
- Credit Unions (RIGL 44-15)
- Insurance Companies (RIGL 44-17)

In addition to the credit, participating companies are eligible to receive a State subsidy for wages earned by employees during participation in an 8-week training program. The subsidy shall not exceed the State minimum wage rate.

No statistics are available for this credit.

10. Enterprise Zones (RIGL 42-64.3-6): Business that are certified by the Enterprise Zone Council are allowed a credit equal to 50.0 percent of wages paid to newly-hired workers, capped at $2,500 per worker ($5,000 if worker resides in the designated Enterprise Zone). To be eligible, companies must hire at least 5.0 percent more employees than the previous year. For companies with less than 20 employees, they must hire at least 1 new employee. The credits may be carried forward for up to 3 years, and may be applied against the following taxes:

- Business Corporations (RIGL 44-11)

- Public Service (Utilities) Corporations (RIGL 44-13)
- Banks (RIGL 44-14)
- Insurance Companies (RIGL 44-17)

	Business Corporations		**Personal Income†**	
Fiscal Year	Taxpayers	Amount	Taxpayers	Amount
2010	44	$1,000,000	54	$296,260
2011	6	370,000	-	-
2012	6	320,000	-	-
2013*	6	508,607	-	-
2014*	6	546,328	-	-
2015*	6	548,987	-	-

**ORA Estimates*

†Not allowable beginning TY2011.

11. Historic Structures Credit (RIGL 44-33.2): The General Assembly enacted the State Historic Investment Tax Credit Act with an effective date of January 1, 2002. The Act provided for a credit against Rhode Island income tax equal to 30.0 percent of the “qualified rehabilitation expenditures” expended for the “substantial rehabilitation” of a “certified historic structure,” provided the rehabilitation meets standards consistent with United States Department of the Interior standards for the federal historic tax credit. The credits are transferable and may be carried forward for up to 10 years.

The 2008 General Assembly made substantive changes to the historic tax credit program, effectively ending the program for new projects. Only projects that had received initial certification by the RI Historical Preservation and Heritage Commission by January 1, 2008, would be eligible to receive future credits. Additionally, the maximum credit amount was reduced to an effective rate of 22.0 percent, through both the application of fees and a reduced credit rate. In conjunction with these changes, the State issued bonds to stabilize the effect of the credit redemption on State revenue sources. As credits are redeemed, the State now repays the General Fund using bond funds. Instead of a tax expenditure, the “cost” of the credit now appears as debt service on the bonds.

However, in 2012, a new law was enacted that reopened the program under a new and separate chapter of the law. Certain projects were grandfathered into the program and continued, however, other projects were “abandoned” – leaving approximately $34.5 million in credits unclaimed and available as of May 15, 2013. The new provisions re-titled the credits as “historic preservation tax credits” and vary from the former program in the following ways:

- Allows for the reissuance of tax credits previously issued but subsequently abandoned or forfeited by developers.
- Creates two tiers of tax credits. Approved projects qualify for tax credits of 25.0 percent of qualified expenditures if the first floor or at least 25.0 percent of the structure will be rentable by a trade or business; all other approved projects qualify for tax credits of 20.0 percent.
- Requires projects over $10.0 million in hard construction cost utilize contractors and sub-contractors with approved apprenticeship programs.
- Includes a three-year sunset, with no new credits to be issued after June 30, 2016.
- Limits credits to $5.0 million per project.

- Allows for the forfeiture of credits if substantial construction (defined as expenditure of 10 percent of qualified rehabilitation expenditures) have not commenced within 12 months of project approval or if the project remains idle for more than six months.
- Makes application fees nonrefundable.

Historic credits may be applied against the following taxes:

- Business Corporations (RIGL 44-11)
- Public Service (Utilities) Corporations (RIGL 44-13)
- Banks (RIGL 44-14)
- Insurance Companies (RIGL 44-17)
- Personal Income Tax (RIGL 44-30)

	Business Corporations		**Bank**		**Insurance Companies**		**Personal Income**	
Fiscal Year	Taxpayers	Amount	Taxpayers	Amount	Taxpayers	Amount	Taxpayers	Amount
2010	12	$1,400,232	1	$188,525	29	$23,281,331	395	$9,060,590
2011	4	389,855	-	-	12	6,648,455	235	3,204,014
2012	2	544,000	1	5,094,709	8	4,282,057	121	2,634,044
2013*	2	141,883	-	-	6	1,145,533	87	5,318,020
2014*	-	352,777	-	797,971	-	4,934,858	-	7,042,875
2015*	-	435,040	-	977,693	-	4,989,096	-	9,124,250

**ORA Estimates*

12. Historic Preservation (RIGL 44-33.6): A taxpayer that incurs qualified rehabilitation expenditures (QREs) for the substantial rehabilitation of a certified historic structure, provided the taxpayer is not a social club, is entitled to a credit is equal to 20.0 percent of the QREs for any certified historic structure or 25.0 percent of the QREs, provided that either:

- At least 25.0 percent of the total rentable area of the certified historic structure will be made available for trade or business; or,
- The entire rentable area located on the first floor of the certified historic structure will be made available for a trade or business.

Tax credits are allowed for the tax year in which the structure or an identifiable portion of the structure is placed into service. The maximum credit cannot exceed $5.0 million for all phases of any certified rehabilitation project and the total credits authorized cannot exceed the sum of the estimated credits available in the historic preservation tax credit trust fund. *[Note: Beginning in 2013, the Historic Structures Tax Credit (RIGL 44-33.2) effectively became a "new" credit (RIGL 44-33.6). While the credit essentially works the same way, the Office of Revenue Analysis reports each program separately since some credits that were initially claimed under the old program are being used.]*

Credits may be applied against the following taxes:

- Business Corporations (RIGL 44-11)
- Public Service (Utilities) Corporations (RIGL 44-13)
- Banks (RIGL 44-14)
- Insurance Companies (RIGL 44-17)
- Personal Income Tax (RIGL 44-30)

	Business Corporations		Bank		Insurance Companies	
Fiscal Year	Taxpayers	Amount	Taxpayers	Amount	Taxpayers	Amount
2013*	-	-	-	-	-	-
2014*	-	$10,932	-	$24,491	-	$111,955
2015*	-	30,333	-	67,413	-	217,308

**ORA Estimates*

13. Hydroelectric Power Credit (RIGL 44-30-22): The State allows a tax credit for up to 10.0 percent of the cost to install a hydroelectric power production facility in existing dams, capped at a maximum credit of $50,000. The credit may only be applied for in installations on dams that existed before 1981, and unused portions may be carried forward for up to 5 years. The credit may not be carried forward, and may be applied against the following taxes:

- Business Corporations (RIGL 44-11)

No statistics are available for this credit.

14. Incentives for Innovation and Growth (RIGL 44-63): The State offers a tax credit aimed at promoting high-wage, high-growth innovation industries. The credit allows eligible investors up to a 50.0 percent tax credit on investments, capped at $100,000 per investment. Qualifying investors must invest in publicly traded Rhode Island based companies with annual gross revenues less than $1.0 million in the prior two calendar years. Companies must fall into one of the following categories:

- Biotechnology and Life Sciences;
- Communication and Information Technology;
- Financial Services;
- Marine and Defense Manufacturing;
- Professional, Technical and Education Services; or
- Industrial and Consumer Product Manufacturing and Design.

Investors must apply for the credit through the RI Commerce Corporation (Commerce RI). Commerce RI may approve up to $1.0 million in Innovation Credits in any two calendar year period. Unused credit amounts may be carried forward for up to 3 years. The law includes a sunset date of December 31, 2016, after which the credit will be repealed.

The credits may be applied against the following taxes:

- Business Corporations (RIGL 44-11)
- Franchise Tax (RIGL 44-12)

	Personal Income†	
Fiscal Year	Taxpayers	Amount
2010	16	$125,033
2011	-	-
2012*	-	-
2013*	-	-
2014*	-	-
2015*	-	-

**ORA Estimates*

†Not allowable beginning TY2011.

15. Interest for Loans to Mill Building Owners (42-64.9-9): A 10.0 percent credit is allowed against taxes due for interest earned and paid on loans made to "eligible businesses," solely and exclusively for expenditures within a certified mill building. Eligible businesses are located in a certified mill building after the building has undergone substantial rehabilitation; engaged principally in manufacturing, wholesale trade, or other commercial business activities; and, whose salaries and wages exceed the total Rhode Island salaries and wages paid to its employees in the prior calendar year.

- Business Corporations (RIGL 44-11)
- Public Service (Utilities) Corporations (RIGL 44-13)
- Banks (RIGL 44-14)
- Insurance Companies (RIGL 44-17)
- Personal Income Tax (RIGL 44-30)

No statistics are available for this credit.

16. Investment Tax Credit (RIGL 44-31): A 4.0 percent credit is allowed against Business Corporation taxes for realty and tangible personal property in Rhode Island which are principally used by the taxpayer in the production of goods by manufacturing, processing or assembling. The credit is not available for leased property, is not refundable, and has a 7-year carryover. The State also allows 10.0 percent Investment Tax Credit for employers classified in manufacturing, wholesale trade, finance, insurance, real estate and selected services industries. In order to be eligible for the credit, the employer must be paying above average wages or investing significantly in employee training. In addition, more than half of the revenue of non-manufacturing firms must come from out-of-state sales or sales to the federal government.

Employers may qualify for the credit by meeting one of the following three criteria:

- The employer's median annual wage paid to its full-time equivalent employees must be greater than the average annual wage paid by all employers in the State in the same two-digit SIC, or
- The employer's median annual wage paid to its full-time equivalent employees is greater than or equal to 125.0 percent of the average annual wage paid by all employers in the State (125.0 percent of the average annual wage paid to all covered workers in 2012 was equal to $55,726), or
- *For manufacturing employers only - the average annual wage paid to the employer's full- time equivalent employees classified as production workers (as defined by the Department of Labor and Training) is greater than the average annual wage paid to all production workers in the State in the same two-digit SIC Code.*
- The firm invests at least 2.0 percent of total payroll costs in worker training or retraining programs.

The credits may be applied against the following taxes:

- Business Corporations (RIGL 44-11)
- Banks (RIGL 44-14)
- Insurance Companies (RIGL 44-17)

	Business Corporations		Insurance Companies		Personal Income†	
Fiscal Year	Taxpayers	Amount	Taxpayers	Amount	Taxpayers	Amount
2010	283	$16,580,000	1	$430,000	337	$1,321,236
2011	73	17,570,000	1	190,000	-	-
2012	75	21,216,888	2	480,000	-	-
2013*	75	15,718,000	2	587,750	-	-
2014*	75	16,201,600	2	529,300	-	-
2015*	75	17,433,920	2	443,410	-	-

**ORA Estimates*

†Not allowable beginning TY2011.

17. Job Training Tax Credit (RIGL 42-64.6): Rhode Island allows certain companies a tax credit equal to 50.0 percent of eligible training expenditures for new and existing employees. Training plans must be approved by the RI Human Resource Investment Council, and certain professional service providers are not eligible. To qualify, employees enrolled in training programs must be full-time (over 30 hours per week) and must earn at least 150.0 percent of the RI minimum wage after completion of the training. Training costs are capped at $5,000 per employee over a three-year period. The credit may be applied against the following taxes:

- Business Corporations (RIGL 44-11)
- Public Utilities (RIGL 44-13)
- Banks (RIGL 44-14)
- Insurance (RIGL 44-17)

	Business Corporations		Personal Income†	
Fiscal Year	Taxpayers	Amount	Taxpayers	Amount
2010	22	$800,000	45	$127,218
2011	-	-	-	-
2012	5	1,330,000	-	-
2013*	5	586,000	-	-
2014*	5	687,200	-	-
2015*	5	680,640	-	-

**ORA Estimates*

†Not allowable beginning TY2011.

18. Juvenile Restitution Credit (RIGL 14-1-32.1): The State offers a tax credit equal to 10.0 percent of the wages paid to juveniles who are hired and subject to victim restitution penalties under Family Court order. The credit is capped at $3,000 annually. The credit may be applied against the following taxes:

- Business Corporations (RIGL 44-11)

No statistics are available for this credit.

19. Lead Paint Abatement (RIGL 44-30.3-1): A property owner or lessee who resides in Rhode Island is entitled to tax relief for residential lead removal or lead hazard reduction when he or she: (1) obtains a Housing Resources Commission (HRC) regulated certificate of conformance for mitigation; or, (2) obtains a Department of Health (DOH) regulated lead safe certificate for abatement.

The tax relief shall be equal to the amount actually paid for the required lead abatement or lead hazard mitigation up to a maximum of $1,500 per dwelling unit for mitigation and up to $5,000 per dwelling unit for abatement. The credit can be earned on a maximum of three dwelling units per claimant. The tax credit is refundable for the amounts of the credit claimed in excess of the taxpayer's liability.

The maximum amount of credits that can be claimed in a given fiscal year is $250,000. Claimants with household incomes of $35,200 or less shall receive priority in receiving tax credit certificates.

The 2014 General Assembly created the HRC Restricted Account, which exempts revenue raised from with the real estate conveyance tax from the 10.0 percent indirect cost recovery provision. A portion of these funds, along with $600,000 from the Mortgage Fraud Settlement, estimated to be $3.4 million in total for FY2015, will be dedicated to the HRC for lead abatement funding and the housing rental subsidy program.

The credit may be applied against the following taxes:

- Personal Income (RIGL 44-30)

	Personal Income	
Fiscal Year	Taxpayers	Amount
2010	45	$266,360
2011	54	250,000
2012*	54	250,000
2013*	54	250,000
2014*	54	250,000
2015*	54	250,000

**ORA Estimates*

20. Motion Picture Production Credit (44-31.2): The State offers a tax credit for motion picture production companies equivalent to 25.0 percent of qualified production costs attributable to expenditures from to activity within the State. The credits are transferable, and unused portions may be carried forward for up to three years. The 2012 General Assembly capped the total credit issuance for a given production at $5.0 million in a given year, and productions must meet a minimum $100,000 production budget threshold to qualify. The Tax Administrator may waive the tax credit cap for any feature length film or television series to use up any unused amounts in the motion picture tax credit program up to the $15.0 million annual threshold. This cap also includes musical and theatrical production tax credits. Several other modifications were made regarding the credit, including clarification of definitions in the statute and expanding the eligibility to documentary, musical, and theatrical productions. Under a sunset provision enacted in 2012, no film tax credits can be issued on or after July 1, 2019, unless a production has received initial certification prior to July 1, 2019.

The credits may be applied against the following taxes:

- Business Corporations (RIGL 44-11)
- Banks (RIGL 44-14)
- Insurance (RIGL 44-17)
- Personal Income Tax (RIGL 44-30)

	Business Corporations		Bank		Insurance Companies		Personal Income	
Fiscal Year	Taxpayers	Amount	Taxpayers	Amount	Taxpayers	Amount	Taxpayers	Amount
2010	1	$34,900	-	-	3	$1,661,033	54	$856,539
2011	5	902,095	-	-	3	1,999,984	35	1,925,661
2012	2	415,197	-	-	1	1,874,355	11	335,625
2013*	-	847,764	-	511	-	1,858,533	-	1,849,374
2014*	-	993,919	-	1,498	-	2,374,279	-	3,160,678
2015*	-	1,510,245	-	2,290	-	4,428,302	-	4,599,898

**ORA Estimates*

21. Motor Fuel Use Carrier Taxes Paid to Rhode Island (RIGL 31-36.1-15): The State offers a tax credit for motor carriers on all motor fuel purchased by the carrier within this State for use in its operations outside the State. The carrier must file evidence of the payment of the tax to the Tax Administrator claiming the credit allowed in this chapter.

When the amount of the credit provided exceeds the amount of the tax for which the carrier is liable for the same quarter, the excess may, under the regulations of the Tax Administrator and the International Fuel Tax Agreement (IFTA), be allowed as a credit on the tax for which the carrier would be otherwise liable for any of the eight (8) succeeding quarters.

The credits may be applied against the following taxes:

- Motor Carrier Fuel Use (RIGL 36-31)

	Motor Carrier Fuel Use	
Fiscal Year	Taxpayers	Amount
2010	875	$3,580,586
2011	874	3,473,116
2012*	874	3,473,116
2013*	874	3,473,116
2014*	874	3,473,116
2015*	874	3,473,116

**ORA Estimates*

22. Musical and Theatrical Production (RIGL 44-31.3-2): Any person, firm, partnership, trust, estate or other entity that receives an accredited theater production certificate shall be allowed a tax credit equal to 25.0 percent of the total production and performance expenditures and transportation expenditures for the accredited theater production. In order to qualify for the credit, the production must meet the following accreditation criteria:

An accredited theater production is defined as a for-profit live stage presentation in a qualified production facility that meets the following criteria:

- **Must be a pre-Broadway production or post-Broadway production:** Pre-Broadway production means a live stage production that, in its original or adaptive version, is performed in a qualified production facility having a presentation scheduled for Broadway's theater district in New York City within 12 months after its Rhode Island presentation pre-Broadway production; a post-Broadway production means a live stage production that, in its original or adaptive version, is performed in a qualified production facility and opens its US tour in Rhode Island after a presentation scheduled for Broadway's theater district in New York City.

- **Performed in a Qualified Production Facility:** A qualified production facility in the State which contains at least one stage, capacity to seat at least 1,500 people, dressing rooms, storage areas, and other ancillary amenities necessary for the accredited theater production.
- **Certification by the Rhode Island Film and Television Office (RIFTO):** The production must receive an "accredited theater production certificate" issued by the Rhode Island Film and Television Office certifying that the production is an accredited theater production that meets the guidelines of this chapter.

The credit may not exceed $5.0 million and is limited to certified production costs directly attributable to activities in the State and transportation expenditures. The total production budget must be a minimum of $100,000. No more than $15,000,000 may be issued for any tax year for motion picture tax credits and/or musical and theatrical production tax credits. These credits are equally available to motion picture productions and musical and theatrical productions. No specific amount is set aside for either type of production.

- Business Corporations (RIGL 44-11)
- Public Utilities (RIGL 44-13)
- Banks (RIGL 44-14)
- Insurance (RIGL 44-17)
- Personal Income Tax (RIGL 44-30)

	Personal Income Tax	
Fiscal Year	Taxpayers	Amount
2013*	-	-
2014*	874	58,869
2015*	874	115,534

**ORA Estimates*

23. Property Tax Relief (RIGL 44-33-5): The purpose of the Property Tax Relief Act is to provide relief, through a system of tax credits, refunds, and appropriations from the general fund, to elderly and disabled persons who own or rent their homes. Currently, taxpayers with incomes up to 175.0 percent of the federal poverty level (FPL) are allowed a $300 (maximum) credit under the Act. A claimant is entitled to a credit against his or her tax liability equal to the amount by which the property taxes accrued, or rent constituting property taxes accrued, upon the claimant's homestead for the taxable year exceeds a certain percentage of the claimant's total household income for that taxable year. The allowable percentage is based upon income level and household size, computed in accordance with the following table:

Income Range	**1 Person**	**2 or More Persons**
Less than $6,000	3.0%	3.0%
$6,001 - $9,000	4.0%	4.0%
$9,001 - $12,000	5.0%	5.0%
$12,001 - $15,000	6.0%	5.0%
$15,001 - $30,000	6.0%	6.0%

The 2014 General Assembly revised the rules for this program, allowing only elderly (over age 65) and disabled claimants entitlement to the PTRC. This change takes effect beginning TY2015 and aligns the program to its original purpose. *Note: The FY2015 Budget as Enacted assumes a savings of $8.2 million. This estimate uses TY2012 data which cannot directly impact the total below as the Expenditures Report forecast is based on TY2011 data.*

The credits may be applied against the following taxes:

- Personal Income Tax (RIGL 44-30)

	Personal Income	
Fiscal Year	Taxpayers	Amount
2010	52,517	$14,331,123
2011	45,723	12,423,123
2012*	45,723	12,423,123
2013*	45,723	12,423,123
2014*	45,723	12,423,123
2015*	45,724	12,423,124

**ORA Estimates*

24. Real or Personal Property Taxed in Another State (RIGL 44-40-3(b)): A tax is imposed upon every generation-skipping transfer in an amount equal to the amount allowable as a credit for state legacy taxes under 26 U.S.C. § 2604. If any of the property transferred is real property in another state or personal property having taxable situs in another state which requires the payment of a tax for which credit is received against the federal generation-skipping transfer tax, any tax due is reduced by is ratio of the value of the property in the other state to the value of the gross generation-skipping transfer for federal generation-skipping transfer tax purposes. This credit is a component of the estate and transfer tax; it is separated out in the Tax Expenditures report because it falls under a separate section of law.

The credits may be applied against the following taxes:

- Generation-Skipping Transfer Tax (RIGL 44-40)

No statistics are available for this credit.

25. Research & Development - Expense Credit (RIGL 44-32-3): Rhode Island offers a tax credit for qualified research and development expenses incurred after a defined base period. The credit equals 22.5 percent of the first $25,000 in additional qualified expenses, and 16.9 percent for expenses above $25,000. The credit may not be used to reduce a company's tax liability below 50.0 percent of what would be owed without the credit. Unused credit amounts may be carried forward for up to 7 years. The credit may be applied against the following taxes:

- Business Corporations (RIGL 44-11)
- Insurance (RIGL 44-17)

	Business Corporations		**Insurance**		**Personal Income†**	
Fiscal Year	Taxpayers	Amount	Taxpayers	Amount	Taxpayers	Amount
2010	106	$5,128,469	1	$430,000	113	$979,353
2011	46	2,495,857	1	160,000	-	-
2012	47	5,077,699	-	-	-	-
2013*	47	4,353,540	1	386,000	-	-
2014*	47	452,248	1	317,200	-	-
2015*	47	4,328,697	1	258,640	-	-

**ORA Estimates*

†Not allowable beginning TY2011.

26. Research & Development - Property Credit (RIGL 44-32-2): The State allows taxpayers a 10.0 percent tax credit for expenses related to the construction, reconstruction or acquisition of a property that will principally be used for research and development in an "experimental or laboratory sense". The investment must be depreciable and have a useful life of at least 3 years. Leased properties are not eligible for the credit. Unused credit amounts may be carried forward for up to 7 years. The credit may be applied against the following taxes:

- Business Corporations (RIGL 44-11)
- Insurance (RIGL 44-17)

	Business Corporations		**Personal Income†**	
Fiscal Year	Taxpayers	Amount	Taxpayers	Amount
2010	7	$1,101,191	10	$22,883
2011	1	20,000	-	-
2012	1	1,725	-	-
2013*	7	378,889	-	-
2014*	7	414,667	-	-
2015*	7	383,056	-	-

**ORA Estimates*

†Not allowable beginning TY2011.

27. Residential Renewable Energy System Credit (RIGL 44-57): Rhode Island offers a 25.0 percent tax credit for residential installation of renewable energy systems including: solar domestic hot water, solar space heating, and wind, geothermal, and photovoltaic energy systems. The State caps credit amounts based on the type of system (RIGL 44-57-5). The State does not allow unused portions of the credit to be carried forward, and taxpayers may not reduce the tax owed below any minimum (when applicable). The credit may be applied against the following taxes:

- Business Corporations (RIGL 44-11)

	Personal Income†	
Fiscal Year	Taxpayers	Amount
2010	62	$104,625
2011	-	-
2012	-	-
2013*	-	-
2014*	-	-
2015*	-	-

**ORA Estimates*

†Not allowable beginning TY2011.

28. Specialized Investment in Mill Building (RIGL 42-64.9-7): A certified mill building owner may be allowed a specialized investment tax credit for the rehabilitation and reconstruction costs of a certified building, which has been substantially rehabilitated. Once substantial rehabilitation is established by the taxpayer, the taxpayer may claim a 10.0 percent credit for all rehabilitation and reconstruction costs incurred with respect to the certified building within five (5) years from the date of final designation of the certified building by the Rhode Island Commerce Corporation.

The credit may be applied against the following taxes:

- Business Corporations (RIGL 44-11)

No statistics are available for this credit.

28. Taxes Paid to Other States (RIGL 44-30-18): A resident is allowed a credit, against the Rhode Island personal income tax otherwise due for the taxable year, for the aggregate of net income taxes imposed on him or her for the taxable year by other states (including the District of Columbia) if the taxes are imposed irrespective of the residence of the taxpayer. The credit may not exceed the proportion of the taxpayer's Rhode Island personal income tax that the taxpayer's Rhode Island income derived from the other taxing states bears to his or her entire Rhode Island income for the same taxable year.

The credits may be applied against the following taxes:

- Personal Income Tax (RIGL 44-30)
- Banks (RIGL 44-14)
- Insurance (RIGL 44-17)

	Personal Income	
Fiscal Year	Taxpayers	Amount
2010	69,801	$124,489,741
2011	72,586	140,340,482
2012	74,602	149,361,327
2013*	74,602	149,361,327
2014*	74,602	149,361,327
2015*	74,602	149,361,327

29. Wages Paid by Employers in Mill Buildings (RIGL 42-64.9-8): A taxpayer who owns and operates an eligible business within a certified mill building that has been substantially rehabilitated is allowed a credit against the Rhode Island business corporations and personal income taxes. The credit is equal to 100.0 percent of the total amount of Rhode Island salaries and wages as are paid to the same employees in excess of the prior calendar year. The maximum credit allowed per taxable year under the provision of the subsection is $3,000 per qualified employee.

The credit may be applied against the following taxes:

- Business Corporations (RIGL 44-11)

No statistics are available for this credit.

2010 PERSONAL INCOME TAX REFORM

In 2010, the General Assembly reformed the State's Personal Income Tax (PIT) making structural changes that effectively eliminated many tax credits that still appear statutorily in State law. Beginning in TY2011, the overhaul no longer permits taxpayers to itemize their deductions; instead, taxpayers are only allowed a standard deduction to determine Rhode Island taxable income. Eight credits, noted in the Personal Income Tax report of this publication, are still permitted against the PIT; however, the following tax credits were either eliminated or not allowable against the PIT as part of this reform:

- **Adult & Child Day Care Assistance and Development Tax Credit (RIGL 44-47):** This credit is allowable under other tax liabilities. See summary "2" of this report.
  - *In TY2010, a total of $14,299 from 15 taxpayers was credited against the personal income tax.*
- **Artwork Exhibition (RIGL 44-30-24):** Allows individual income tax credits equal to 10.0 percent of the purchase price of art, with a maximum credit value of $1,000. Any amount of unused credit may not be carried forward into subsequent tax years. Of note, the Board of Curators (RIGL 42-97) is

required to certify credit eligibility; however, the Board is no longer in existence, so in effect the credit cannot be issued. *[Effectively eliminated.]*

- *No credits have been taken against these taxes since TY2010. A total of $147 from two taxpayers was credited against the personal income tax.*

	Personal Income†	
Fiscal Year	Taxpayers	Amount
2010	2	$147
2011	-	-
2012	-	-
2013*	-	-
2014*	-	-
2015*	-	-

**ORA Estimates*

†Not allowable beginning TY2011.

- **Biotechnology Investment Tax Credit (RIGL 44-31-1.1):** This credit is allowable under other tax liabilities. See summary "5" of this report.
    - *No statistics are available for this credit.*
- **Employment – Welfare Bonus Program (RIGL 44-39.1-2):** This credit is allowable under other tax liabilities. See summary "9" of this report.
    - *No statistics are available for this credit.*
- **Enterprise Zones (RIGL 42-64.3-6):** This credit is allowable under other tax liabilities. See summary "10" of this report.
    - *In TY2010, a total of $296,260 from 54 taxpayers was credited against the personal income tax.*
- **Farm to School Income (RIGL 44-30-27):** Upon presentation of written certification by a local education agency (LEA), an individual or entity domiciled in the state for the entire tax year, is entitled to an income tax credit, equal to 5.0 percent of the cost of farm products grown or produced in the State, for the purchase of produce grown in the State used in connection with that individual's or entity's agreement to provide food, services or other products to a LEA. Any amount of income tax credit not deductible in the taxable year of certification may not be carried over to the following year. The credit may not be applied until all other credits available to the taxpayer for that taxable year are applied. *[Effectively eliminated.]*
    - *No statistics are available for this credit.*
- **Historic Homeownership Assistance (RIGL 44-33.1):** Rhode Island taxpayers who own and reside in a designated historical residence may apply for a tax credit for up to 20.0 percent of the certified costs of renovations to and/or rehabilitation of historical properties. The credit is capped at $2,000, and unused portions may be carried forward to subsequent tax years. The Rhode Island Historical Preservation and Heritage Commission is charged with certifying eligible projects. *[Effectively eliminated.]*
    - *No statistics are available for this credit.*
- **Hydroelectric Power Credit (RIGL 44-30-22):** This credit is allowable under other tax liabilities. See summary "13" of this report.
    - *No statistics are available for this credit.*

- **Incentives for Innovation and Growth (RIGL 44-63):** This credit is allowable under other tax liabilities. See summary "14" of this report.
    - *No credits have been taken against these taxes since TY2010, when a total of $125,033 from 16 taxpayers was credited against the personal income tax.*
- **Interest for Loans to Mill Building Owners (RIGL 42-64.9-9):** This credit is allowable under other tax liabilities. See summary "15" of this report.
    - *No statistics are available for this credit.*
- **Investment Tax Credit (RIGL 44-31):** This credit is allowable under other tax liabilities. See summary "16" of this report.
    - *In TY2010, a total of $1.3 million from 337 taxpayers was credited against the personal income tax.*
- **Job Training Tax Credit (RIGL 42-64.6):** This credit is allowable under other tax liabilities. See summary "17" of this report.
    - *In TY2010, a total of $127,218 from 45 taxpayers was credited against the personal income tax.*
- **Juvenile Restitution Credit (RIGL 14-1-32.1):** This credit is allowable under other tax liabilities. See summary "18" of this report.
    - *No statistics are available for this credit.*
- **Non-Resident Trust Beneficiary for Accumulating Distribution (RIGL 44-31.3-2):** A nonresident beneficiary of a trust whose Rhode Island income includes all or part of an accumulation distribution by the trust is allowed a credit against the personal income tax. The credit may not reduce the tax otherwise due from the beneficiary to an amount less than would have been due if the accumulation distribution or his or her part thereof were excluded from his or her Rhode Island income. *[Effectively eliminated.]*
    - *No statistics are available for this credit.*
- **Qualifying Widow(er) (RIGL 44-30-26):** A Rhode Island resident who qualifies as a surviving spouse under the Internal Revenue Code of the United States, is at least 65 years of age, and has an adjusted gross income (AGI) of less than $25,000 is entitled to a credit against the personal income tax. The credit is equal to 2.0 percent of the taxpayer's AGI up to a maximum of $500. *[Effectively eliminated.]*
    - *No statistics are available for this credit.*
- **Research & Development - Expense Credit (RIGL 44-32-3):** This credit is allowable under other tax liabilities. See summary "25" of this report.
    - *In TY2010, a total of $979,353 from 113 taxpayers was credited against the personal income tax.*
- **Research & Development - Property Credit (RIGL 44-32-2):** This credit is allowable under other tax liabilities. See summary "26" of this report.
    - *In TY2010, a total of $22,883 from 10 taxpayers was credited against the personal income tax.*
- **Resident Trust Beneficiary for Accumulating Distribution (RIGL 44-30-19):** A resident beneficiary of a trust is allowed a credit against the personal income tax when Rhode Island income includes all or part of an accumulation distribution by the trust on which the trust has paid the Rhode Island tax. *[Effectively eliminated.]*
    - *No statistics are available for this credit.*

- **Residential Renewable Energy System Credit (RIGL 44-57):** This credit is allowable under other tax liabilities. See summary “27” of this report.
    - *No credits have been taken against these taxes since TY2010, when a total of $104,625 from 62 taxpayers was credited against the personal income tax.*
- **Specialized Investment in Mill Building (RIGL 42-64.9-7):** A certified mill building owner may be allowed a specialized investment tax credit for the rehabilitation and reconstruction costs of a certified building, which has been substantially rehabilitated. Once substantial rehabilitation is established by the taxpayer, the taxpayer may claim a 10.0 percent credit for all rehabilitation and reconstruction costs incurred with respect to the certified building within five (5) years from the date of final designation of the certified building by the Rhode Island Commerce Corporation. *[Effectively eliminated.]*
    - *No statistics are available for this credit.*
- **Wages Paid by Employers in Mill Buildings (RIGL 42-64.9-8):** This credit is allowable under other tax liabilities. See summary “29” of this report.
    - *No statistics are available for this credit.*

Tax Incentives for Economic Development

The State offers incentives for individuals and businesses aimed at encouraging economic development. The following report summarizes only the major economic incentives and related expenditures.

The revenue impacts cited below are from both the Unified Economic Development Report and the 2014 Tax Expenditures Reports unless otherwise noted. The Department of Revenue, Office of Revenue Analysis annually publishes the "Unified Economic Development Report" by January 15th of each year. The report is required under RIGL 42-142-6 to provide comprehensive information regarding the tax credits or other tax benefits conferred related to several of the expenditures identified below during the preceding fiscal year. As noted in the Tax Credits report of this publication, the Department of Revenue, Office of Revenue Analysis also publishes a biennial report in even numbered years entitled the "Tax Expenditures Report," which is designed to report (or estimate) the amount of revenue foregone due to the tax expenditure, and also to compare the expenditure item to determine if similar allowances exist in other New England states. Values are actual amounts taken in credits, unless noted by an asterisk (*) which indicates a projected amount.

The tax credits and incentives detailed in this summary are State incentives.

Summary of 2014 Tax Expenditures for Economic Incentive Programs

Program Title	RIGL	Type	FY2014 Cost*
Purchases Used for Manufacturing Purposes	44-18-30(7)	Exemption	$326,001,091
Manufacturers' Machinery and Equipment	44-18-30(22)	Exemption	28,203,465
Investment*	44-31-1	Credit	16,730,900
Jobs Development Act	42-64.5	Rate Reduction	16,394,619
Historic Structures	44-33.2-3	Credit	13,128,481
Motion Picture Production Tax Credit	44-31.2-5	Credit	11,430,989
Project Status	42-64-20	Exemption	5,957,015
Research and Development Expense	44-32-3	Credit	4,859,448
Sales by Writers, Composers, and Artists	44-18-30B	Exemption	2,848,575
Contributions to Scholarship Organizations	44-62-3	Credit	1,274,233
Equipment for Research and Development	44-18-30(42)	Exemption	934,074
Enterprise Zone Wage Credit*	42-64.3-6	Credit	701,936
Research and Development Property	44-32-2	Credit	414,667
Historic Preservation	44-33.6-3	Credit	382,035
Biodiesel Portion of Blended Gallon of Diesel Fuel	31-36-1	Exclusion	362,697
Musical and Theatrical Production	44-31.3-2	Credit	58,869
Long-Term Gain from Capital Investment in Small Business*	44-43-5	Modification	-
Jobs Training	42-64.6-4	Credit	-
Jobs Growth Act	42-64.11-4	Modification	-
Tax Incentives for Employers	44-55-4.1	Modification	-
Qualified Investment in a Certified Venture Capital Partnership	44-43-2	Deduction	-
Incentives for Innovation and Growth*	44-63-2	Credit	-
Gain from Stock Options in Qualifying Corporations*	44-39.3-1	Modification	-
Total Tax Expenditures			**$429,683,094**

**Credit no longer allowable against the personal income tax beginning TY2011. (Credit may be taken against other tax types; Varies by individual credit.) noted in the summary of those credits in this report.*

1. Purchases Used for Manufacturing Purposes (RIGL 44-18-30(7)): Gross receipts from the sale, storage, use, or other consumption in this State of computer software, tangible personal property, and certain utilities, are exempt from sales tax under the following conditions:

- When the property or service is purchased for the purpose of being manufactured into a finished product for resale, and becomes an ingredient, component, or integral part of the manufactured, compounded, processed, assembled, or prepared product; or,
- If the property or service is consumed in the process of manufacturing for resale computer software, tangible personal property, electricity, natural gas, artificial gas, steam, refrigeration, or water.

This tax expenditure item is applied against the following tax:

- Sales and Use (RIGL 44-18)

	Sales and Use Tax	
Fiscal Year	Taxpayers	Amount
2010	-	$293,086,511
2011	-	297,774,719
2012*	-	310,943,724
2013*	-	326,001,091
2014*	-	326,001,091
2015*	-	326,001,091

**ORA Estimates*

2. Manufacturers' Machinery and Equipment (RIGL 44-18-30(22)): The sale, storage, use or other consumption of tools, dies, and molds, and machinery and equipment used in the furnishing of power to an individual manufacturing plant is exempt from the sales and use tax. This includes replacement parts and related items to the extent used in connection with the actual manufacture, conversion, or processing of tangible personal property or computer software. Machinery and equipment used in administration or distribution operations is not exempt.

This tax expenditure item is applied against the following tax:

- Sales and Use (RIGL 44-18)

	Sales and Use Tax	
Fiscal Year	Taxpayers	Amount
2010	-	$25,356,182
2011	-	25,761,779
2012*	-	26,901,087
2013*	-	28,203,765
2014*	-	28,203,765
2015*	-	28,203,765

**ORA Estimates*

3. Investment Tax Credit (RIGL 44-31): A 4.0 percent credit is allowed against Business Corporation and Personal Income Taxes for realty and tangible personal property in Rhode Island which are principally used by the taxpayer in the production of goods by manufacturing, processing or assembling. The credit is not available for leased property, is not refundable, and has a 7-year carryover. The State also allows 10.0 percent Investment Tax Credit for employers classified in manufacturing, wholesale trade, finance, insurance, real estate and selected services industries. In order to be eligible for the credit, the employer must be paying above average wages or investing significantly in employee training. In addition, more than half of the revenue of non-manufacturing firms must come from out-of-state sales or sales to the federal government.

Employers may qualify for the credit by meeting one of the following three criteria:

- The employer's median annual wage paid to its full-time equivalent employees must be greater than the average annual wage paid by all employers in the State in the same two-digit SIC, or
- The employer's median annual wage paid to its full-time equivalent employees is greater than or equal to 125.0 percent of the average annual wage paid by all employers in the State (125.0 percent of the average annual wage paid to all covered workers in 2012 was equal to $55,726), or
- *For manufacturing employers only - the average annual wage paid to the employer's full- time equivalent employees classified as production workers (as defined by the Department of Labor and Training) is greater than the average annual wage paid to all production workers in the State in the same two-digit SIC Code.*
- The firm invests at least 2.0 percent of total payroll costs in worker training or retraining programs.

This tax expenditure item may be applied against the following taxes:

- Business Corporations (RIGL 44-11)
- Banks (RIGL 44-14)
- Insurance Companies (RIGL 44-17)

	Business Corporations		**Insurance Companies**		**Personal Income†**	
Fiscal Year	Taxpayers	Amount	Taxpayers	Amount	Taxpayers	Amount
2010	283	$16,580,000	1	$430,000	337	$1,321,236
2011	73	17,570,000	1	190,000	-	-
2012	75	21,216,888	2	480,000	-	-
2013*	75	15,718,000	2	587,750	-	-
2014*	75	16,201,600	2	529,300	-	-
2015*	75	17,433,920	2	443,410	-	-

**ORA Estimates*

†Not allowable beginning TY2011.

4. Jobs Development Act (RIGL 42-64.5): The Jobs Development Act (JDA) allows for an incremental reduction in the corporate income tax rate (currently 7.0 percent) to companies that create and retain new employment in Rhode Island over the three-year period. Companies may reduce their tax liability by one quarter percentage point (0.25 percent) for every additional unit of employment. Units of employment vary based on the size of the company, based on the following:

- For companies with baseline employment below 100 employees, a unit of employment consists of 10 new FTE positions;
- For companies with baseline employment above 100 employees, a unit of employment consists of 50 new FTE positions;
- The tax rate may be reduced by a maximum of 6.0 percentage points (to 3.0 percent), and is permanent as long as the company maintains the employment threshold set at the third year of following the base year period.

For companies qualifying prior to July 1, 2009, a full-time equivalent employee is defined as one who works at least 30 hours per week and is paid at least 150.0 percent of the State minimum wage rate. The 2009 General Assembly changed qualifying definitions for companies qualifying after July 1, 2009. These companies must hire employees that work at least 30 hours per week, earn health insurance and retirement benefits, and earn at least 250.0 percent of the State minimum wage rate.

The JDA could be impacted by the corporate tax reform legislation passed in the FY2015 Budget as Enacted. This legislation instituted combined reporting and reduced the corporate tax rate from 9.0

percent to 7.0 percent. Tax rate reductions authorized under RIGL 42-64.5 are allowed against the net income of the combined group.

Any company eligible for this incentive program and required to file and pay taxes under Rhode Island business corporations tax statutes (RIGL 44-11) will determine the rate reduction by multiplying the aggregate amount of new employment of the eligible company and its eligible subsidiaries for each taxable year by 0.20 percent. The amount of each rate reduction shall in no event be greater than 4.0 percentage points for tax years beginning on or after January 1, 2015.

This tax expenditure item may be applied against the following taxes:

- Business Corporations (RIGL 44-11)
- Public Utilities (RIGL 44-13)
- Banks (RIGL 44-14)
- Insurance (RIGL 44-17)

	Business Corporations		**Bank**	
Fiscal Year	Taxpayers	Amount	Taxpayers	Amount
2010	7	$16,481,596	1	$9,046
2011	6	11,853,646	1	3,839
2012*	5	7,340,000	1	20,000
2013*	5	11,980,000	1	3,839
2014*	5	11,209,976	1	20,000
2015*	5	13,431,765	1	21,677

**ORA Estimates. These numbers do not reflect FY2015 corporate tax reform changes as they were enacted after the Tax Expenditures Report.*

5. Historic Structures (RIGL 44-33.2-3): The General Assembly enacted the State Historic Investment Tax Credit Act with an effective date of January 1, 2002. The Act provided for a credit against Rhode Island income tax equal to 30.0 percent of the “qualified rehabilitation expenditures” expended for the “substantial rehabilitation” of a “certified historic structure,” provided the rehabilitation meets standards consistent with United States Department of the Interior standards for the federal historic tax credit. The credits are transferable and may be carried forward for up to 10 years.

The 2008 General Assembly made substantive changes to the historic tax credit program, effectively ending the program for new projects. Only projects that had received initial certification by the RI Historical Preservation and Heritage Commission by January 1, 2008, would be eligible to receive future credits. Additionally, the maximum credit amount was reduced to an effective rate of 22.0 percent, through both the application of fees and a reduced credit rate. In conjunction with these changes, the State issued bonds to stabilize the effect of the credit redemption on State revenue sources. As credits are redeemed, the State now repays the General Fund using bond funds. Instead of a tax expenditure, the “cost” of the credit now appears as debt service on the bonds.

However, in 2012, a new law was enacted that reopened the program under a new and separate chapter of the law. Certain projects were grandfathered into the program and continued, however, other projects were “abandoned” – leaving approximately $34.5 million in credits unclaimed and available as of May 15, 2013. The new provisions re-titled the credits as “historic preservation tax credits” and vary from the former program in the following ways:

- Allows for the reissuance of tax credits previously issued but subsequently abandoned or forfeited by developers.

- Creates two tiers of tax credits. Approved projects qualify for tax credits of 25.0 percent of qualified expenditures if the first floor or at least 25.0 percent of the structure will be rentable by a trade or business; all other approved projects qualify for tax credits of 20.0 percent.
- Requires projects over $10.0 million in hard construction cost utilize contractors and sub-contractors with approved apprenticeship programs.
- Includes a three-year sunset, with no new credits to be issued after June 30, 2016.
- Limits credits to $5.0 million per project.
- Allows for the forfeiture of credits if substantial construction (defined as expenditure of 10 percent of qualified rehabilitation expenditures) have not commenced within 12 months of project approval or if the project remains idle for more than six months.
- Makes application fees nonrefundable.

Historic credits may be applied against the following taxes:

- Business Corporations (RIGL 44-11)
- Public Service (Utilities) Corporations (RIGL 44-13)
- Banks (RIGL 44-14)
- Insurance Companies (RIGL 44-17)
- Personal Income Tax (RIGL 44-30)

	Business Corporations		**Bank**		**Insurance Companies**		**Personal Income**	
Fiscal Year	Taxpayers	Amount	Taxpayers	Amount	Taxpayers	Amount	Taxpayers	Amount
2010	12	$1,400,232	1	$188,525	29	$23,281,331	395	$9,060,590
2011	4	389,855	-	-	12	6,648,455	235	3,204,014
2012	2	544,000	1	5,094,709	8	4,282,057	121	2,634,044
2013*	2	141,883	-	-	6	1,145,533	87	5,318,020
2014*	-	352,777	-	797,971	-	4,934,858	-	7,042,875
2015*	-	435,040	-	977,693	-	4,989,096	-	9,124,250

**ORA Estimates*

6. Motion Picture Production Credit (44-31.2): The State offers a tax credit for motion picture production companies equivalent to 25.0 percent of qualified production costs attributable to expenditures from to activity within the State. The credits are transferable, and unused portions may be carried forward for up to three years. The 2012 General Assembly capped the total credit issuance for a given production at $5.0 million in a given year, and productions must meet a minimum $100,000 production budget threshold to qualify. The Tax Administrator may waive the tax credit cap for any feature length film or television series to use up any unused amounts in the motion picture tax credit program up to the $15.0 million annual threshold. Several other modifications were made regarding the credit, including clarification of definitions in the statute and expanding the eligibility to documentary, musical, and theatrical productions. Under a sunset provision enacted in 2012, no film tax credits can be issued on or after July 1, 2019, unless a production has received initial certification prior to July 1, 2019.

This tax expenditure item may be applied against the following taxes:

- Business Corporations (RIGL 44-11)
- Banks (RIGL 44-14)
- Insurance (RIGL 44-17)
- Personal Income Tax (RIGL 44-30)

	Business Corporations		Bank		Insurance Companies		Personal Income	
Fiscal Year	Taxpayers	Amount	Taxpayers	Amount	Taxpayers	Amount	Taxpayers	Amount
2010	1	$34,900	-	-	3	$1,661,033	54	$856,539
2011	5	902,095	-	-	3	1,999,984	35	1,925,661
2012	2	415,197	-	-	1	1,874,355	11	335,625
2013*	-	847,764	-	511	-	1,858,533	-	1,849,374
2014*	-	993,919	-	1,498	-	2,374,279	-	3,160,678
2015*	-	1,510,245	-	2,290	-	4,428,302	-	4,599,898

**ORA Estimates*

7. Project Status (CommerceRI) (RIGL 42-64-20): The Rhode Island Commerce Corporation (CommerceRI) is authorized to convey sales tax exemptions for certain materials by designating a development “project status.” To qualify, a firm’s wages must exceed the State median annual wage by at least 5.0 percent for full-time employees. Certain construction, reconstruction, and rehabilitation materials may qualify for the exemption. Qualifying companies pay the sales tax when purchasing items, and then apply to the Division of Taxation for reimbursement. Reimbursements may not exceed the amount of personal income taxes received within three years of project completion from new, non- construction jobs that are created from the project. The exemption may be applied against Sales and Use taxes. In 2011, the project status law was amended to no longer allow the sales tax exemptions applicable to firms that use bond financing programs offered through CommerceRI or which are given project status by CommerceRI for projects after June 30, 2011.

Prior to 2009, the General Assembly had to approve project status through passage of a joint resolution; however, the General Assembly amended this law in 2009 allowing CommerceRI to enact a resolution, which becomes effective after 30 days if no specific legislative action is taken to negate the resolution. Additionally, the law was amended to require the Department of Labor and Training to annually certify that the number of jobs and salary and benefit requirements are being met. Finally, the General Assembly added language that stipulates if a qualifying company is unable to continue a project or meet its obligations, the company shall be liable to pay the State for all sales taxes and interest owed.

The table below outlines the number of projects and sales tax reimbursements granted since Project Status began. Of note, eligible project status firms may claim sales tax reimbursements in more than one fiscal year, so the count of projects does not reflect the number of projects that received the designation, but instead the number of claimants on an annual basis.

This expenditure item may be applied against the following tax:

- Sales and Use (RIGL 44-18)

	Sales and Use Tax	
Fiscal Year	Taxpayers	Amount
2010	3	$4,422,835
2011	7	9,223,950
2012	5	2,979,997
2013	3	1,867,128
2014*	7	5,938,019
2015*	3	4,407,796

**ORA Estimates*

8. Research and Development Expense: Rhode Island offers a tax credit for qualified research and development expenses incurred after a defined base period. The credit equals 22.5 percent of the first $25,000 in additional qualified expenses, and 16.9 percent for expenses above $25,000. The credit may not be used to reduce a company’s tax liability below 50.0 percent of what would be owed without the credit. Unused credit amounts may be carried forward for up to 7 years. The credit may be applied against the following taxes:

- Business Corporations (RIGL 44-11)
- Insurance (RIGL 44-17)

	Business Corporations		Insurance		Personal Income†	
Fiscal Year	Taxpayers	Amount	Taxpayers	Amount	Taxpayers	Amount
2010	106	$5,128,469	1	$430,000	113	$979,353
2011	46	2,495,857	1	160,000	-	-
2012	47	5,077,699	-	-	-	-
2013*	47	4,353,540	1	386,000	-	-
2014*	47	452,248	1	317,200	-	-
2015*	47	4,328,697	1	258,640	-	-

**ORA Estimates*

†Not allowable beginning TY2011.

9. Sales by Writers, Composers, and Artists (RIGL 44-18-30(B)): The State exempts sales of artistic works by: (a) an individual who is a resident of and has a principal place of business situated in this state; (b) a writer, composer or artist conducting their business as a legal entity organized and registered under the laws of this state and that has its principal place of business situated in this state; or (c) any art gallery located in the state of Rhode Island are exempt from the State sales and use tax. Prior to December 1, 2013, qualifying zones were defined in the statute and included portions of Providence, Pawtucket, Westerly, Newport, Little Compton, Tiverton, Warren, Warwick, Woonsocket and West Warwick. The FY2014 Budget as Enacted expanded the art districts program statewide, exempting all original, one-of-a-kind limited production creative works from sales and use taxes in order to increase tourism and economic activity and to strengthen the Rhode Island's marketability as the "state of the arts". The statute requires the tax administrator, along with the Rhode Island Council on the Arts, to report annually on the impact of the statewide tax exemption on employment, tourism, sales and spending within the arts sector. There is no sunset to the exemption. The credit may be applied against taxes in the tax year in which the expenses are incurred.

This tax expenditure may be applied against the following tax:

- Sales and Use (RIGL 44-18)

	Sales and Use	
Fiscal Year	Taxpayers	Amount
2010	175	$896,548
2011	175	907,550
2012	175	918,693
2013*	543	1,085,527
2014*	543	2,848,575
2015*	543	2,922,555

**ORA Estimates*

Note: In 2013, the General Assembly enacted legislation that expanded the Artists' tax credit Statewide. Prior to this change, qualifying zones were defined in the statute and included portions of Providence, Pawtucket, Westerly, Newport, Little Compton, Tiverton, Warren, Warwick, Woonsocket and West Warwick.

10. Contributions to Scholarship Organizations: The State offers a tax credit for businesses that contribute to scholarship organizations for non-public K-12 schools in Rhode Island. Contributors may claim a 75.0 percent credit for donations for a one-year contribution, and up to 90.0 percent in cases where the contribution is made in two consecutive fiscal years. The credits are capped at $100,000 per business, per fiscal year, and $1.5 million statewide in any given fiscal year. The Division of Taxation issues tax credit certificates to qualifying companies.

An eligible scholarship organization in this State must be exempt from federal taxation under §501(c)(3) of the internal revenue code, and allocate at least 90.0 percent of its annual revenue through a scholarship program for tuition assistance grants to eligible students to allow them to attend any qualified school of their parents' choice represented by the scholarship organization. Eligible students must attend a qualified school and be a member of a household with total income not exceeding 250.0 percent of the federal poverty guidelines.

The credit may be applied against the following taxes:

- Business Corporations (RIGL 44-11)
- Public Utilities (RIGL 44-13)
- Banks (RIGL 44-14)
- Credit Unions (RIGL 44-15)
- Insurance (RIGL 44-17)
- Personal Income Tax (RIGL 44-30)

	Personal Income	
Fiscal Year	Taxpayers	Amount
2010	52	$270,095
2011	84	774,233
2012*	84	774,233
2013*	>84	1,274,233
2014*	>85	1,274,233
2015*	>86	1,274,233

**ORA Estimates*

11. Equipment for Research and Development (RIGL 44-18-30(42)): The sale, storage, use, or other consumption of scientific equipment, computers, software, and related items to the extent used for research and development purposes by a business for which the use of research and development equipment is an integral part of its operation is exempt from the sales and use tax.

This tax expenditure may be applied against the following taxes:

- Sales and Use (RIGL 44-30)

	Sales and Use Tax	
Fiscal Year	Taxpayers	Amount
2010	-	$839,766
2011	-	853,199
2012*	-	890,931
2013*	-	934,074
2014*	-	934,074
2015*	-	934,074

**ORA Estimates*

12. Enterprise Zone Wage Credit (RIGL 42-64.3-6): Business that are certified by the Enterprise Zone Council are allowed a credit equal to 50.0 percent of wages paid to newly-hired workers, capped at $2,500 per worker ($5,000 if worker resides in the designated Enterprise Zone). To be eligible, companies must hire at least 5.0 percent more employees than the previous year. For companies with less than 20 employees, they must hire at least 1 new employee. The credits may be carried forward for up to 3 years.

This tax expenditure may be applied against the following taxes:

- Business Corporations (RIGL 44-11)
- Public Service (Utilities) Corporations (RIGL 44-13)
- Banks (RIGL 44-14)
- Insurance Companies (RIGL 44-17)

	Business Corporations		**Personal Income†**	
Fiscal Year	Taxpayers	Amount	Taxpayers	Amount
2010	44	$1,000,000	54	$296,260
2011	6	370,000	-	-
2012	6	320,000	-	-
2013*	6	508,607	-	-
2014*	6	546,328	-	-
2015*	6	548,987	-	-

**ORA Estimates*

†Not allowable beginning TY2011.

13. Research and Development Property: The State allows taxpayers a 10.0 percent tax credit for expenses related to the construction, reconstruction or acquisition of a property that will principally be used for research and development in an "experimental or laboratory sense". The investment must be depreciable and have a useful life of at least 3 years. Leased properties are not eligible for the credit. Unused credit amounts may be carried forward for up to 7 years. The credit may be applied against the following taxes:

- Business Corporations (RIGL 44-11)
- Insurance (RIGL 44-17)

	Business Corporations		**Personal Income†**	
Fiscal Year	Taxpayers	Amount	Taxpayers	Amount
2010	7	$1,101,191	10	$22,883
2011	1	20,000	-	-
2012	1	1,725	-	-
2013*	7	378,889	-	-
2014*	7	414,667	-	-
2015*	7	383,056	-	-

**ORA Estimates*

†Not allowable beginning TY2011.

14. Historic Preservation: A taxpayer that incurs qualified rehabilitation expenditures (QREs) for the substantial rehabilitation of a certified historic structure, provided the taxpayer is not a social club, is entitled to a credit is equal to 20.0 percent of the QREs for any certified historic structure or 25.0 percent of the QREs, provided that either:

- At least 25.0 percent of the total rentable area of the certified historic structure will be made available for trade or business; or,

- The entire rentable area located on the first floor of the certified historic structure will be made available for a trade or business.

Tax credits are allowed for the tax year in which the structure or an identifiable portion of the structure is placed into service. The maximum credit cannot exceed $5.0 million for all phases of any certified rehabilitation project and the total credits authorized cannot exceed the sum of the estimated credits available in the historic preservation tax credit trust fund. *[Note: Beginning in 2013, the Historic Structures Tax Credit (RIGL 44-33.2) effectively became a "new" credit (RIGL 44-33.6). While the credit essentially works the same way, the Office of Revenue Analysis reports each program separately since some credits that were initially claimed under the old program are being used.]*

Credits may be applied against the following taxes:

- Business Corporations (RIGL 44-11)
- Public Service (Utilities) Corporations (RIGL 44-13)
- Banks (RIGL 44-14)
- Insurance Companies (RIGL 44-17)
- Personal Income Tax (RIGL 44-30)

	Business Corporations		**Bank**		**Insurance Companies**	
Fiscal Year	Taxpayers	Amount	Taxpayers	Amount	Taxpayers	Amount
2013*	-	-	-	-	-	-
2014*	-	$10,932	-	$24,491	-	$111,955
2015*	-	30,333	-	67,413	-	217,308

**ORA Estimates*

15. Biodiesel Portion of Blended Gallon of Diesel Fuel (RIGL 31-36-1): An excise tax exemption is provided for manufactured biodiesel fuel, mono-alkyl esters of long chain fatty acids derived from vegetable oils or animal fats which conform to certain specifications for use in diesel engines. Manufacture of the fuel must result in employment with a manufacturer at a fixed location and it must be sold in Rhode Island. Any volume of biodiesel fuel that is subsequently blended with other fuels and is used for heating purposes or for operating or propelling motor vehicles notwithstanding the portion of biodiesel blended into any fuel is also exempt from taxation.

This tax expenditure may be applied against the following taxes:

- Motor Fuel Tax (RIGL 31-36-1)

	Motor Fuel Tax	
Fiscal Year	Taxpayers	Amount
2010	-	$0
2011	-	0
2012*	-	263,762
2013*	-	362,697
2014*	-	362,697
2015*	-	362,697

**ORA Estimates*

16. Musical and Theatrical Production (RIGL 44-31.3-2): Any person, firm, partnership, trust, estate or other entity that receives an accredited theater production certificate shall be allowed a tax credit equal to 25.0 percent of the total production and performance expenditures and transportation expenditures for the accredited theater production. The credit may not exceed $5.0 million and is limited to certified production costs directly attributable to activities in the State and transportation expenditures. The total production budget must be a minimum of $100,000. No more than $15,000,000 may be issued for any tax year for motion picture tax credits and/or musical and theatrical production tax credits. These credits are equally available to motion picture productions and musical and theatrical productions. No specific amount is set aside for either type of production.

This tax expenditure may be applied against the following taxes:

- Business Corporations (RIGL 44-11)
- Public Utilities (RIGL 44-13)
- Banks (RIGL 44-14)
- Insurance (RIGL 44-17)
- Personal Income Tax (RIGL 44-30)

	Personal Income	
Fiscal Year	Taxpayers	Amount
2013*	-	-
2014*	-	$58,869
2015*	-	115,534

**ORA Estimates*

17. Long-Term Gain from Capital Investment in Small Business (RIGL 44-43-5): Rhode Island income for taxpayers who sold, transferred, or exercised stock options for certain qualifying corporations is excludable for the calculation of State income tax liability. Qualifying corporations must have at least 10 full time employees in Rhode Island and must fall into one of three qualifying Standard Industrial Classifications: 7371 (Computer Programming Services), 7372 (Prepackaged Software), or 7373 (Computer Integrated Systems Design). *[Effectively eliminated due to the personal income tax reforms of 2010.]*

This tax expenditure may be applied against the following taxes:

- Personal Income (RIGL 44-30)

No statistics are available for this credit.

18. Jobs Training (RIGL 42-64.6-4): A qualifying employer shall be allowed a tax credit for the qualifying expenses of offering training and/or retraining to qualifying employees. The State provides a credit of 50.0 percent of the qualifying expenses incurred to provide training and/or retraining for a qualifying employee. 50.0 percent of the credit is allowed in the taxable year in which the expense is paid and the balance of the credit is allowed in the following taxable year. The maximum amount of credit per employee may not exceed $5,000 in any 3-year period. Qualifying employees must work a minimum of 30 hours per week and earn immediately following the completion of the training and/retraining program no less than 150.0 percent of the hourly minimum wage prescribed by Rhode Island law.

This tax expenditure may be applied against the following taxes:

- Business Corporations (RIGL 44-11)
- Public Utilities (RIGL 44-13)
- Banks (RIGL 44-14)
- Insurance (RIGL 44-17)
- Personal Income Tax (RIGL 44-30)

	Personal Income		Business Corporations	
Fiscal Year	Taxpayers	Amount	Taxpayers	Amount
2010	45	$927,128	22	$1,330,000
2011	-	-	-	-
2012	-	-	5	1,330,000
2013*	-	-	5	586,000
2014*	-	-	5	687,200
2015*	-	-	5	680,640

19. Jobs Growth Act (RIGL 42-64.11): The Jobs Growth Act, passed in 2005, allows certain companies to offer their employees an exclusion of 50.0 percent of their performance-based compensation from their Rhode Island gross income. In exchange, the participating company pays a 5.0 percent tax each year on the performance based income paid that year.

The incentive is offered to businesses that hire at least 100 new employees with at least $10.0 million in new employment payroll. The new employees must earn at least 125.0 percent of the average compensation of all employees performing services in the State, and must receive benefits typical of the industry. After three consecutive years of RI Commerce Corporation certification, the participating company would be eligible to offer the incentive to all employees working within the State.

The Jobs Growth Act is intended to be revenue-neutral to the State. The 5.0 percent tax on performance-based compensation exceeds 50.0 percent of the top marginal tax rate of 9.9 percent. *[Effectively eliminated due to the personal income tax reforms of 2010.]*

This tax expenditure may be applied against the following tax:

- Personal Income Tax (RIGL 44-30)

No modifications have been taken against these taxes since TY2010. That year, a total of $4.1 million from 1,247 taxpayers was credited against the personal income tax.

20. Tax Incentives for Employers (RIGL 44-55-4.1): The State allows for a deduction or modification equal to 40.0 percent of an eligible employee's first year wages, capped at $2,400 per eligible employee, based on the following criteria:

- Employee must have been unemployed for at least 26 consecutive weeks prior to employment with the claiming company;
- The company must employ the employee for a period of at least 52 consecutive weeks and 1,820 hours before the employer can become eligible for the incentive; and
- Claiming company must apply with the RI Department of Labor and Training within 30 days after the new employee begins working.

This tax expenditure may be applied against the following taxes:

- Business Corporations (RIGL 44-11)
- Public Service (Utilities) Corporations (RIGL 44-13)
- Banks (RIGL 44-14)
- Credit Unions (RIGL 44-15)
- Insurance Companies (RIGL 44-17)
- Personal Income Tax (RIGL 44-30)

No statistics are available for this credit.

21. Qualified Investment in a Certified Venture Capital Partnership (RIGL 44-43-2): Taxpayers are allowed a modification or deduction equal to the amount of first year investment in a certified venture capital partnership or in a qualified business entity, as determined by the RI Commerce Corporation. The deduction or modification is non-refundable and has no carry-forward provisions.

This tax expenditure may be applied against the following taxes:

- Business Corporations (RIGL 44-11)
- Public Service (Utilities) Corporations (RIGL 44-13)
- Banks (RIGL 44-14)
- Insurance Companies (RIGL 44-17)
- Personal Income Tax (RIGL 44-30) *[Modifications are allowed when calculating federal AGI]*

No statistics are available for this credit.

22. Incentives for Innovation and Growth (RIGL 44-63): The State offers a tax credit aimed at promoting high-wage, high-growth innovation industries. The credit allows eligible investors up to a 50.0 percent tax credit on investments, capped at $100,000 per investment. Qualifying investors must invest in publicly traded Rhode Island based companies with annual gross revenues less than $1.0 million in the prior two calendar years. Companies must fall into one of the following categories:

- Biotechnology and Life Sciences;
- Communication and Information Technology;
- Financial Services;
- Marine and Defense Manufacturing;
- Professional, Technical and Education Services; or
- Industrial and Consumer Product Manufacturing and Design.

Investors must apply for the credit through the RI Commerce Corporation (Commerce RI). Commerce RI may approve up to $1.0 million in Innovation Credits in any two calendar year period. Unused credit amounts may be carried forward for up to 3 years. The law includes a sunset date of December 31, 2016, after which the credit will be repealed.

This tax expenditure may be applied against the following taxes:

- Business Corporations (RIGL 44-11)
- Franchise Tax (RIGL 44-12)

No credits have been taken against these taxes since TY2010, when a total of $125,033 from sixteen (16) taxpayers was credited against the personal income tax.

23. Gain from Stock Options in Qualifying Corporations (RIGL 44-39.3-1): Rhode Island income for taxpayers who sold, transferred, or exercised stock options for certain qualifying corporations is excludable for the calculation of State income tax liability. Qualifying corporations must have at least 10 full time employees in Rhode Island and must fall into one of three qualifying Standard Industrial Classifications: 7371 (Computer Programming Services), 7372 (Prepackaged Software), or 7373 (Computer Integrated Systems Design).

This tax expenditure may be applied against the following taxes:

- Personal Income Tax (RIGL 44-30)

No statistics are available for this credit.

SPECIAL REPORTS

Corporate Tax Reform

The 2014 General Assembly enacted several reforms to the business corporations tax in the FY2015 Budget. The Budget introduces combined reporting, requiring all C-corporations to report income made by the parent company and all subsidiaries as one business. The separate tax on S- corporations, known as the franchise tax, is eliminated in favor of one minimum corporate tax for all business entities. The Budget also reduced the corporate tax rate from 9.0 percent to 7.0 percent effective January 1, 2015.

The table below demonstrates the impact of the corporate tax reforms for C corporation filers.

Revenue Changes for All C-Corp Filers

Fiscal Year	May 2014 REC Estimated Revenues	Impact of CR, with SSF Apportionment at 9.0% Rate	Impact of CR, with SSF Apportionment at 7.0% Rate	Total Revenue w CR, SSF Apportionment, and 7.0% Rate	Eliminate Franchise Tax	Total Net Impact of Corporate Tax Reforms
2015	$115,400,000	$36,431,290	($30,874,816)	$118,332,858	($232,858)	$2,700,000
2016	127,988,697	41,326,880	(35,023,733)	133,131,685	(232,858)	4,910,130
2017	138,790,688	45,457,642	(38,524,474)	144,580,942	(232,858)	5,557,396
2018	147,634,287	48,750,850	(41,315,405)	153,947,426	(232,858)	6,080,281
2019	157,305,049	52,377,963	(44,389,313)	164,124,176	(232,858)	6,586,269

The decrease in the corporate tax rate places Rhode Island roughly in the middle of the pack nationally, and the State now has lowest top rate in New England.

Business Corporations Tax Comparison: New England

	Top Rate	Applies to Taxable Income Above:	Minimum Tax
Maine	8.93%	$250,000	$-
New Hampshire	8.50%	Flat Rate	-
Vermont	8.50%	25,000	250
Massachusetts	8.00%	Flat Rate	456
Connecticut	7.50%	Flat Rate	250
Rhode Island	**7.00%**	**Flat Rate**	**500**

Combined Reporting

Combined reporting captures the income of Rhode Island corporations and any affiliated companies under common ownership, and treats the group as if they were one business. Companies are now required to report all income made by all subsidiaries, regardless of the state in which it was earned, and then remit state corporate income taxes on the basis of the entity's economic activity in the state as determined by an apportionment formula (the amount of business activity transacted within the state as compared to total business activity). Businesses that are organized as C corporations with out-of-state affiliates are subject to combined reporting beginning with tax years beginning on or after January 1, 2015.

In order to determine what constitutes a combined group for the purposes of Rhode Island's combined reporting, the Division of Taxation established regulation CT 12-15. A combined group is defined as "a group of two or more corporations in which more than 50.0 percent of the voting stock of each member corporation is directly or indirectly owned by a common owner or owners, either corporate or non-corporate, or by one or more of the member corporations, and that are engaged in a unitary business." The regulation also defines a unitary business as "the activities of a group of two (2) or more corporations under common ownership that are sufficiently interdependent, integrated or interrelated through their activities so as to provide mutual benefit and produce a significant sharing or exchange of value among them or a significant flow of value between the separate parts."

Subject to two tests set forth in the regulation, if a corporation meets the criteria to be a unitary business, the corporation is required to file a combined report. For example, the C corporation XYZ Corp operates brick and mortar retail stores in Rhode Island that are required to report corporate tax liability to the State. Prior to the new reforms, only these stores were required to report the tax liability to the State. Under the new provisions, XYZ Corp must include liability incurred by the entire corporate entity for all business conducted within the State, which will now include sales within the State from XYZCorp.com.

According to the Division of Taxation, 23 states and the District of Columbia require combined reporting of corporate income. All New England states with the exception of Rhode Island and Connecticut require combined reporting. While the implementation of combined reporting is expected to increase corporate tax revenue by $36.4 million, the corporate tax rate reduction from 9.0 percent to 7.0 percent decreases new revenues by $30.9 million, leaving a net increase of $5.6 million for the changes.

Single Sales Factor Apportionment

The combined reporting change shifts from a three-factor apportionment formula to a single-sales factor apportionment formula for all C corporations. This calculates a corporation's tax based on its sales in Rhode Island versus its total corporate and affiliate sales, and disregards property and payroll factors.

Three-Factor Apportionment Formula

	Rhode Island	State B	Total	Factor
Sales	$2,000,000	$2,000,000	$4,000,000	$2,000,000/$4,000,000= 50%
Payroll	1,500,000	200,000	1,700,000	$1,500,000/$1,700,000= 88%
Property	2,500,000	200,000	2,700,000	$2,500,000/$2,700,000= 93%
				Sum of Apportionment Factors = 231%
				Sum of Apportionment Factors/3 = 77%

Single Sales Factor Apportionment Formula

	Rhode Island	State B	Total	Factor
Sales	$2,000,000	$2,000,000	$4,000,000	$2,000,000/$4,000,000= 50%
~~Payroll~~	~~1,500,000~~	~~200,000~~	~~1,700,000~~	
~~Property~~	~~2,500,000~~	~~200,000~~	~~2,700,000~~	
				Apportionment Factor = 50%

Source: Combined Reporting Study, Division of Taxation

The Corporation then uses this apportionment factor along with the State's corporate tax rate to calculate tax owed to the State. For example, the corporation described above has $3.0 million of income subject to the Rhode Island tax resulting in a tax liability of $105,000.

Sample Single Sales Factor Tax Calculation

Federal Taxable Income	$3,000,000
Total Modifications	-
Adjustable Taxable Income	3,000,000
Rhode Island Apportionment Ratio	50.0%
Rhode Island Taxable Income	1,500,000
Tax Rate	7.0%
Total Tax Due	**$105,000**

Sales Factor Apportionment Methods

States use one of two primary methods to calculate a company's apportionment under a single sales apportionment formula: the Joyce or Finnigan methods. They differ in their treatment of the concept called "nexus," which relates to the corporation's presence in a state (for tax purposes). Generally speaking, the Joyce method excludes entities that do not have nexus in Rhode Island. The Finnigan method captures income from all sales of the unitary group that are attributable to Rhode Island. 11 states, now including Rhode Island, require the Finnigan method be used to calculate apportioned income.

Joyce vs. Finnigan Method

	Joyce			*Finnigan*		
Name of Entity	**RI Receipts**	**Total Receipts**	**Nexus with RI**	**RI Receipts**	**Total Receipts**	**Nexus with RI**
Hotel Corp.	50	100	Yes	50	100	Yes
India Corp.	100	200	Yes	100	200	Yes
Juliet Corp.	100	200	No	100	200	No
Factor Total:	***150**	**500**		****250**	**500**	

*The Joyce method includes all apportionment factor attributes that were derived from entities that have nexus in Rhode Island.

**Finnigan apportionment includes the same numerator factor attributes as Joyce, plus all Rhode Island factor attributes from entities that do not have nexus in Rhode Island.

Source: Combined Reporting Study, Division of Taxation

Market Based Sourcing

Filers are required to use market based sourcing for purposes of determining the allocation fraction under combined reporting. This means that receipts from transactions are sourced to the state where the customer receives the benefit. More specifically, a company's net income is apportioned to the State based on total receipts from sales or other sources during the taxable year attributable to the taxpayer's activities or transactions within the State. This method taxes sales of services and intangible property attributed to the state based on the location of the market for the service provided; for example, tangible products are sourced to where they are shipped and services are sourced to where they are delivered. Market based sourcing does not require a C corporation to have physical "nexus," or presence, within the State.

Water's Edge and Tax Havens

When computing what portion of a company's activity should be counted, states may elect to tax worldwide activity, or limit taxation to activities that occur within the United States (water's edge). The General Assembly enacted legislation adopting the water's edge designation. A pro forma study by the Division of Taxation from 2011 through 2013 required water's edge reporting.

The Budget also defines a "tax haven" as it relates to the water's edge provision, effectively requiring corporations to include in their unitary groups subsidiaries formed in readily identifiable foreign tax havens. Under the tax haven definition, tax regimes and jurisdictions that have laws or practices that prevent effective exchange of information for tax purposes with other governments on taxpayers benefitting from the tax regime are prohibited. The Tax Administrator, however, has the authority to determine whether the expenses or apportionment factors of a combined group member, Non-U.S. Corporation, organized in a tax haven that has a federal income treaty with the U.S., are to be included. Income subject to a federal income tax treaty will not be included in the combined report if transactions conducted between the U.S. are not done with the principal purpose of avoiding payment of taxes due or if the member establishes that the inclusion of such net income in the combined group net income is unreasonable.

Jobs Development Act & I-195 Rates

As part of the corporate tax reform, two tax incentive programs, the Jobs Development Act (RIGL 42-64.5) and the I-195 Redevelopment Act (RIGL 42-64.14), could be impacted by the reduction in the corporate tax rate from 9.0 percent to 7.0 percent. Tax rate reductions authorized under these chapters are allowed against the net income of the entire group.

Any company eligible for these incentive programs and required to file and pay taxes under Rhode Island business corporations tax statutes (RIGL 44-11) will determine the rate reduction by multiplying the aggregate amount of new employment of the eligible company and its eligible subsidiaries for each taxable year by 0.20 percent. The amount of each rate reduction shall in no event be greater than 4.0 percentage points for tax years beginning on or after January 1, 2015.

Elimination of Franchise Tax

Prior to the corporate tax reform, the State had a franchise tax on S-corporations, similar to the $500 annual minimum corporate tax. The FY2015 Budget eliminated the franchise tax effective July 1, 2015, instead requiring S-corporations to pay the minimum corporate tax under 44-11-2(e). Taxpayers must pay the higher of the corporate tax or minimum tax liability, but not both. Eliminating the franchise tax is estimated to reduce revenues by $232,858.

Reporting Requirements

Based upon actual tax filings of companies under this Act for a two year period, the Tax Administrator is directed to report on the impact of the reforms under this Article to the Chairs and Advisors of the House and Senate Finance Committees or before March 18, 2018. The report shall include an analysis of policy and fiscal ramifications of the changes enacted to the business corporation statutes under the Act, and include but not limited to the impact upon categories of and types of businesses.

Estate Tax Modification

The 2014 General Assembly modified the estate tax by removing the exemption threshold and adding a credit to offset any estate tax owed on assets valued at under $1.5 million. Effective July 1, 2014, all estates are subject to tax beginning at the first $1; however, estates are granted a non-refundable credit valued at $64,400. Estates in excess of $1.5 million will owe tax, but because of the credit, tax is not owed on the first $1.5 million in estate value. Under RIGL 44-22-1.1, the credit amount will be adjusted annually by the percentage increase in the Consumer Price Index for all Urban Consumers (CPI-U).

Previously, estates valued at greater than $921,655 were subject to the Rhode Island estate tax. Estates valued at less than that amount were not subject to tax, but for those in excess, tax was owed on the entire value of the estate. This so-called “cliff” meant that estates valued at just over the exemption threshold were taxed on the full value of the estate and could owe a significant amount in taxes for a low marginal increase over the threshold.

Those most impacted by estate taxes are generally the most mobile and have the means to leave the State. When that happens, Rhode Island does not just lose out on the estate tax, but also personal income, sales, and property taxes that would have otherwise been paid if the owner of the estate continued to live here. Last year (August 2013), Kiplinger.com ranked Rhode Island as one of the top-ten least tax-friendly states for retirees, partially due to the high estate tax. Rhode Island’s maximum estate tax rate of 16% was the second highest among the 15 states and D.C. that have an estate tax. The recent change brings Rhode Island’s threshold above Massachusetts and to the middle amount of estate tax thresholds nationally.

The Budget captures $9.4 million in reduced estate tax revenues in FY2015, based on the change taking effect for estates where the death of the taxpayer occurs on or after January 1, 2015. This impact essentially doubles in FY2016 and beyond. The table below demonstrates the impact on various estates using the Rhode Island Estate Tax Schedules and Computation Form 100A. This scenario shows the impact of both the tax liability and the effect of the credit.

Estate Tax Modification- Sample Estate Tax Computations

	Estate Value	**$921,656**	**$1,500,000**	**$3,500,000**
1)	Gross taxable estate	$921,656	1,500,000	3,500,000
2)	*Less (Federal exemption)*	60,000	60,000	60,000
3)	Subtract line 2 from line 1	861,656	1,440,000	3,440,000
4)	**Total RI Estate Tax**	**28,830**	**64,400**	**229,200**
	Less $64,400 credit	(64,400)	(64,400)	(64,400)
5)	**Total Estate Tax Due to State****	(35,570)	0	164,800

**The Division of Taxation provides a table on form RI-100A for calculating adjustments on the taxable estate.*

***There is no refundable amount if credit exceeds tax owed.*

Senate Fiscal Office

Stephen H. Whitney
Senate Fiscal Advisor

Sandra L. Berube
Legislative Grant Coordinator

Laurie J. Brayton
Legislative Fiscal Analyst II

Higher Education
Higher Education Assistance Authority
Public Transit Authority
Transportation

Robert C. Bromley
Senior Legislative Fiscal Analyst

Administration
Board of Elections
Convention Center Authority
Emergency Management
Ethics Commission
General Treasurer
Human Rights Commission
Labor and Training
Military Staff
Public Utilities Commission
Quonset Development Corporation
RI Commerce Corporation

Kelly M. Carpenter
Legislative Fiscal Analyst II

Clean Water Finance
Coastal Resources Management Council
Elementary and Secondary Education
Environmental Management
Narragansett Bay Commission
Resource Recovery Corporation

Lauretta Converse
Deputy Senate Fiscal Advisor

Arts Council
Atomic Energy Commission
Behavioral Health, Developmental Disabilities, and Hospitals
Historic Preservation and Heritage Commission
Office of Health and Human Services

Susan E. Gardiner
Legislative Fiscal Analyst II

Attorney General
Business Regulation
Corrections
Governor
Judiciary
Legislature
Lieutenant Governor
Public Defender
Public Safety
Revenue
Secretary of State

Kayleigh M. Pratt
Legislative Fiscal Analyst II

Child Advocate
Children, Youth, and Families
Commission on Deaf and Hard of Hearing
Commission on Disabilities
Health
Human Services
Mental Health Advocate