# Report of the Governor's Tax Policy Strategy Workgroup

**March 6, 2009**

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# EXECUTIVE SUMMARY

On June 18, 2008, Governor Donald L. Carcieri convened the Tax Policy Strategy Workgroup. With the mission of "developing a tax strategy so that Rhode Island's tax structure is a competitive advantage in retaining jobs and recruiting businesses," the 21 members of the Workgroup met in smaller subgroups and as a whole committee from June 2008 until February 2009. During these meetings, the Workgroup studied tax practices of Rhode Island and other states, collected and analyzed data about key areas of concern, considered contributions of other experts on tax policy reform, engaged in open discussion and debate about approaches and ideas, and, finally, constructed a coherent strategy for taxation in Rhode Island. This report is the result of their efforts

This tax strategy consists of twenty proposals that the Tax Policy Strategy Workgroup is submitting to the Governor for his consideration. The composition of this Tax Strategy comes at a time in which the state budget is under considerable stress. In that way, the timing of the publication of this report may lead the reader to expect solutions to the present budget crisis. That is not the case. The charge of the Tax Policy Strategy Workgroup required a longer view. It necessitated the development of a far-reaching strategy designed to enhance Rhode Island's tax competitiveness. A strategy that proposed structural changes to Rhode Island's tax system in order to position the state competitively when the economic recovery arrives.

In spite of this approach, the Tax Policy Strategy Workgroup was cognizant of the fact that the state's current fiscal conditions would potentially constrain the implementation of these proposals. As a result, the Workgroup fully understands that these proposals may be put forward gradually over time rather than in one fell swoop. The Workgroup felt, however, that even if these proposals were put forward incrementally or were phased in over time their adoption would improve Rhode Island's economic competitiveness in the long run.

The formulation of any tax reform proposals must preserve the hallmarks of sound tax policy: equity, efficiency, predictability, transparency, and simplicity. With these values in mind, the Tax Policy Strategy Workgroup examined three areas of tax policy:

- Taxes paid by individuals, including an overview of income tax systems and tax credits in the 50 states; a review of the costs and benefits of Rhode Island individual income tax credits; an analysis of the tax treatment of capital gains; an assessment of the role estate taxes play in capital formation and retention; and the trade-offs between expanding the sales tax base in lieu of lowering the sales tax rate.
- Taxes paid by businesses, including an overview of Rhode Island Connecticut, and Massachusetts business taxes; a review of Rhode Island tax credits and rates; a study of alternative business taxes, such as gross receipt taxes; an assessment of combined reporting for corporate income tax purposes; an analysis of tax incidence on different organizational structures; and the burden of the sales tax system on business-to-business transactions.

- The assessment of taxes on property, including an overview of property tax assessments and the property tax levy; a review of tax classification and homestead exemption strategies throughout the state, a study of personal and statutory exemptions, tax treaties, and revaluation; a comparison of property taxes and local government finance in Rhode Island, Connecticut, and Massachusetts; and an analysis of location and retention decisions by firms and individuals.

The method of the Tax Policy Strategy Workgroup was to maintain a productive dialogue between the three subgroups and the main Workgroup. As the subgroups were investigating and honing ideas on individual, business, and property taxes, the whole Workgroup captured those ideas as they coalesced and gradually built a series of proposals that would form a coherent tax strategy. These proposals are listed below.

## INDIVIDUAL TAXES

### Reform of the Taxation of Individuals

High marginal tax rates make Rhode Island an outlier in southern New England. These rates are, in some cases, offset by numerous tax credits and other tax preferences but these offsets make the system inequitable and difficult to understand, use, and administer. The complexity of the system and the high rates put Rhode Island at a competitive disadvantage to other states. On the one hand, the present system does not offer enough support to low-income residents, while on the other hand, it imposes relatively high burdens on upper income people.

The Tax Policy Strategy Workgroup proposes that:

> **The starting point for the state's personal income tax system be Federal Adjusted Gross Income (AGI) but that the number of modifications to Federal AGI that are made to determine Rhode Island Adjusted Gross Income be reduced.**
>
> **The personal income tax system allow a state determined standard deduction and state determined personal and dependent exemptions, both indexed for inflation, as the only deductions from Rhode Island AGI in determining Rhode Island taxable income.**
>
> **The personal income tax system consist of four taxable income brackets with a top marginal tax rate of 5.5 percent.**
>
> **The personal income tax system tax income from capital gains at ordinary income tax rates regardless of how long an asset has been held before sale or what type of asset is being sold.**

**The personal income tax system allow only four tax credits: a refundable Earned Income Tax Credit, a Property Tax Relief Credit, a Lead Paint Abatement Credit, and Credit for Income Taxes Paid to Other States.**

**The Rhode Island estate tax exemption be raised immediately to $1.0 million and be gradually increased to match the federal estate tax exemption which in 2009 is $3.5 million.**

**Any expansion in the state's sales tax base must be accompanied by a reduction in Rhode Island's sales tax rate and a thorough assessment of the impact of such an expansion on small business**

## BUSINESS TAXES

### Reform of the Taxation of Businesses

The Tax Policy Strategy Workgroup and the Business Taxes Subgroup (BTS) had considerable discussion about restructuring or replacing the state's Business Corporation Tax. The clear sentiment of most members of the Workgroup was that by making a dramatic change in the Business Corporation Tax, Rhode Island will send a strong message that the state seeks to foster economic development and, thus, strengthen existing businesses and attract new business into the state.

The Tax Policy Strategy Workgroup offers two options for consideration in the reform of the Business Corporation Tax. The first option would:

**Eliminate the Business Corporation Tax and replace the current Franchise Tax system with a tiered system according to corporations' net income.**

The second option would:

**Reduce the Business Corporation Tax rate to 8.0 percent, eliminate all but three tax credits, and maintain the current Franchise Tax system.**

The Tax Policy Strategy Workgroup also proposes:

**The restructuring of the Jobs Development Rate Reduction Tax Credit to make the eligible employee requirement be full-time employees with benefits and a minimum salary of at least 250 percent of the hourly RI minimum wage, currently $18.50.**

**The restructuring of the tax appeals process by moving tax appeals to a tax calendar in Superior Court. Also, the requirement to pay the tax assessment in full prior to the appeal would be eliminated.**

The Tax Policy Strategy Workgroup did not reach consensus on the issue of Combined Reporting. Strong arguments were advanced both for adopting Combined Reporting or rejecting it. Most agreed, however, that if Combined Reporting were ever required in Rhode Island it must be linked to a reduction in the Corporate Income Tax rate to a rate as low as 6.0 percent.

## PROPERTY TAXES

High and uneven tax rates, inconsistent application of personal exemptions, and creation of unique classified tax rates hurt the Rhode Island taxpayer and economy in three ways:

- New businesses would avoid a state where property taxes are high to begin with and difficult to divine.
- It makes it almost impossible to align the property tax system with the State Land Use Plan. Businesses were not attracted to the areas most suitable for development and were settling, if at all, in areas that are not marked for such development.
- The variances from municipality to municipality and between classes of property have made ascertaining the property tax capacity and analyzing comparable tax burden extremely difficult. That means that any formula state aid program is difficult to construct that fairly weights different attributes associated with a community's wealth.

The Tax Policy Strategy Workgroup proposes the following reforms:

**Move toward standardization of tangible property tax rates, commercial and industrial property tax rates and maximum tangible property and commercial property tax rates in every municipality. Tangible property tax rates should be capped at no more than double residential property tax rates while commercial property tax rates should be capped at no more than 50.0 percent greater than owner-occupied residential property tax rates.**

**Move toward standardization of motor vehicle excise rates among municipalities while maintaining or expanding the current state $6,000 vehicle exemption. The standard rate would be $25 per thousand.**

**Limit personal property tax exemptions to a fixed 2.0 percent of the total municipal levy. These exemptions will also be limited by a statewide personal income and a residency qualifier.**

**Retain current statutory tax exempt standards, however, give tax assessors the authority to limit or eliminate the exemption based upon substantial and material unrelated business taxable income, as defined by the Internal Revenue Code, associated with any particular parcel owned by a tax exempt organization.**

**Guarantee state involvement in the assessment of certain types of property such as public utility or affordable housing property.**

**Develop statutory incentives that encourage municipalities to comply with state property tax policy.**

**Expedite the tax appeal dispute resolution process within municipalities before going to court and establish a state tax court or special calendar in Superior Court to hear commercial real estate and residential property appeals which exceed a certain threshold. Fine tune the appeal process in other ways to expedite the process.**

# FOREWORD

The document that follows is the final report of the Governor's Tax Policy Strategy Workgroup ("the Workgroup"). The document is comprised of three sections. The first section is the majority report of the Workgroup. It represents the proposals agreed to by an overwhelming majority of the members of the Workgroup. The majority report is followed by several minority reports or statements. The minority reports or statements represent the viewpoints of Workgroup members that did not agree, in whole or in part, with the proposals contained in the majority report. The minority reports are followed by the appendices to the majority report.

The fact that not every member of the Workgroup agreed with the majority report's proposals is not surprising given the diverse viewpoints that each member represented. There is an old adage that says "if a group of people agrees on everything, then only one person is doing the thinking." Let there be no doubt that each member of the Workgroup thought for him- or herself when it came to the development of tax policy proposals for the Governor's consideration. Much debate took place and serious consideration was given on any proposal that was put forth.

# The Report

## I. Background

In FY 2006, the most recent year for which nationally comparable data are available, Rhode Island collected $119.79 per $1,000 of personal income in total state and local taxes. This burden resulted in Rhode Island ranking 10th highest of the 50 states.[1] State and local tax collections accounted for 12.0 percent of personal income as compared to the national average of 11.2 percent.

Rhode Island's relative tax burden per $1,000 of personal income was not always in the top ten. According to the Tax Foundation, Rhode Island's relative tax burden was the 23rd highest in 1978. In fact, Rhode Island did not break into the top 10 of highest relative tax burden with any consistency until 1995. In contrast to Rhode Island's experience, Massachusetts' relative overall tax burden ranking has gone from 4th highest in 1978 to 23rd highest in 2008 while Connecticut went from the 27th highest relative tax burden in 1978 to the 3rd highest in 2008. This substantial change in Connecticut's ranking is due in large part to its adoption of an income tax in 1991.[2] The disparity with Massachusetts is of great concern given Rhode Island's small size and close geographic proximity to Massachusetts.

Although Rhode Island's overall tax burden is relatively high, especially in comparison to Massachusetts, Rhode Island's relative tax burden rank varies considerably by tax category. For example, Rhode Island's FY 2006 state and local personal income tax burden rank was 28th highest, its FY 2006 state and local general sales tax burden rank was 40th highest, and its FY 2006 state and local property tax burden was 5th highest among the 50 states. For Connecticut and Massachusetts the same relative rankings were 10th and 6th highest, 40th and 45th highest and 8th and 17th highest respectively. Again, Rhode Island's divergence from Massachusetts is apparent.

Rhode Island's business tax burden also does not compare favorably on either a regional or national basis. According to Ernst and Young[3], businesses in Rhode Island paid 46.4 percent total state and local taxes in FY 2007, which was comparable to the national average of 44.1 percent, but in marked contrast to Massachusetts at 39.2 percent and Connecticut at 34.0 percent. Between FY 2002 and FY 2007 Rhode Island businesses paid 54.2 percent of the total increase in state and local tax collections compared to 31.4 percent in Connecticut and 46.1 percent in Massachusetts. Nationally, businesses

[1] Rhode Island Public Expenditure Council's (RIPEC) "A System at Capacity: Rhode Island's State and Local Tax System," June 2008 report.
[2] Connecticut's tax burden ranking went from 18th in FY 1991 to 5th in FY 1992 according to the Tax Foundation.
[3] See "Rhode Island State and Local Benchmarking Report," Prepared for the Rhode Island Department of Administration, June 9, 2008.

accounted for 45.8 percent of the total increase in state and local tax collections during the period.

Rhode Island's challenges with regard to taxes and economic competitiveness are not confined to its relatively high tax burden. In fact, based on several other measures Rhode Island does not fare well. For example, the Tax Foundation's *2009 State Business Tax Climate Index*[4] finds that Rhode Island has one of the ten worst state business tax climates in the country, a rank of 46th out of 50 states. This ranking is an improvement, however, from previous rankings which, as recently as FY 2006, had Rhode Island with the worst state business tax climate in the country, a rank of 50th out of 50 states[5]. Again, Connecticut and Massachusetts fare better in this comparison, as Connecticut's ranking in the 2009 Tax Foundation report was 37th, up slightly from 39th in FY 2006, while Massachusetts' ranking was 32nd in FY 2009, a slight improvement from its FY 2006 ranking of 34th out of 50 states.

While the national business climate rankings may have a perceptual impact on a state's business tax climate, they must be reviewed with the understanding that competitiveness indexes produced by think tanks reflect their ideological viewpoints.[6] Of greater significance than relative tax burdens and rankings in businesses tax climate are specific characteristics of each of the major tax sources. For example, the General Assembly, in 2006, enacted an alternative flat rate income tax system because they found that Rhode Island's marginal income tax rate was a factor affecting the Ocean State's overall economic competitiveness.

Even within the separate tax burden categories, the tax treatment of personal income, general sales, and property differs markedly between Rhode Island, Connecticut, and Massachusetts. For example, with respect to the taxation of personal income, Connecticut has a mildly progressive rate income tax system; Massachusetts has a two-tier flat rate income tax system; and Rhode Island has a sharply progressive rate income tax system.[7] In Connecticut, the first $9,999 of taxable wage and salary income and taxable dividend and interest income is taxed at a 3.0 percent rate, with all subsequent dollars taxed at a rate of 5.0 percent.[8] In Massachusetts, the first dollar, and all subsequent dollars, of taxable wage and salary income and taxable dividend and interest income are taxed at a 5.3 percent rate. In Rhode Island, the first dollar of taxable wage and salary income and dividend and interest income are taxed at a 3.75 percent rate and

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[4] Tax Foundation, "2009 State Business Tax Climate Index," October 2008. Available at www.taxfoundation.org/research/show/22658.html.

[5] Tax Foundation, "2009 State Business Tax Climate Index," October 2008, p. 3.

[6] Fisher, Peter (2005): *Grading Places: What Do the Business Climate Rankings Really Tell Us?* Economic Policy Institute.

[7] Rhode Island's taxation of personal income also includes an alternative flat rate income tax system under which Rhode Island adjusted gross income is taxed at a flat percentage rate.

[8] The figure of $9,999 is for Single and Married Filing Separate taxpayers. For Married Filing Joint taxpayers the relevant figure is $19,999. For Head of Household taxpayers it is $15,999.

subsequent dollars are taxed at rates of 7.0, 7.75, 9.0, and 9.9 percent depending on the taxable income of a taxpayer.[9]

In addition, Connecticut and Massachusetts provide a flat exemption amount contingent on a taxpayer's filing status with no itemized or standard deduction while Rhode Island allows for either a standard deduction or the pass through of itemized deductions from the federal return, whichever is greater, plus personal and dependent exemptions. Finally, Connecticut taxes all capital gains income at either a 3.0 or 5.0 percent rate depending on taxable income. Massachusetts taxes capital gains income on assets held longer than one year at a 5.3 percent rate but taxes capital gains income on assets held less than one year at a 12.0 percent rate. Rhode Island taxes capital gains income for assets held less than one year at either a 3.75, 7.0, 7.75, 9.0 or 9.9 percent rate depending on taxable income, capital gains income for assets held more than one year but less than five years at either a 2.5 or 5.0 percent rate, and capital gains income for assets held more than five years at either a 0.83 or 1.67 percent rate.[10] Clearly, macro rankings of state and local tax burden fail to capture important micro aspects of a given tax category.

The situation with business income taxation is no less convoluted than it is with personal income taxation. In Connecticut, a corporation pays the higher of the corporate income tax or a corporate excess tax. The corporate income tax rate is 7.5 percent and is applied to a corporation's net income as apportioned to Connecticut. Connecticut is a separate entity filing state meaning that all corporations file individual tax returns even if a group of corporations is affiliated with one another through common ownership. Connecticut's three factor apportionment formula double weights sales for non-manufacturers and uses a single sales factor for manufacturers.[11] Connecticut requires corporations to pay the higher of the corporation income tax or its corporate excess tax, which is calculated at a rate of 3.1 mills per dollar of taxable capital base with the corporate excess tax not to be less than $250 or more than $1,000,000. The income of pass-through entities (i.e., subchapter S corporations, limited liability corporations, etc.) is taxed under the personal income tax based on net income that is distributed to or accrued by the shareholders or owners. The corporate minimum tax in Connecticut is $250.

In Massachusetts, a corporation pays a corporate income tax plus $2.60 per $1,000 of allocable tangible personal property. The corporate income tax rate is 9.5 percent and is applied to a corporation's net income apportioned to Massachusetts.[12] Massachusetts is a combined entity filing state meaning that corporations that are affiliated through common

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[9] Under Rhode Island's alternative flat rate income tax system the flat percentage rate was 8.0 percent in TY 2006 and declines in 0.5 percentage point increments until it reaches 5.5 percent in tax year 2011.

[10] It should be noted that Rhode Island taxes the gain from the sales of depreciable business assets and collectibles at rates of 6.25 percent and 7.0 percent respectively if the asset is held at least one year but less than five years. For the same assets classes, the rates are 2.0875 percent of 2.33 percent if the assets are held five or more years.

[11] Rhode Island Public Expenditure Council, "A System Out of Balance Update – Rhode Island's Corporate Income Tax Apportionment Formula." Accessed on February 16, 2009 at www.ripec.com under the Publications and Policy Areas: State and Local Tax Policy window.

[12] The Massachusetts corporate income tax rate for financial institutions is 10.5 percent.

ownership must file a single tax return for all the affiliated corporations.[13] Massachusetts' three factor apportionment formula double weights sales for non-manufacturers and uses a single sales factor for manufacturers.[14] The income of pass-through entities is subject to a surcharge depending on the gross receipts of the pass-through entity. The shareholders or owners of pass-through entities with gross receipts of less than $6.0 million are taxed under the personal income tax based on net income that is distributed to or accrued by the shareholders. Pass-through entities with gross receipts greater than or equal to $6.0 million but less than $9.0 million are taxed at a rate of 3.0 percent on net income prior to distribution or accrual to shareholders while pass-through entities with total receipts greater than or equal to $9.0 million are taxed at a rate of 4.5 percent on net income prior to distribution or accrual to shareholders. The corporate minimum tax in Massachusetts is $456.

In Rhode Island, a corporation pays a corporate income tax or a franchise tax whichever is greater. The corporate income tax rate is 9.0 percent and is applied to a corporation's net income apportioned to Rhode Island. Rhode Island is a separate entity filing state meaning that all corporations file individual tax returns even if a group of corporations is affiliated with one another through common ownership. Rhode Island employs a three factor equal weighted apportionment formula for non-manufacturers and a three factor double weighted sales apportionment formula for manufacturers. Rhode Island requires corporations to pay the higher of the corporation income tax or its franchise tax, which is calculated at a rate of $2.50 per $10,000 or fraction thereof of capital stock. The income of pass-through entities (i.e., subchapter S corporations, limited liability corporations, etc.) is taxed under the personal income tax based on net income that is distributed to or accrued by the shareholders or owners. The corporate minimum tax in Rhode Island is $500.

If not convoluted, the Rhode Island property tax system is at least unique. While revaluations of property are frequent and standardized, there are extraordinary differences in tax rates on different types or property from one municipality to the other. This is not the case in Connecticut where, almost without exception, the same tax rate in each municipality applies to all types of property whether it is classified as residential, commercial, or industrial real estate or tangible personal property. Massachusetts is more like Rhode Island but typically more restrictive on the range of differential tax rates authorized on different types of property. Also, in Massachusetts one tax rate (of $25 per thousand) is applied to all motor vehicles statewide, while in Rhode Island the motor vehicle tax rate ranges from under $10 per thousand on Block Island to over $70 per thousand in Providence. In general, Rhode Island's decentralized system has resulted in very high commercial and motor vehicle tax rates in urban municipalities but comparable residential rates from one place in the state to another.

[13] Massachusetts' corporate income tax rate drops to 8.75 percent in tax year 2010, 8.25 percent in tax year 2011, and 8.0 percent in tax year 2012. A commensurate reduction in the financial institutions' corporate income tax also occurs over this same period.

[14] Rhode Island Public Expenditure Council, "A System Out of Balance Update – Rhode Island's Corporate Income Tax Apportionment Formula." Accessed on February 16, 2009 at www.ripec.com under the Publications and Policy Areas: State and Local Tax Policy window.

When it comes to personal exemptions, there are state standard age and income criteria in Connecticut and Massachusetts for personal exemptions for the elderly and for other designated groups with the state reimbursing part of the exemption to the municipality. In Rhode Island, each municipality creates its own personal exemption standards with the approval of the General Assembly. Tax Assessors in Rhode Island also believe they are hampered in the administration of property tax assessments by a decentralized tax appeal process unlike Massachusetts where a state tax court hears all material final appeals.

## II. ARE TAXES A BARRIER TO ECONOMIC GROWTH?

How do relative tax burden and the structures of state and local tax systems impact a state's economic competitiveness? Does a state's tax policy and practices make a significant difference in growing jobs and retaining investments in a highly competitive national and international economy?

Economists have not always agreed on how taxes affect the economic choices made by individuals and businesses. The "peer reviewed" economic literature contains research that would support both sides of the debate as to the effect tax rate differentials and the structure of the tax system have on economic development and job creation. The following attempts to summarize the economic literature on this important matter.

The Tax Foundation, a conservative think tank, provides a concise review of the economic literature on post-World War II empirical tax research that is helpful in attempting to summarize trends in academic research.[15] This survey, based on the work of Ladd (1998),[16] divides the empirical tax research literature into three periods.

Period I included a review of the literature produced in the 1950s, 1960s and early 1970s and can be summarized in the following three typical examples.

- The first work by John Due[17] found little correlation to support the hypothesis that state and local taxes influence business decisions.
- The second work by William Oakland[18] found no significant research that tax differentials influenced location decisions.
- The third work by Michael Wasylenko[19] did find some evidence suggesting that taxes do have an influence on business location decisions. The statistical

[15] Tax Foundation, "2009 State Business Tax Climate Index," October 2008, pp. 6-7. Available at www.taxfoundation.org/research/show/22658.html.
[16] Ladd, Helen F. (1998). *Local Government Tax and Land Use Policies in the United States: Understanding the Links*. Northampton, MA: Edward Elgar.
[17] Due, John (1961): "Studies of State-Local Tax Influence on Location and Industry," *National Tax Journal*, Vol. 14, pp. 163-173.
[18] Oakland, William (1978): "Local Taxes and Intraurban Industrial Location: A Survey," *Metropolitan Financing and Growth Management*, Committee on Taxation, Resources, and Economic Development, University of Wisconsin.
[19] Wasylenko, Michael (1981): "The Location of Firms: The Role of Taxes and Fiscal Incemtives," *Urban Affairs Annual Review,* Vol. 20.

significance of taxes, however, did not equal the statistical significance of other factors such as labor supply. Wasylenko concluded that taxes were a secondary factor.

Period II included a review of the early to the late 1980s literature. The Tax Foundation commented that during this period articles regarding the economic impact of tax policies became more sophisticated. Some of the key findings from the literature during this time period suggested that the impact of tax policies on economic growth depended upon specific circumstances. Therefore, generalizations were not reached in the academic literature to conclude that taxes did or did not affect location decisions.

For example, looking at the relationship between taxes and business location in non-manufacturing sectors, McGuire and Wasylenko (1985)[20] found that higher wages, utility prices, personal income tax rates and an increase in the overall level of taxation discourage employment growth in several industries.

Period III included a review of the literature from the late 1980s through today. Empirical research during this period indicates that tax changes can influence economic behavior. There are differences, however, as to the degree of such influence. For example, Papke and Papke[21] found evidence that tax differentials between locations may be an important factor that influences location decisions.

Bartik[22] considered 75 studies in a review of the economic literature. Bartik concluded that:

> "Most recent business location studies have found some evidence of statistically significant negative effects of state and local taxes on regional business growth. The findings of recent studies differ from those of studies in the 1950s, 1960s, and early and mid-1970s, which generally did not find statistically significant and negative effects of taxes on state and local growth."

Phillips and Goss (1995) conducted a meta-analysis of the studies reviewed by Bartik. They reported tax effects that were negative and perhaps larger than those reported by Bartik, but that varied depending on which studies they included in their analysis and whether the studies controlled for the effects of public services and other variables.

Wasylenko (1997), in a survey of recent econometric studies that included those reviewed by Bartik and several studies completed after the publication of Bartik's survey, found that the effect of state and local taxes on growth, employment, and business location was negative but somewhat smaller than that suggested by Bartik. Wasylenko

[20] See "Jobs and Taxes: The Effect of Business Climate on State Economic Growth Rates," *National Tax Journal*, Vol. 38, 1985.

[21] Papke, James A. and Papke, Leslie E. (1986): "Measuring Differential State-Local Tax Liabilities and Their Implications for Business Investment Location," *National Tax Journal*, Vol. 39, No. 3.

[22] Bartik, Timothy J. (1991): "Who Benefits from State and Local Economic Development Policies?" Kalamazoo, MI: Upjohn Institute for Employment Research.

concluded that state and local taxes “have a small, statistically significant effect on interregional location behavior.”

The liberal Economic Policy Institute, [23] however, argues it would be an error to conclude that recent econometric research proves that tax cuts improve state economic growth and create jobs in a cost-effective manner. The most significant weakness cited is the failure of econometric studies to adequately account for the interrelationship between taxes and public services. An important consideration is what public service funding could be impacted by tax expenditures.

Reed (2008)[24] estimates the relationship between taxes and income growth using data from 1970-1999 on the 48 continental U.S. states and finds that taxes used to fund general expenditures are associated with significant, negative effects on state income growth. Reed’s finding is generally robust across alternative variable specifications, estimation techniques, and ways of dividing the data into “five-year” periods. Importantly, though he finds that state specific estimates can vary substantially.

Reed’s findings indicate that the macro conclusion that taxes matter is a strong one but that this conclusion begins to breakdown at the micro level. Also, it is possible that the relationship between growing the tax base needed to support public services and a competitive tax structure are not mutually exclusive.

On the subject of what impact that tax differentials have on economic development, the following conclusion is till worth considering.

> *“In summary, empirical evidence to date on this issue can not be definitive, because the results depend in part on significant tax differentials existing among states. Competition at times drives state and local taxes across states closer together, and then tax differentials affect business location decisions in a minor way. However, in periods when tax differentials become larger, their influence on economic development will become more apparent. Taxes matter, but when they matter is a complicated issue. One thing seems to be true, if your state is fiscally out of line with other states, such as having much higher tax levels, you will probably lose employment unless you have significant other locational advantages or a compensating package of public sector spending.”*[25]

The recent economic literature indicates that taxes do influence economic choices, though there is disagreement on the degree of impact. Large regional tax differentials, however, may have a significant impact on economic behavior.

[23] Lynch, Robert G. (2004). *Rethinking Growth Strategies: How State and Local Taxes and Services Affect Economic Development,* Economic Policy Institute.

[24] Reed, Robert W. (2008): “The Robust Relationship between Taxes and U.S. State Income Growth,” *National Tax Journal*, Vol. LXI, No. 1, pp. 57-80.

[25] Rhode Island Public Expenditure Council, “Taxes and Jobs: Do High Marginal Tax Rates Make A Difference? What Do Economists Think?” *Comments on Your Government*, April 24, 2006, p. 10.

A review of the literature, while not unanimous, does support the findings that taxes are a factor in the economic decision-making process of both individuals and businesses. The difference in the academic research seems to primarily center on the question of not whether taxes affect economic decision-making, but rather what is the degree of their significance. When there are significant tax differentials between competing states, there appears to be a consensus that taxes significantly influence decision making behavior. The effect, however, varies based on a number of factors including the size and type of the tax differential, structure of the tax system and the types and quality of public services that support private sector development.

## III. TOWARD A TAX STRATEGY

Given the position of Rhode Island in the various macro tax burden rankings and the need to analyze the micro foundations of those rankings, Governor Carcieri desired more in-depth study and evaluation of Rhode Island tax policies and practices. In particular, he wanted an examination of the relationship between Rhode Island's tax system and the state's economic competitive position that would point the way to a state tax policy that fosters growth. Governor Carcieri directed Gary S. Sasse, Director of the Rhode Island Departments of Administration and Revenue, to:

*"Develop a tax strategy so that Rhode Island's tax structure is a competitive advantage in retaining jobs and recruiting businesses. To achieve this objective the tax strategy should result in a tax structure that meets the test of equity, efficiency, predictability, competitiveness and transparency."*

After several preliminary meetings with Rhode Island Department of Revenue staff, Director Sasse presented the Governor with a Proposal to Develop a Strategic Tax Plan. That proposal outlined the components of Rhode Island's tax system that would be analyzed. These components included state business taxation, state individual taxes and property taxes. Within state business taxation, the proposal identified three areas of analysis: corporate income taxes, personal income taxes on business and business consumption taxes. Within state individual taxes, the proposal identified three areas of analysis: personal income taxes on individuals, wealth taxes, and personal consumption taxes. Within property taxes, four topics were identified: the relative commercial/residential property tax burden, tax classification, personal and statutory exemptions, and how the disparities in each affect business location decisions.

After review of the proposal, the Governor established the Tax Policy Strategy Workgroup to create a long-term strategic tax plan for the state. Director Sasse was appointed chairman of the workgroup and four RI DOR staff members were designated to support the Workgroup. These staff members were: Paul L. Dion, Ph.D., Chief of the Office of Revenue Analysis, Jacqueline Kelley, Esq., RI DOR Executive Counsel, David Sullivan, State Tax Administrator, and Peder Schaefer, Chief of the Division of Municipal Finance.

In achieving the objective of increasing Rhode Island's economic competitiveness, a new tax strategy must preserve the following values in the state's tax structure: equity, efficiency, predictability, transparency, and simplicity. These qualities should characterize the tax system as a whole taking into account each of the system's component parts.

**Equity** is achieved when taxpayers with like resources are taxed similarly and when the burden of taxation falls proportionally on various income-level group.[26] Is the tax system fair? As subjective as the concept of "fairness" may appear, there are objective ways to measure the impact of taxes on income groups and to judge whether or not one group is carrying a disproportionate share of the tax burden. It is important that the entire range of taxes that a taxpayer pays be considered when assessing the fairness of the tax system.

The value of **efficiency** in taxation is closely related to the major goal of the Governor's mission statement, competitiveness. Efficiency means that the tax system should not "impede or reduce the productive capacity of the economy."[27] The tax system should provide as few distortions as possible by not creating conditions in which one sector of the economy is favored over others. Further, it is ideal if a tax system enters as little as possible into the financial decisions by individuals or businesses.

A tax system that is **predictable** is preferable. People need to know and count on their tax liability and the schedule and method of paying taxes. Having a long-range plan for taxation is crucial for upholding this value. If laws are changed in the short-term because of fluctuating economies or prevailing philosophies, the uncertainty created will adversely affect economic activity.

**Transparency** is crucial for a good tax system. The more easily taxpayers can see and understand what taxes apply and to which government entity they are due, the more they will be able to comply with the tax requirements and trust that there are not hidden liabilities in the system. Complex sets of exemptions, classifications, credits, and rules make tax liability less apparent and are obstacles to taxpayers' engagement.

Values related to transparency are simplicity, ease of use, and ease of administration. **Simplicity** is desirable as it makes it easier for taxpayers to comply with the tax requirements and for the state to administer the tax system. All of these foster higher rates of compliance with the tax system requirements.

Good tax policy is characterized by these values. They can be applied individually to the various components of the tax system – the taxation of individuals, the taxation of businesses, and the taxation of property. Of utmost importance, however, the applicability of these characteristics should be readily apparent when assessing the tax system.

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[26] These two concepts are most often referred to as horizontal and vertical equity.
[27] Nellen, Annette, "Principles of Good Tax Policy," San José State University.

## IV. The Workgroup

In May 2008, Governor Carcieri appointed twenty-one members to the Tax Policy Strategy Workgroup. These twenty-one members included a broad spectrum of experts. Among them are accountants and attorneys who specialize in tax matters, economists, business and labor leaders, and state and local government officials. The members of the Governor's Tax Policy Strategy Workgroup are:

| **Members of the Governor's Tax Policy Strategy Workgroup** | |
|---|---|
| **Name** | **Affiliation** |
| Mary F. Bernard, CPA | Former President, RI Society of Certified Public Accountants<br>Principal, Kahn, Litwin, Renza, & Company |
| Edward F. Cooney | Chairman, Greater Providence Chamber of Commerce<br>Vice President/Treasurer, Nortek, Inc. |
| John J. Gelati | President, RI Association of Assessing Officers<br>Assessor, City of Providence |
| John Gregory | President & CEO, Northern RI Chamber of Commerce |
| Karen S. D. Grande, Esq. | Partner, Edwards, Angell, Palmer & Dodge |
| Mark Higgins, Ph.D. | Dean, College of Business, University of Rhode Island |
| J. Michael Saul | Executive Director, RI Economic Development Corporation |
| Leonard Lardaro, Ph.D. | Professor, Department of Economics, University of Rhode Island |
| E. Hans Lundsten, Esq. | Shareholder, Adler, Pollock & Sheehan |
| Michael Mazerov | Senior Fellow, Center on Budget and Policy Priorities |
| George Nee | Secretary-Treasurer, RI AFL-CIO |
| H. Peter Olsen, Esq. | Partner, Hinckley, Allen & Snyder |
| Edward P. Pieroni, JD, CFP | Partner, Andsager, Bartlett & Pieroni, LLP |
| Michael Sabitoni | President, RI Building & Construction Trades Council |
| Gary S. Sasse, Chair | Director, RI Departments of Administration and Revenue |
| John Simmons | Executive Director, Rhode Island Public Expenditure Council |
| Robert Tannenwald, Ph.D. | Director, New England Public Policy Center<br>Vice President, Federal Reserve Bank of Boston |
| Patricia A. Thompson, CPA | Tax Partner, Piccirelli, Gilstein, & Company, LLP |
| Al Verrechia | Chairman of the Board, Hasbro, Inc. |
| Robert A. Walsh, Jr. | Executive Director, National Education Association RI |
| Grafton H. Willey, IV | Managing Director, CBIZ Tofias<br>Former Chair, National Smaller Business Association |

The Workgroup's charge was to conduct a comprehensive review of the state's tax policy and to suggest reforms that would improve Rhode Island's competitive economic position. To accomplish this, the Workgroup considered three areas of tax policy:

- State taxes paid by individuals, including an overview of income tax systems and tax credits in the 50 states; a review of the costs and benefits of Rhode Island individual income tax credits; an analysis of the tax treatment of capital gains; an assessment of the role estate taxes play in capital formation and retention; and the trade-offs between expanding the sales tax base in lieu of lowering the sales tax rate.
- Business taxes, including an overview of Rhode Island Connecticut, and Massachusetts business taxes; a review of Rhode Island tax credits and rates; a study of alternative business taxes, such as gross receipt taxes; an assessment of combined reporting; an analysis of tax incidence on different organizational structures; and the burden of the sales tax system on business-to-business transactions.
- Property taxes, including an overview of property assessments and the property tax levy; a review of tax classification and homestead exemption strategies throughout the state, a study of personal and statutory exemptions, tax treaties, and revaluation; a comparison of property taxes and local government finance in Rhode Island, Connecticut, and Massachusetts; and an analysis of location and retention decisions by firms and individuals.

The mission of the Tax Policy Strategy Workgroup was not to find revenue solutions to the present state budget crisis. The objective of their study was to develop a long-term strategy to enhance the Ocean State's tax competitiveness. How the government taxes individuals, businesses, and property owners has a bearing on the economic success of all Rhode Islanders quite apart from state budget concerns, and so the Workgroup's interest was long-term, structural changes to Rhode Island's tax system in order to position Rhode Island to take advantage of the economic recovery when it takes hold. Their goal was to study whether and how Rhode Island tax policy has put the state at a competitive disadvantage to other states, how to remedy that situation, and how to remove obstacles to job growth and economic development.

The larger group divided into three subgroups, one for each of the three areas of tax policy. Each subgroup was convened and facilitated by a staff member of the Department of Revenue. David Sullivan was assigned to the business taxes subgroup, Peder Schaefer was assigned to the property tax subgroup, and Paul Dion was assigned to the individual taxes subgroup.

Beginning in July, the subgroups met regularly to work on their assignments while periodically reporting back their findings to the larger workgroup. The subgroups began by reviewing background material for the major issues to gain a clearer picture of the status quo and to familiarize themselves with data that would inform any new tax policy strategy for the state.

The Individual Taxes subgroup discussed the following topics during its deliberations:

I. Review of State Individual Income Tax Provisions:
   - Tax Base, Marginal Rates, and Income Brackets
   - Personal Exemptions
   - Standard Deductions
   - Itemized Deductions
   - Tax Treatment of Pension/Retirement Income

II. Presentation of Taxpayer Profiles and Incidence Analysis

III. Economics of Tax Credits
   - Review of Rhode Island Individual Income Tax Credits
   - Allowable Federal Income Tax Credits
   - State Income Tax Credits
   - Estimates of Foregone Revenue from Income Tax Credits

IV. A Case Study of Rhode Island's Motion Picture Production Tax Credit

V. Discussion of Tax Credits
   - Public Good vs. Economic Development Tax Credits

VI. Capital Gains Taxes
   - Economics of Capital Gains Taxation
   - Rhode Island's Taxation of Capital Gains
   - Economic Development and Capital Gains Taxes

VII. The Impact of Estate Taxes in Practice

VIII. Economic Issues in Estate Taxes

IX. Updated Taxpayer Profiles

X. Proposed Parameters of a Reformed Rhode Island Personal Income Tax System

XI. Sales and Use Taxes
   - Comparison of Sales Tax Rates Across the 50 States
   - Sales Taxation of Business Inputs in Rhode Island
   - Sales Taxation of Services
   - Sales and Use Taxes in Rhode Island, Connecticut, and Massachusetts

The Business Tax subgroup discussed the following topics during its deliberations:

I. Overview of Rhode Island Business Taxes

II. Comparison of Rhode Island Business Taxes to Massachusetts and Connecticut

III. Review of Rhode Island's Business Tax Credits

IV. Past Studies of Business Tax Systems
   - Ernst & Young: Benchmarking Report
   - Council on State Taxation: FY 2007 Business Taxes Report
   - Tax Foundation: 2007 State Business Tax Climate Index
   - Small Business and Entrepreneurship Council: Business Tax Index 2008
   - Federal Reserve Bank of Boston:
     Massachusetts Business Taxes: Unfair? Inadequate? Uncompetitive?

- o Tax Analysts:
  Emerging State Business Tax Policy: More of the Same or Fundamental Change?
- o Center on Budget and Policy Priorities:
  Well-Designed, Fiscally Responsible Corporate Tax Reform Could Benefit the Economy

V. Assessment of New Hampshire's Business Enterprise Tax

VI. Review of Rhode Island Economic Development Corporation's Strategic Plan

VII. Presentation on Combined Reporting

VIII. Issues in the State and Local Taxation of Multi-jurisdictional Business Entities

The Property Tax subgroup discussed the following topics during its deliberations:

I. Overview of Rhode Island's Property Tax System
- o Tax Classification
- o Homestead Exemptions
- o Motor Vehicles

II. Personal Property Tax Exemptions and Freezes
- o Elderly
- o Disabled
- o Veterans

III. Statutory Property Tax Exemptions
- o Legal
- o Categories
- o Value by City and Town
- o Definitional Issues

IV. Tax Treaties
- o Legal
- o Economic Development Corporation and Special
- o Stabilized Taxes

V. Revaluation
- o Schedule
- o Recent Results
- o Appeals

VI. Property Tax in Massachusetts and Connecticut

VII. Land Use and the Property Tax

VIII. Business Location Decisions and the Property Tax

IX. The Relationship Between State Aid and Property Tax Capacity

X. How Rhode Island Local Government is Financed

XI. Tax Classification and Homestead Exemptions standardized simulations

## V. The Individual Taxes Subgroup

The Individual Taxes Subgroup (ITS) was responsible for the review and assessment of Rhode Island's competitive position relative to the personal income tax, the tax treatment of capital gains income, the estate tax, and the sales and use tax. Paul L. Dion, Ph.D. served as the Rhode Island Department of Revenue's support staff to the Individual Taxes Subgroup. The members of the subgroup were: Edward F. Cooney, Mark Higgins, E. Hans Lundsten, George Nee, Edward P. Pieroni, Patricia A. Thompson, and Grafton H. "Cap" Willey IV.

### Personal Income Taxes

The first item of business for the ITS was a review of the personal income tax provisions of the 50 states.[28] The review included a state-by-state assessment of the income base subject to taxation; the major differences from federal personal income tax law for interest and dividend income, business, rent and farm income, capital gains and losses, pension and retirement income, active duty military income, unemployment compensation, Social Security benefits, state and municipal bond interest, health savings accounts, disability income, lottery winnings, federal income taxes, and other miscellaneous differences; the filing system used; the number of taxable income brackets, the income span of the brackets, and the marginal tax rates for each bracket by filing status; personal exemptions and credits by filing status; and standard deductions by filing status and allowable itemized deductions. Summary tables of the major provisions by state are included in Volume II of this report as well as in **Appendix A**.

The ITS also developed 11 taxpayer profiles for use in tax incidence analysis when comparing the personal income tax systems of Rhode Island and seven competitor states, Connecticut, Delaware, Massachusetts, New Hampshire, New Jersey, North Carolina, and Virginia. In addition to the assumptions made regarding sources of income, itemized deductions, dependents, filing status, etc., the ITS also incorporated widely available credits in the eight states to further gauge the incidence of the personal income tax system in each state. In particular, the subgroup incorporated earned income tax credits, child care expense credits, property tax relief credits, including renters' credits, and other low income credits.

A summary of the taxpayer profiles appears below and detailed information on each taxpayer profile appears in **Appendix B** of this report. The basis for determining the itemized deductions of a given taxpayer profile was the Division of Taxation's Tax Year 2005 Statistics of Income: Resident Returns.

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[28] Russell, Faith and Hanson, Lori, "Individual Income Tax Provisions in the States," Wisconsin Legislative Fiscal Bureau, January, 2007. Available at www.taxadmin.org/fta/rate. The data are for tax year 2005. It should be noted that seven states do not tax personal income at any level. These states are: Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming. Two states, New Hampshire and Tennessee, tax only dividend and interest income while Tennessee also taxes capital gains distributions from mutual funds.

| Taxpayer | AGI | Filing Status | Dependents | Current Law Standard Deduction |
|---|---|---|---|---|
| Minimum Wage Worker | $ 15,392 | HoH | 2 | Yes |
| Retired Working Class | $ 24,020 | MFJ | 0 | Yes |
| Dual Minimum Wage Workers | $ 30,784 | MFJ | 3 | Yes |
| Single Professional | $ 45,415 | S | 0 | Yes |
| Working Class | $ 75,500 | MFJ | 2 | No |
| Retired Professionals | $ 93,200 | MFJ | 0 | No |
| Professionals | $ 152,450 | MFJ | 2 | No |
| Investment Income Only | $ 171,475 | MFJ | 0 | No |
| Executive | $ 190,500 | MFJ | 4 | No |
| Small Business Owner | $ 353,000 | MFJ | 4 | No |
| Senior Executive | $ 1,173,000 | MFJ | 3 | No |

Key: HoH, Head of Household; MFJ, Married Filing Jointly; S: Single.

| Taxpayer | Current Law Itemized Deductions | Income Sources | Current Law Entitlement Credit Eligibility |
|---|---|---|---|
| Minimum Wage Worker | No | W | EITC, PTR |
| Retired Working Class | No | P, SS, TI, D, SCG | PTR |
| Dual Minimum Wage Workers | No | W | EITC, CCE |
| Single Professional | No | W, TI, D, SCG | None |
| Working Class | $ 12,899 | W, TI, D, SCG | CCE |
| Retired Professionals | $ 10,050 | P, SS, TI, D, SCG, LCG | CCE |
| Professionals | $ 26,836 | W, TI, D, SCG, LCG | None |
| Investment Income Only | $ 22,670 | TI, TEI, D, SCG, LCG | None |
| Executive | $ 34,973 | W, TI, D, SCG, LCG | None |
| Small Business Owner | $ 56,387 | W, K1, TI, D, SCG, LCG | None |
| Senior Executive | $ 187,370 | W, TI, D, SCG, LCG | None |

Key: W, Wages; P, Public Pension; SS, Social Security; TI, Taxable Interest; D, Dividends;
SCG, Short-term Capital Gains; LCG, Long-term Capital Gains; TEI, Tax Exempt Interest;
K1, Business Distribution;
EITC, Earned Income Tax Credit; PTR, Property Tax Relief; CCE, Child Care Expenses

The table below shows, by taxpayer profile, the relative rank of the income tax burden among the comparison states: Actual tax liabilities can be found in **Appendix B**. The progressivity of Rhode Island's personal income tax system is apparent from the table with Rhode Island showing lower relative tax burdens for lower income taxpayer profiles and higher relative tax burdens for higher income taxpayer profiles.

The profiles for which Rhode Island had the lowest tax burdens were those of the Dual Minimum Wage Workers and the Married Investment Income Only taxpayers. The Dual Minimum Wage Workers taxpayer profile benefits from the pass-through of 25.0 percent of the federal child care expenses credit and Rhode Island's earned income tax credit. The Married Investment Income Only taxpayer profile benefits from Rhode Island's preferential tax treatment of capital gains income from assets held more than one year but less than five years and long-term capital gains income from assets held five or more years.

| Rank Key: 1 is lowest tax burden 8 is highest tax burden | Current Law RI | MA | CT | NC | NJ | VA | DE | NH |
|---|---|---|---|---|---|---|---|---|
| **Taxpayer Profile** | **Rank** | **Rank** | **Rank** | **Rank** | **Rank** | **Rank** | **Rank** | **Rank** |
| Minimum Wage Worker | 3 | 2 | 4 | 5 | 1 | 4 | 4 | 4 |
| Retired Working Class | 3 | 1 | 2 | 6 | 5 | 6 | 6 | 4 |
| Dual Minimum Wage Workers | 2 | 6 | 5 | 7 | 1 | 8 | 4 | 3 |
| Single Professional | 3 | 6 | 5 | 8 | 2 | 7 | 4 | 1 |
| Married Working Class | 3 | 6 | 8 | 7 | 2 | 5 | 4 | 1 |
| Married Retired Professionals | 5 | 3 | 7 | 8 | 2 | 6 | 4 | 1 |
| Married Professionals | 4 | 6 | 7 | 8 | 2 | 5 | 3 | 1 |
| Married Investment Income Only | 2 | 7 | 5 | 8 | 4 | 6 | 3 | 1 |
| Married Executive | 4 | 5 | 7 | 8 | 2 | 6 | 3 | 1 |
| Married Small Business Owner | 7 | 4 | 2 | 8 | 6 | 5 | 1 | 3 |
| Married Senior Executive | 6 | 4 | 3 | 7 | 8 | 5 | 2 | 1 |

The profiles for which Rhode Island had the highest tax burdens were those of the Married Small Business Owner and the Married Senior Executive. Surprisingly, these relatively high rankings occur even though both of these taxpayer profiles pay a lower tax under the alternative flat rate income tax system with a 5.5 percent rate! The reason for this is that Rhode Island's alternative flat rate income tax system doesn't allow for any deductions or exemptions from adjusted gross income (AGI) and also prohibits the use of tax credits by taxpayers who elect this alternative income tax system.

**Personal Income Tax Credits**

The second item of business for the Individual Taxes Subgroup (ITS) was a review of the personal income tax credits available to Rhode Island taxpayers to offset their state income tax liability, in whole or in part. ITS determined that Rhode Island's personal income tax system has two sources of income tax credits. The first are allowable federal income tax credits; that is, income tax credits that pass-through from the federal income tax return to the Rhode Island income tax return. The second are state enacted income tax credits; that is, income tax credits that have been created by legislative edict. ITS ascertained that in Tax Year 2006, there were 20 allowable federal income tax credits and 28 state enacted tax credits.

The ITS differentiated between social goods tax credits and economic development tax credits in its analysis. Social goods tax credits are designed to foster outcomes that would otherwise be underprovided without such incentives. For example, the Earned Income Tax Credit serves to improve the income levels of low skilled individuals while inducing these individuals to actively participate in the labor force. Economic development tax credits are designed to induce targeted businesses to expand operations or re-locate to the state in the furtherance of economic development objectives, such as job creation and retention. Of the 48 total personal income tax credits that can be used to offset Rhode Island personal income tax liability, it was determined that half were social goods tax credits and half were economic development tax credits. A complete table of these credits is contained in **Appendix C.**

The ITS was interested in knowing the frequency of use of the personal income tax credits and the foregone revenue associated with the use of them. As the table below indicates the economic development tax credits were used by fewer than 1,000 taxpayers indicating that the benefit of the tax credits was being conferred on a small group of beneficiaries.

| **Economic Development Credits** | | **Credit Cost $ (Tax Year 2006)** |
|---|---|---|
| Historic commercial building (eliminated in 2008) | Count | 806 |
| | Amount | $34,519,437 |
| Motion picture production credit (capped in 2008) | Count | 201 |
| | Amount | $19,551,483 |
| Investment tax credit | Count | 747 |
| | Amount | $4,157,290 |
| Research and development expense credit | Count | 133 |
| | Amount | $1,460,149 |
| Enterprise zone wage credit | Count | 103 |
| | Amount | $674,433 |
| General business | Count | 886 |
| | Amount | $607,000 |
| Enterprise zone interest credit (eliminated in 2004) | Count | 33 |
| | Amount | $373,392 |
| Jobs training expense | Count | 69 |
| | Amount | $360,905 |
| Research and development property credit | Count | 12 |
| | Amount | $192,812 |
| Apprenticeship credit | Count | 0 |
| | Amount | $0 |
| **Grand Total** | **Amount** | **$ 61,896,901** |
| **Less frozen or eliminated credits** | **Amount** | **$ (34,892,829)** |
| **Adjustment for capped credits** | **Amount** | **$ (4,551,483)** |
| **Net Total** | **Amount** | **$22,452,589** |
| **Credits with No Information Available** | | |
| Certain contributions to community development corporations | | |
| Empowerment zone and renewal community employment | | |
| Certain employer payroll taxes | | |
| Indian employment | | |
| Increasing research activities | | |
| Alcohol used as fuel | | |
| Enhanced oil recovery | | |
| Federal tax paid on fuels | | |
| Renewable electricity production | | |
| Farm to school income tax credit | | |
| Credit for artwork exhibition | | |
| Biotechnology investment tax credit | | |
| Innovation and growth tax credit | | |
| Hydroelectric power credit | | |

It should be noted that since TY 2006, two of the most heavily used economic development personal income tax credits have been eliminated on a go-forward basis, historic commercial building, or capped at a specified annual amount, $15.0 million in the case of the motion picture production credit. The net result is that $22.5 million of economic development personal income tax credits were used by 1,950 non-unique taxpayers in TY 2006, at an average cost of $11,514.

| Social Goods and Other Credits | | Credit Cost $ (Tax Year 2006) |
|---|---|---|
| Income tax paid to other states | Count | 71,830 |
| | Amount | $126,783,548 |
| Property tax relief -- Circuit Breaker | Count | 50,978 |
| | Amount | $14,090,126 |
| Earned income | Count | 69,066 |
| | Amount | $12,300,335 |
| Historic residence (eliminated in 2008) | Count | 286 |
| | Amount | $3,005,614 |
| Foreign tax (eliminated in 2008) | Count | 24,237 |
| | Amount | $2,754,240 |
| Child and dependent care expenses | Count | 19,265 |
| | Amount | $2,509,533 |
| Adoption tax credit | Count | 121 |
| | Amount | $133,869 |
| Residential lead abatement | Count | 36 |
| | Amount | $110,273 |
| Residential renewable energy system | Count | 34 |
| | Amount | $71,421 |
| Mortgage interest | Count | 169 |
| | Amount | $49,340 |
| Child daycare assistance and development | Count | 13 |
| | Amount | $24,409 |
| Elderly and disabled | Count | 258 |
| | Amount | $10,833 |
| Adult education credit | Count | 11 |
| | Amount | $5,220 |
| Qualfied widow(er) | Count | 2 |
| | Amount | $147 |
| Credit for accommodations under ADA | Count | 0 |
| | Amount | $0 |
| **Sub-Total for TY 2006** | **Amount** | **$ 161,848,909** |
| **Less frozen or eliminated credits** | **Amount** | **$ (5,759,854)** |
| **Less taxes paid to other states** | **Amount** | **$ (126,783,548)** |
| **Net Total** | **Amount** | **$ 29,305,507** |
| **Credits with No Information Available** | | |
| Disabled access | | |
| Qualified electric vehicle | | |
| Low-income housing | | |
| Prior year alternative minimum tax | | |
| Tax credit for contributions to scholarship organizations | | |
| Juvenile restitution credit | | |
| Credit for fees to the affordable energy fund | | |
| Credit to trust beneficiary for distribution | | |
| Credit for trust beneficiary | | |

As can be seen in the table above, the social goods and other tax credits are more widely used with three such credits, income tax paid to other states, property tax relief, and earned income being used by at least 50,000 non-unique taxpayers each.

It should be noted that, since TY 2006, two social goods and other personal income tax credits have been eliminated on a go-forward basis, historic residence and foreign tax. In addition, the taxes paid to other states credit is a credit that all 43 states with a personal income tax grant their residents. The net result of adjusting for these credits shows that $29.3 million of social goods personal income tax credits were used by 139,953 non-unique taxpayers in TY 2006, at an average cost of $209.40.

**Tax Treatment of Capital Gains Income**

The third topic covered by the Individual Taxes Subgroup (ITS) was a review of Rhode Island's tax treatment of capital gains income. The ITS found that 41 of the 43 states that had a personal income tax taxed capital gains income.[29] All of these 41 states[30] generally used the same asset base classifications as is used for federal income tax purposes[31] and 40 of the 41 states generally used the same asset holding periods as are used for federal income tax purposes. The exception in this latter case was Rhode Island. A summary table of the tax treatment of capital gains income by the states is shown in **Appendix D**.

For federal income tax purposes, there is a distinction made between short-term and long-term capital gains income and the distinction is based on the length of time that an asset is held. Assets held for less than one year before sale are considered short-term assets and the gain from their sale is taxed at ordinary income rates. Assets held for at least one year before sale are considered long-term assets and the gain from their sale is taxed at rates below those of ordinary income.[32] Rhode Island follows the federal holding period of less than one year for "short-term" capital gains income but differentiates between holding periods of at least one year and less than five years and holding periods of five or more years. Thus, Rhode Island has three capital gains holding periods, each taxed at different rates. Real estate and securities assets held less than one year are taxed at ordinary income rates of 3.75, 7.0, 7.75, 9.0 or 9.9 percent; real estate, securities and collectibles held at least one year but less than five years are taxed at reduced tax rates of 2.5, 5.0, 6.25, or 7.0 percent; and real estate, securities and collectibles assets held five or more years are taxed at further reduced rates of 0.83, 1.67, 2.08, or 2.33 percent.[33] The ITS did find that Rhode Island was one of only six states that gave preferential tax treatment for capital gains income from assets held for at least one year.[34]

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[29] New Hampshire does not tax capital gains income. Tennessee only taxes capital gains income from mutual funds.

[30] Even though most states used the federal asset base classification, a number of states excluded certain assets from state income taxation, for example the assets of a state domiciled entity such as turnpike bonds in Kentucky or state and local bonds in Connecticut.

[31] The federal personal income tax differentiates between three asset classes for tax purposes. These are real estate and securities, depreciable business assets, and collectibles.

[32] In the federal income tax system long-term capital gains from the sale of real estate or securities are taxed at a 5.0, 15.0, 25.0, or 28.0 percent rate depending on the taxpayer's taxable income and the type of asset sold.

[33] In the taxpayer profiles the abbreviation SCG stands for short-term capital gains and refers to assets held for at least one year but less than five years. The abbreviation LCG stands for long-term capital gains and refers to assets held five or more years.

[34] The eight states that give preferential tax treatment for capital gains are Arkansas, Hawaii, Rhode Island, South Carolina, Vermont, and Wisconsin.

Based on tax returns processed through October 31, 2008, Rhode Island's tax year 2007 capital gains income taxes paid were as follows:

| Tax Treatment | Total Realized Capital Gains | Tax Paid |
|---|---|---|
| **Assets Held < 1 Year** | | |
| Taxed as Ordinary Income | $117,500,614 | $8,135,923 |
| **Assets Held ≥ 1 Year But < 5 Years** | | |
| Taxed at 2.5% Rate | $75,846,123 | $1,896,165 |
| Taxed at 5.0% Rate | 1,080,844,890 | 54,042,245 |
| Depreciable Assets at 6.25% Rate | 23,204,402 | 1,450,279 |
| Collectibles at 7.0% Rate | 1,190,613 | 83,343 |
| **Sub-Total** | **$1,181,086,028** | **$57,472,032** |
| **Assets Held 5 Years or More** | | |
| Taxed at 0.83% Rate | $61,788,961 | $512,850 |
| Taxed at 1.67% Rate | 757,301,842 | 12,646,942 |
| Depreciable Assets at 2.08% Rate | 11,767,466 | 244,763 |
| Collectibles at 2.33% Rate | 547,039 | 12,746 |
| **Sub-Total** | **$831,405,308** | **$13,417,301** |
| **Revenue Impact of Reduced Rate on Assets Held 5 or More Years** | | |
| Taxed at 0.83% Rate vs. 2.5% Rate | | $(1,031,874) |
| Taxed at 1.67% Rate vs. 5.0% Rate | | (25,218,150) |
| Taxed at 2.08% Rate vs. 6.25% Rate | | (490,703) |
| Taxed at 2.33% Rate vs. 7.0% Rate | | (25,547) |
| **Total Revenue Foregone** | | **$(26,766,274)** |

From the table, it can be determined that 5.5 percent of all realized capital gains were from assets held less than one year, 55.5 percent of all realized capital gains were from assets held at least one year but less than five years, and 39.0 percent of all realized capital gains were from assets held five or more years.

One area of concern for the members of the ITS was the fact that all assets regardless of type were afforded preferential tax treatment as long as the asset had been held at least five years. In particular, real estate was singled out as an asset class that perhaps should be excluded from preferential tax treatment due to the fact that by granting preferential tax treatment to real estate, Rhode Island is transferring potential tax revenues to the state of domicile for non-resident real estate owners.

For example, suppose a Connecticut resident has owned property in Rhode Island for more than five years, sells the property and the sale yields a capital gain of $500,000.[35] Under Rhode Island's preferential tax treatment of capital gains held five years or more, the Connecticut resident pays Rhode Island $8,350 in taxes. When the Connecticut resident files his or her Connecticut income tax return, however, his or her Connecticut income tax liability on the sale of the Rhode Island property is $25,000. Connecticut credits the taxpayer for the $8,350 in capital gains taxes paid to Rhode Island and the taxpayer remits an additional $16,650 to the State of Connecticut. If Rhode Island's capital gains tax rate had been 5.0 percent, the Connecticut owner of the Rhode Island property would have paid $25,000 in capital gains taxes to Rhode Island, been credited for that amount paid by the State of Connecticut and Connecticut would have received no further tax payment from the taxpayer. ITS thought it was better for Rhode Island to receive all of the revenue from the sale of Rhode Island domiciled assets.

The table below shows the TY 2007 impact through October 31, 2008 of granting preferential tax treatment for capital gains income from non-resident owners of real estate:

| Withholding Tax on Sale of Real Estate by Non-Residents | | |
|---|---|---|
| Gross Tax Due at 5.0% Rate | $ | 8,927,471.65 |
| Tax Savings Based on 5 Year Holding Period Rates | $ | 2,996,715.10 |
| **Net Tax Collected** | **$** | **5,930,756.55** |

**Estate Taxes**

A fourth area considered by the Individual Taxes Subgroup (ITS) was the estate, or death, tax. The ITS found that Rhode Island was one of only 23 states that currently levies an estate tax[36] and one of only 15 states that decoupled from the federal estate tax. In addition, ITS found that 22 states had repealed or will repeal their estate tax by 2010 and another 10 states had never decoupled from the federal estate tax meaning that under current law their estate taxes will be eliminated in 2010 when the federal estate tax is repealed for one year. Finally, ITS determined that Rhode Island's estate tax exemption of $675,000[37] was the lowest in the country, below Massachusetts' $1.0 million exemption amount and Connecticut's $2.0 million exemption amount.

With its low exemption amount, Rhode Island's estate tax falls heavily on relatively small estates. For tax year 2008, estates with gross taxable estate values of less than $1.0 million comprised 41.8 percent of all estate tax returns filed and 44.8 percent of all resident estate tax returns filed. With respect to estate taxes paid, estates with gross

[35] Assume that the property in question was a second home that had never been rented. Therefore no depreciation recapture is required.
[36] McNichol, Elizabeth C., "State Taxes on Inherited Wealth Remain Common: 23 States Levy an Estate or Inheritance Tax," *Center for Budget and Policy Priorities,* August 30, 2007.
[37] A state's estate tax exemption amount is typically applied as follows: all estates with gross taxable estate values below the exemption amount are not subject to the estate tax. For estates with gross taxable estate values greater than the exemption amount, the entire estate is subject to the state's estate tax.

taxable values of less than $1.0 million accounted for 10.6 percent of all estate taxes paid and 11.1 percent of all estate taxes paid by residents. In addition, 82.4 percent of all estate tax returns and 85.6 percent of all resident estate tax returns filed were for estates with gross taxable values of less than $2.0 million. These estates comprised 36.4 percent of all estate taxes paid and 37.4 percent of all resident estate taxes paid. The tables below show the estate tax returns filed and the estate taxes paid by various gross taxable estate values.

**TY 2008 Estate Tax Returns Filed**

| Gross Taxable Estate Value | Total Resident and Non-Resident Returns | % of Total Resident and Non-Resident | Resident Returns | % of Total | Non-Resident Returns | % of Total |
|---|---|---|---|---|---|---|
| < $1,000,000 | 164 | 41.8% | 146 | 44.8% | 18 | 27.3% |
| > $999,999 but < $2,000,000 | 159 | 40.6% | 133 | 40.8% | 26 | 39.4% |
| > $1,999,999 but < $3,000,000 | 30 | 7.7% | 21 | 6.4% | 9 | 13.6% |
| > $2,999,999 but < $4,000,000 | 16 | 4.1% | 12 | 3.7% | 4 | 6.1% |
| > $3,999,999 but < $5,000,000 | 5 | 1.3% | 5 | 1.5% | 0 | 0.0% |
| > $4,999,999 but < $10,000,0000 | 10 | 2.6% | 5 | 1.5% | 5 | 7.6% |
| > $9,999,999 | 8 | 2.0% | 4 | 1.2% | 4 | 6.1% |
| **Total** | **392** | **100.0%** | **326** | **83.2%** | **66** | **16.8%** |
| ≤ $3,500,000 | 363 | 92.6% | 308 | 94.5% | 55 | 83.3% |

**TY 2008 Estate Taxes Paid**

| Gross Taxable Estate Value | Total Resident and Non-Resident Rhode Island Estate Taxes Paid | % of Total Resident and Non-Resident | Resident Rhode Island Estate Taxes Paid | % of Total Resident | Non-Resident Rhode Island Estate Taxes Paid | % of Total Non-Resident |
|---|---|---|---|---|---|---|
| < $1,000,000 | $ 3,436,455 | 10.6% | $ 3,237,130 | 11.1% | $ 199,325 | 6.1% |
| > $999,999 but < $2,000,000 | 8,326,939 | 25.8% | 7,645,185 | 26.3% | 681,754 | 21.0% |
| > $1,999,999 but < $3,000,000 | 3,266,305 | 10.1% | 2,730,953 | 9.4% | 535,352 | 16.5% |
| > $2,999,999 but < $4,000,000 | 2,960,838 | 9.2% | 2,622,954 | 9.0% | 337,884 | 10.4% |
| > $3,999,999 but < $5,000,000 | 1,630,868 | 5.0% | 1,630,868 | 5.6% | - | 0.0% |
| > $4,999,999 but < $10,000,0000 | 4,198,648 | 13.0% | 3,152,474 | 10.8% | 1,046,174 | 32.2% |
| > $9,999,999 | 8,512,623 | 26.3% | 8,067,061 | 27.7% | 445,562 | 13.7% |
| **Total** | **$ 32,332,675.73** | **100.0%** | **$29,086,624.48** | **90.0%** | **$ 3,246,051.25** | **10.0%** |
| ≤ $3,500,000 | $ 16,714,685 | 51.7% | $ 15,251,805 | 52.4% | $ 1,462,880 | 45.1% |

## Sales and Use Taxes

The final area of individual income taxation considered by the Individual Taxes Subgroup (ITS) was the sales and use tax. ITS found that 45 of the 50 states impose a general sales tax on consumer and some business purchases.[38] Of the 45 states that impose a general sales tax, Rhode Island's state sales tax rate of 7.0 percent is the 2nd highest, tied with five other states. Rhode Island also was found to have the highest states sales tax rate among the six New England states.[39] Rhode Island was one of 11

[38] The five states that do not impose a sales tax are: Alaska, Delaware, Montana, New Hampshire, and Oregon. It should be noted that Alaska allows for a local option sales tax with rates up to 7.5 percent.

[39] The state sales tax rates in the six New England states are : Connecticut, 6.0 percent; Maine, 5.0 percent; Massachusetts, 5.0 percent; and Vermont, 6.0 percent. New Hampshire does not impose a general sales tax and Vermont allows a local option sales tax of up to 1.0 percent.

states that does not allow for a local option general sales tax.[40] Local option sales taxes can range as high as 8.0 percent and are in addition to the state sales tax. Combining local option sales tax rates with state sales tax rates drops Rhode Island's relative ranking from 2nd highest to 18th highest.[41] Even with local option sales tax rates factored in, Rhode Island's state sales tax rate of 7.0 percent exceeded those of both Connecticut and Massachusetts, at 6.0 percent and 5.0 percent respectively. The detailed list of sales tax rates and local options by state are listed in **Appendix F.**

With regard to the tangible personal property sales tax base, ITS found that 30 states exempted food (i.e., groceries) from the state general sales tax;[42] 43 states exempted prescription drugs from the general sales tax;[43] 11 states exempted non-prescription drugs from the state general sales tax;[44] seven states either fully or partially exempted clothing from the general sales tax;[45] and 34 states exempted gasoline from the state general sales tax.[46] In each case, Rhode Island is one of the states that exempts or partially exempts these items from the general sales tax. Connecticut and Massachusetts treat these items the same as Rhode Island for general sales tax purposes, with the exception of non-prescription drugs, which Massachusetts taxes, and gasoline, which Connecticut subjects to a gross earnings tax on petroleum products. **Appendix G** contains a detailed list of the taxation of major tangible personal property items by state.

The subjection of services to the general sales tax is somewhat more complicated than that of tangible personal property. The ITS found that at least 20 states taxed the following services (the number of states follows the description of the service):

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[40] The other states that don't allow a local option sales tax are: Connecticut, Indiana, Kentucky, Maine, Maryland, Massachusetts, Michigan, New Jersey, Virginia, and West Virginia. Rhode Island does have a local option meal and beverage tax and a local option lodging tax. Each of these taxes is assessed at a rate of 1.0 percent of the final sales price. It is not clear how many of the other states that do not have a local option sales tax have similar provisions.

[41] To incorporate the impact of local option sales tax rates, the Office of Revenue Analysis determined the local option sales tax rate for the largest cities in the largest counties in each state that allows a local option sales tax. The prevailing local option sales tax rate in each of these cities was added to the state sales tax rate to get a combined state and local sales tax rate. The maximum combined state and local sales tax rate for each state was then used as the benchmark for the highest combined state and local sales tax rate. This methodology did exclude counties with smaller populations that may have had a higher combined state and local sales tax rate.

[42] The states that apply the general sales tax to food are: Alabama, Arkansas, Hawaii, Idaho, Illinois, Kansas, Mississippi, Missouri, Oklahoma, South Carolina, South Dakota, Tennessee, Utah, Virginia, and West Virginia. It should be noted that Arkansas, Illinois, Missouri, Tennessee, Utah, Virginia, and West Virginia tax food at a rate less than the state's general sales tax rate.

[43] Illinois is the only state with a general sales tax that taxes non-prescription drugs. It taxes this item at a significantly reduced rate.

[44] The states that exempt non-prescription drugs from the state general sales tax are: Connecticut, Florida, Maryland, Minnesota, New Jersey, New York, Pennsylvania, Rhode Island, Texas, Vermont, and Virginia. Illinois taxes non-prescription drugs at a rate less than the state general sales tax rate.

[45] The states that exempt or partially exempt, with the exemption amount in parentheses, clothing are: Connecticut ($50), Massachusetts ($175), Minnesota, New Jersey, New York ($110), Pennsylvania, Rhode Island, and Vermont.

[46] The states that apply the general sales tax to gasoline are: California, Florida, Georgia, Hawaii, Illinois, Indiana, Michigan, and West Virginia. West Virginia's tax is at the wholesale level. New York and Virginia allow a local sales tax option on gasoline.

| Category of Service | Total States with Tax | Category of Service | Total States with Tax |
|---|---|---|---|
| **Agricultural Services** | | **Automotive Services** | |
| Landscaping services (including lawn care) | 21 | Automotive washing and waxing. | 21 |
| **Industrial and Mining Services** | | Auto service. except repairs, incl. painting & lube | 25 |
| Typesetting service; platemaking for the print trade | 21 | Parking lots & garages | 21 |
| **Utility Service - Industrial Use** | | Automotive rustproofing & undercoating. | 25 |
| Intrastate telephone & telegraph | 43 | **Admissions & Amusements** | |
| Interstate telephone & telegraph | 27 | Pari-mutuel racing events. | 29 |
| Cellular telephone services | 43 | Amusement park admission & rides | 36 |
| Electricity | 36 | Billiard parlors | 27 |
| Natural gas | 37 | Bowling alleys | 27 |
| Other fuel (including heating oil) | 38 | Cable TV services | 26 |
| **Utility Service - Residential Use** | | Direct Satellite TV | 24 |
| Intrastate telephone & telegraph | 41 | Circuses and fairs -- admission and games | 34 |
| Interstate telephone & telegraph | 27 | Admission to school and college sports events | 22 |
| Cellular telephone services | 44 | Membership fees in private clubs. | 23 |
| Electricity | 22 | Admission to cultural events | 31 |
| Natural gas | 22 | Admission to professional sports events | 37 |
| Other fuel (including heating oil) | 23 | Rental of video tapes for home viewing | 45 |
| **Personal Services** | | **Leases and Rentals** | |
| Diaper service | 23 | Personal property, short term (generally) | 45 |
| Garment services (altering & repairing) | 20 | Personal property, long term (generally) | 45 |
| Gift and package wrapping service | 21 | Bulldozers, draglines and const. mach., short term | 45 |
| Health clubs, tanning parlors, reducing salons | 22 | Bulldozers, draglines and const. mach., long term | 45 |
| Laundry and dry cleaning services, non-coin op | 22 | Rental of hand tools to licensed contractors. | 45 |
| 900 Number services | 29 | Short term automobile rental | 48 |
| Shoe repair | 20 | Long term automobile lease | 40 |
| Tuxedo rental | 38 | Aircraft rental to individual pilots, short term | 40 |
| **Business Services** | | Aircraft rental to individual pilots, long term | 39 |
| Commercial art and graphic design. | 23 | Hotels, motels, lodging houses | 50 |
| Commercial linen supply | 33 | Trailer parks - overnight | 29 |
| Exterminating (includes termite services) | 21 | **Fabrication, Installation and Repair Services** | |
| Photocopying services | 43 | Custom fabrication labor | 38 |
| Photo finishing | 44 | Repair material, generally | 47 |
| Printing | 45 | Repair labor, generally | 24 |
| Sign construction and installation | 31 | Labor charges - repairs to intrastate vessels | 20 |
| Telephone answering service | 20 | Labor charges on repairs to motor vehicles | 21 |
| Tire recapping and repairing | 28 | Labor on radio/TV repairs; other electronic equip. | 24 |
| **Computer:** | | Labor charges - repairs other tangible property | 24 |
| Software - package or canned program | 47 | Service contracts sold at the time of sale of TPP. | 32 |
| Software - modifications to canned program | 29 | Installation charges by persons selling property | 23 |
| Software - custom programs - material | 24 | Custom processing (on customer's property) | 26 |
| **Computer Online Services:** | | Taxidermy | 26 |
| Software - Downloaded ***New*** | 28 | Welding labor (fabrication and repair) | 31 |

*Source: 2007 FTA Survey*

A detailed list of all services subject to the general sales tax and the number of states that tax them is contained in **Appendix H**.

In New England, the sales taxation of services is considerably less than in the rest of the country. Connecticut taxes more services than any other New England state, a total of 85 including 20 business services, 12 computer and online services, and 10 services each in the categories of utilities, admissions and amusements, and fabrication, repair, and installation. Interestingly, Connecticut applies varying rates of taxation to these services. For example, admissions and amusements are taxed at 10.0 percent rate, computer and online services are generally taxed at a 1.0 percent rate, and business services are taxed at a 6.0 percent rate, which is also Connecticut's general sales tax rate. Massachusetts, on the other hand, taxes the least number of services, a total of 19, with nearly half of those services in the category of utilities.[47] Rhode Island, Maine and Vermont all subject approximately 30 services to their general sales tax, although there is not a lot of overlap of services outside of the utilities category. The table below shows the taxation of services by the six New England states by industry.

| | RI* | MA | CT | ME | VT | NH* |
|---|---|---|---|---|---|---|
| Basic Sales Tax Rate | 7% | 5% | 6% | 5% | 6% | 0% |
| **Category of Service** | **Number of Services Taxed** | | | | | |
| Agricultural services | 0 | 0 | 1 | 0 | 0 | 0 |
| Industrial and mining services | 0 | 0 | 1 | 0 | 0 | 0 |
| Construction | 0 | 0 | 4 | 0 | 0 | 0 |
| Utilities | 10 | 9 | 10 | 9 | 9 | 6 |
| Transportation | 0 | 0 | 0 | 0 | 0 | 0 |
| Storage | 0 | 0 | 2 | 0 | 0 | 0 |
| Finance, insurance, and real estate services | 0 | 0 | 0 | 0 | 0 | 0 |
| Personal services | 1 | 1 | 9 | 1 | 2 | 1 |
| Business services | 6 | 4 | 20 | 6 | 5 | 0 |
| Computer and online services | 3 | 1 | 12 | 5 | 3 | 2 |
| Automotive services | 0 | 0 | 3 | 0 | 0 | 0 |
| Admissions and amusements | 4 | 1 | 10 | 3 | 11 | 0 |
| Professional services | 0 | 0 | 0 | 0 | 0 | 0 |
| Leases | 1 | 1 | 3 | 2 | 1 | 1 |
| Fabrication, repair and installation | 3 | 2 | 10 | 4 | 2 | 0 |
| Miscellaneous | 1 | 0 | 0 | 0 | 0 | 1 |
| **Non-Exempt Categories** | 29 | 19 | 85 | 30 | 33 | 11 |

* State did not respond, 2004 data reported
*Source: 2007 FTA Survey*

A detailed breakdown of the services taxed by the six New England states can also be found in **Appendix H**.

## VI. THE BUSINESS TAXES SUBGROUP

The Business Taxes Subgroup (BTS) was responsible for examining the current business taxes and exploring opportunities to make Rhode Island more competitive through tax reform. The members of the subgroup were: Mary F. Bernard, CPA, J. Michael Saul, Leonard Lardaro, Ph.D., Michael Mazerov, H. Peter Olsen, Esq., Michael Sabitoni, Robert Tannenwald, Ph.D and Al Verrechia. David Sullivan served as the Rhode Island Department of Revenue's support staff to the BTS.

The first item of business was for the BTS to review Rhode Island's corporate income tax structure and compare the structure with Massachusetts and Connecticut, along with reviewing the overall competiveness.

The following table, provided by the Division of Taxation, shows the basic structure of Rhode Island's corporate income tax:

[47] New Hampshire actually taxes the fewest services of any New England state at 11 services but, since New Hampshire is one of the five states that doesn't impose a general sales tax , this is an aberration from the state's general practice.

| Rhode Island Corporate Income Tax Structure | |
|---|---|
| Starting Point: | **Federal Taxable Income** |
| Less Deductions: | Net operating loss deduction |
| | Exempt dividends and interest |
| | Foreign dividend gross-up |
| | Bonus Depreciation and Section 179 expense adjustment |
| Plus Additions: | Interest |
| | Rhode Island corporate taxes |
| | Bonus Depreciation and Section 179 expense adjustment |
| | Add back of captive REIT dividends paid deduction |
| | **Adjusted taxable income** |
| Apportionment: | Three Factor Formula (Property, Sales and Salaries)<br>Note: Manufacturers use double weighted sales factor |
| | **Rhode Island adjusted taxable income** |
| Tax Rate: | 9% |
| | **Rhode Island income tax (minimum tax $500)** |

The BTS also reviewed the tax credits available to corporations in Rhode Island. The BTS agreed that the corporate income tax system has too many tax credits and their cost effectiveness is uncertain. Listed below is a table from the Division of Taxation of Rhode Island's credits used by corporations between TY 2004 and TY 2007:

| Credit | Tax Year 2004 (millions) | Tax Year 2005 (millions) | Tax Year 2006 (millions) | Tax Year 2007 (millions) |
|---|---|---|---|---|
| Investment Tax Credit (44-31) | 7.68 | 8.59 | 6.49 | 2.13 |
| Daycare Tax Credit (44-47) | 0.05 | 0.02 | 0.05 | 0.01 |
| SBA Tax Credit (44-43.1) - Eliminated in 2004 | 0.01 | 0.00 | 0.00 | 0.00 |
| R&D Prop Tax Credit (44-32-2) | 0.44 | 0.02 | 0.53 | 0.44 |
| R&D EXP Tax Credit (44-32-3) | 0.70 | 0.90 | 1.29 | 0.27 |
| ISO Tax Credit (44-11) | 0.00 | 0.00 | 0.00 | 0.00 |
| Enterprise Zone Tax Credit (44-64.3) | 0.62 | 0.94 | 0.74 | 0.81 |
| Job Training Tax Credit (42-64.6) | 0.62 | 0.53 | 1.24 | 0.17 |
| Job Development Tax Credit (42-64.5) | 4.80 | 7.60 | 11.40 | 11.50 |
| Tuition Tax Credit (44-62) | 0.00 | 0.00 | 0.00 | 0.09 |
| Motion Picture Tax Credit (44-31.2) | 0.00 | 0.01 | 0.90 | 0.00 |
| Historic Tax Credit (44-33.2) | 3.73 | 8.50 | 2.03 | 1.24 |
| Total | 18.65 | 27.11 | 24.67 | 16.66 |

According to Ernst and Young, businesses pay 46.0 percent of all state and local taxes in Rhode Island. Looking at their tax burden in another way, the taxes paid by Rhode Island's businesses is 6.1 percent of the state Gross Domestic Product, a figure 22 percent higher than the national average. In Rhode Island the corporate income tax of 9.0 percent is second highest in New England and by 2010 will be the highest.

The chart below[48] shows how Rhode Island compares with a sampling of other states in terms of the amount of business taxes paid as a percent of state GDP.

| State | % of State GDP* |
|---|---|
| | |
| **Rhode Island** | **6.1%** |
| New Hampshire | 4.9% |
| New Jersey | 4.9% |
| Massachusetts | 4.5% |
| Connecticut | 4.0% |
| Virginia | 4.0% |
| North Carolina | 3.9% |
| Delaware | 3.5% |
| | |
| **US Average** | **5.0%** |

At the second meeting of the BTS, the group examined alternatives to the corporate income tax. Former New Hampshire Revenue Commissioner, Stanley Arnold, presented to the group providing an overview of New Hampshire's Business Enterprise Tax (BET). New Hampshire had a similar problem as Rhode Island, New Hampshire had a large number of taxpayers but only a small number who paid more than the minimum tax[49]. The BET is considered by some to be a form of consumption tax. The basic structure of the BET is listed below:

- Tax Base
  - "Taxable Enterprise Value Base"
  - Compensation + Interest + Dividends (<u>Not</u> Full Profits; <u>No</u> Rent, Royalties)
- Tax Rate - Increased Since Original Enactment
  - 1993 - .25%; 1999 - .50%; 2001 - .75%
- Taxpayer
  - Every separate "Business Enterprise"
  - 501(c)(3)'s Exempt; Other Nonprofits Taxable
  - Small Business Filing Exemption (now $150,000 of gross receipts)
- Cross-Border Issues
  - Three-Part Apportionment Method
- Tax Credits
  - BET Allowed as Credit Against BPT, Insurance Premium Tax; Utility Tax
  - Special "Transition Credit" for NOL Carryforwards

The committee also examined the gross receipts tax and the pros and cons of replacing the corporate income tax. Ernst and Young completed a study in 2007, *Rhode Island State and Local Benchmarking Report, Including Analysis of Tax Policy Options*, in

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48 Source is Ernst & Young, Council on State Taxation.

49 For Tax Year 2006 Rhode Island received 50,605 business tax returns, but only 3,527 corporations paid more than the minimum tax of $500.

which they examined the feasibility of implementing a gross receipts tax in Rhode Island. Their analysis outlined that a 1.0% gross receipts tax with a $600,000 exemption would raise approximately $511.0 million in Rhode Island. Two of the advantages of a gross receipts tax are the ease of administration and the consistency of revenue generated from the tax. The disadvantages, however, seem to outweigh the advantages. With a gross receipts tax, companies that are unprofitable still are required to pay a tax. There is also a pyramiding effect with the application of the tax and a gross receipts tax would mean a potentially costly tax increase for many companies.

The BTS participated in a presentation to the full committee on sales tax and the importance of the Streamline Sales Tax Project (SSTP). Executive Director of SSTP, Scott Peterson, outlined the history and goals of SSTP. The goal of this effort is to find solutions for the complexity in state sales tax systems that resulted in the U.S. Supreme Court holding that a state may not require a seller that does not have a physical presence in the state to collect tax on sales into the state.[50] The Court ruled that the existing system was too complicated to impose on a business that did not have a physical presence in the state. The Court said Congress has the authority to allow states to require remote sellers to collect tax.

The result of this work is the Streamlined Sales and Use Tax Agreement. The purpose of the Agreement is to simplify and modernize sales and use tax administration in order to substantially reduce the burden of tax compliance. The Agreement focuses on improving sales and use tax administration systems for all sellers and for all types of commerce through of the following:

1. State level administration of sales and use tax collections.
2. Uniformity in the state and local tax bases.
3. Uniformity of major tax base definitions.
4. Central, electronic registration system for all member states.
5. Simplification of state and local tax rates.
6. Uniform sourcing rules for all taxable transactions.
7. Simplified administration of exemptions.
8. Simplified tax returns.
9. Simplification of tax remittances.
10. Protection of consumer privacy.

Rhode Island has been a party to the Agreement since January 2007.

The next item reviewed by the BTS was Combined Reporting for corporate income tax. Combined Reporting was a much-discussed topic in the subgroup and the larger workgroup as well. The current corporate income tax system allows multi-state corporations the ability to shift income out of state to other portions of their operation in states where there is little or no corporate tax and, thus, lower tax liability in Rhode

[50] See *National Bellas Hess v. Department of Revenue of the State of Illinois,* 386 U.S. 753 (1967) and *Quill Corp. v. North Dakota,* 504 U.S. 298 (1992).

Island. Combined Reporting requires that a corporation account for their taxes as a single business with the activity of all divisions counted together. Richard D. Pomp, the Alva P. Loiselle Professor of Law at the University of Connecticut, outlined to the BTS the positives and negatives relating to combined reporting. Professor Pomp also gave an overview of his recent study, *Designing a Combined Reporting Regime for a State Corporate Income Tax: A Case Study of Louisiana*.[51]

The BTS debated the pros and cons of combined reporting at great length. Listed below are some pros and cons of combined reporting that were outlined in a Division of Taxation report: The full report can be found in **Appendix I**.

**Pros:**

- Minimizes Tax Avoidance Planning – By requiring corporations and their subsidiaries to report all their profits together can minimize their ability to utilize tax planning or tax avoidance strategies. In a combined reporting state, all of the income and expenses of a company and its subsidiaries would be added together, so that passive investment companies and other tax avoidance loopholes would have no impact at all on the company's taxable income.
- Levels the playing field – Tax planning strategies are typically used by large multi-state corporations who have the resources to design and implement these strategies. Small businesses, which do not have the opportunities or resources to engage in interstate income shifting.
- Better measurement of income within state – Requiring corporations and their subsidiaries to report using the combined reporting method better reflects the income activity of a combined group of corporations in a given state. Combined reporting limits the ability of corporations to shift income to lower tax states or those without a corporate income tax (such as Delaware and Nevada).
- Determines tax based on business activity in the state and not by the business's organizational structure. With reorganization corporations can change the tax situation in a given state. Under current law, Rhode Island treats taxpayers very differently depending on how they are organized. Combined reporting would combine operations of related companies into one profit and loss statement, therefore resolving the taxation issues with a multi-state corporate organization.

**Cons:**

- Business Climate Perception – Opponents of combined reporting argue against combined reporting have suggested that adopting combined reporting may have a negative impact on a state's business climate. Their claim is that many out-of-state companies may not locate into a combined reporting state because of the added tax burden to comply with the corporate tax laws.
- Administrative Burden for State and Taxpayers – Many practitioners and corporations feel that combined reporting places an undue burden on multistate

[51] McIntyre, Michael J., Mines, Paul and Pomp, Richard D. (2001), "Designing a Combined Reporting Regime for a State Corporate Income Tax: A Case Study of Louisiana," *Louisiana Law Review,* Vol. 61, pp. 699-761. Available at SSRN: http://ssrn.com/abstract=314801.

corporations.  The cost to administer a combined reporting structure is also increased due to the high number of audits necessary to determine if a multi-state corporation is required to file combined or separate.

- Potential Revenue Loss in First Few Years – There is a strong belief that more complex audits and appeals and increased litigation can be expected as a result of the unitary determination in states adopting combined reporting.  This increased litigation could potentially lead to decreased revenue in the first few years of implementing combined reporting.  The belief is that companies that would recognize a lower tax liability using combined reporting would willingly file and pay early.  But the companies who would recognize a tax increase due to combined reporting would litigate and delay their tax payments, therefore creating a decline in the revenue from corporate income tax.

In terms of the impact of Combined Reporting on existing businesses, the RI Division of Taxation did a sampling of businesses in Rhode Island in connection with a report on Combined Reporting prepared by the Division of Taxation for the General Assembly. That report found that of the businesses now paying taxes in Rhode Island, 64.0 percent would not be impacted by Combined Reporting, 28.0 percent would suffer a tax increase and 9.0 percent a tax decrease. Those percentages were contingent on a 9.0 percent corporate income tax rate. A lower rate would change those numbers.  Although this sample population studied by the Division of Taxation seems relatively small compared to the entire universe of companies that file under Rhode Island's business corporations tax, the Division of Taxation believes that this sample represents the majority of companies that would be affected by combined reporting.

The 2007 General Assembly amended the business corporation tax law to require corporations to add-back otherwise deductible interest expenses and costs of intangible expenses accrued through transactions with related companies.  The add-back provisions, which have been enacted, can expect to reduce the additional revenue recognized from implementing combined reporting.  The Division of Taxation also estimates that the increase for the sample population would not be reflective on the remainder of the universe of business corporation tax filers.

Given the results of the analysis and the assumptions outlined in their report, the Division of Taxation estimates that combined reporting would generate an additional 5.0 percent to 8.0 percent of business corporation tax revenue in the State of Rhode Island.

The BTS continued to review the competiveness issues of Rhode Island's Tax Structure. Douglas Lindholm, Executive Director of the Council on State Taxation (COST), presented to the BTS and discussed four main areas in which COST has published articles:

1) "Understanding the Revenue and Competitive Effects of Combined Reporting"
2) "Total State and Local Business Taxes: 50-State Estimates for FY 2007"
3) "Gross Receipts Taxes in State Government Finances: A Review of their History and Performance" and

4) "The Best and Worst of State Tax Administration: The COST Scorecard on Tax Appeals and Procedural Requirements"

The final article, "The Best and Worst of State Tax Administration", highlighted an issue in Rhode Island with the administrative and judicial process dealing with tax appeals. The BTS felt strongly that the appeals process should be examined and potentially modified in the future.

## VII. THE PROPERTY TAXES SUBGROUP

The Property Taxes Subgroup (PTS) was responsible for examining current property tax policy and relative burden. The members of the subgroup were John Gelati, Karen Grande, Esq., John Gregory, Bruce Keiser, John Simmons, and Robert Walsh. Peder Schaefer served as the Rhode Island Department of Revenue's support staff to the PTS.

The property tax in Rhode Island will generate over $1.9 billion in revenues this fiscal year for municipalities. Tax assessors of the 39 cities and town valued all the residential and commercial real estate, tangible personal property (furniture, fixtures, and equipment) and motor vehicles registered in the city or town as of December 31, 2007. City and Town Councils and financial town meetings then determined a tax rate to be applied to those values to support the operations of the municipalities in the coming fiscal year.

In some municipalities, the tax rate applied to all classes of property (except motor vehicles) is the same. In others, there are different rates established depending on the class of property (residential, commercial, or tangible). In some communities a homestead exemption is also offered which results in a lower effective tax rate on owner occupied residential property.

The basics of the Rhode Island property tax system were reviewed by the PTS at its first and second meetings. The first meeting review covered the Constitutional and statutory basis of the tax, assessment practices, and data comparing actual and equalized tax rates in each municipality of the state including differences in tax rates by class of property for those municipalities which had adopted classified tax rates. At the second meeting, the PTS moved on to review homestead exemptions, personal exemptions, statutory exemptions, tax treaties, revaluation and the property tax appeal process.

The data presented to the PTS emphasized the significant variations in total tax rates by community and especially the difference and higher tax rates on commercial type property in some municipalities. The following table demonstrated the differences in assessed value as compared with tax levy resulting principally from tax classification and homestead exemptions. Additional data in **Appendix J** demonstrates these variations by municipality.

### *Rhode Island Net Assessed Value and Tax Levy*[52]

| Statewide Net Assessed Value 12/31/07 | | |
|---|---|---|
| | Billions of $ | % of Value |
| Residential | $108.7 | 78.85 |
| Commercial / Industrial | 21.8 | 15.82 |
| Tangible | 3.7 | 2.70 |
| Motor Vehicles | 3.6 | 2.63 |
| | $137.9 | 100.00 |

| Statewide Tax Levy 12/31/07 Supporting FY 2009 | | |
|---|---|---|
| | Millions of $ | % of Levy |
| Residential | $1,308.4 | 66.56 |
| Commercial / Industrial | 420.4 | 21.39 |
| Tangible | 114.2 | 5.81 |
| Motor Vehicles | 122.9 | 6.25 |
| | $1,965.9 | 100.00 |

At the second meeting of the PTS additional information was provided on the value of homestead exemptions for owner occupied property and how including this factor further accentuated the tax levy differential between residential and commercial property. The PTS also reviewed data on personal exemptions and how varied the basis and value of personal exemptions offered, mostly elderly, was from one community to the next. In particular, data was presented which demonstrated how some municipalities require an income qualifier and/or length of residency in the city or town to qualify for the exemption while others did not.

The PTS also reviewed statutory exemptions, tax exempt organizations, and noted the concentration of statutory exemptions in certain municipalities, especially in Providence. Note was made that there may be some limited instances where tax exempt organizations use parcels of property for activities which are not directly related to their mission and where the use of these parcels may compete with other property tax paying businesses.

The procedures for adopting tax treaty and stabilization agreements were also reviewed. Data was presented on which cities and towns had used them. A review of that data indicated that cities and towns with high commercial tax rates were typically but not always reliant on treaties to attract new businesses.

Lastly, the property revaluation schedule was evaluated and the resulting appeal process was reviewed. Also, the consequent effect on expanded tax classification due to reduced relative commercial value of property was summarized in a way which emphasized the

[52] All State of RI specific data collected by the Division of Municipal Finance, Department of Revenue

pressure on municipalities with a high proportion of commercial property to adopt or expand tax classification in order to preserve commercial property revenue product.

In late August, representatives from Connecticut and Massachusetts presented to the PTS on property tax policy in their two states. Not surprisingly, property taxes in Rhode Island overall are high relative to the other 50 states; they are higher than Massachusetts and slightly lower than Connecticut. In many Rhode Island urban municipalities, commercial and tangible property rates are exceptionally high as are motor vehicle excise taxes. For example, Providence's commercial tax rate is $28.00 per thousand, the 2nd highest in the state, its tangible property tax rate is $52.50 per thousand, the 4th highest in the state, and its motor vehicle excise tax rate is $76.78 per thousand, the highest in the state. In some Rhode Island coastal towns with large seasonal populations, property taxes are low. For example, Narragansett's residential property tax rate is $7.25 per thousand, its commercial and tangible property tax rates are $10.87 per thousand, and its motor vehicle excise tax rate is $16.46 per thousand, each of these rates is among the lowest in the state.

***Massachusetts and Connecticut Comparisons***[53]

| | Rhode Island | Massachusetts | Connecticut |
|---|---|---|---|
| **Property Taxes as a % of home value** | **1.15%** | **0.91%** | **1.40%** |
| **Property Taxes as a % of Income** | **4.53%** | **4.07%** | **5.22%** |

The above table summarizes in aggregate the property tax comparisons between Rhode Island and our neighboring states. However, Rhode Island's complex patchwork of classified tax rates, homestead exemptions, personal exemptions and tax treaties as well as demographic differences between Rhode Island municipalities qualify the validity of such aggregate comparisons.

In a number of Rhode Island municipalities, especially urban, commercial tax rates may be very high but residential rates modest. In others, usually suburban communities, residential rates are high and commercial rates low relative to the mean. Connecticut especially is unique from both Rhode Island and Massachusetts in its almost universal prohibition on tax classification meaning that the tax rate applied to residential, commercial, and tangible property is the same. Massachusetts is more like Rhode Island in authorizing tax classification, however, the range of possible tax rates is more limited in Massachusetts. Also, Massachusetts has a standard tax rate of $25.00 per thousand on motor vehicles as compared with a wide range of motor vehicle tax rates in Rhode Island. Both Connecticut and Massachusetts have much more standardized personal exemption policies with at least partial reimbursement by the state for the property tax value loss resulting from these exemptions. Statutory exemption policy is similar.

[53] American Community Survey, 2005, U.S. Census Bureau

***Massachusetts and Connecticut Comparisons***

| | Rhode Island | Massachusetts | Connecticut |
|---|---|---|---|
| **Tax Classification** | **Yes (Some)** | **Yes (Some)** | **No** |
| **Homestead exemption** | **Yes (Some)** | **No** | **No** |
| **Standardized classification or homestead** | **No** | **Yes** | **No Classification** |
| **Statewide motor vehicle tax rate** | **No** | **Yes** | **No** |
| **Income based personal exemptions** | **Some** | **Yes** | **Yes** |
| **State reimbursement of personal exemptions** | **No** | **Partial** | **Full** |
| **State administered circuit breaker** | **Yes - Low** | **Yes - High** | **Yes - Medium** |
| **Maximum circuit breaker benefit** | **$300** | **$930** | **$900** |
| **State tax appeal court** | **No** | **Yes** | **No** |
| **Median tax on owner occupied home[54]** | **$3,362** | **$3,328** | **$4,332** |

*Source:* Division of Municipal Finance, Rhode Island Department of Revenue

In late summer the PTS heard from the State Planning Division on how property tax policy affects land use decisions. The emphasis on the presentation was that low property tax rates may encourage commercial development of a nature not encouraged by long term land use goals of the state while high rates may discourage such development in urban areas of the state where commercial and industrial use would be recommended. The PTS also heard from the EDC and commercial brokers on how property tax policy and high commercial rates is one ingredient in discouraging commercial development.

The last informational meeting of the PTS covered state aid and how state aid formulas are driven (or not driven) by the relative tax capacity of each municipality. Later meetings of the PTS focused on fine tuning the data already presented, summarizing the implications of that data, and simulating the impact of possible property tax policy changes. One example of the wide variation in commercial and tangible tax rates which resonated with the PTS was the example of a recently constructed large office building constructed in East Greenwich and what the tax liability would have been if the building had been constructed in adjacent municipalities or Providence.

[54] American Community Survey, 2007, U.S. Census Bureau

| | Commercial Tax Rate 12/31/2006 | Estimated Tax Levy |
|---|---|---|
| **Commercial Real Estate** | **FY 2008** | **FY 2008** |
| Value | $25,000,000 | |
| East Greenwich (12/31/05) | 13.54 | $338,500 |
| Providence (12/31/06) | 26.99 | $674,750 |
| Warwick (12/31/06) | 19.13 | $478,250 |
| West Warwick (12/31/06) | 20.58 | $514,500 |
| **Tangible Personal Property** | | |
| Value | $10,000,000 | |
| East Greenwich | 13.54 | $135,400 |
| Providence | 50.46 | $504,600 |
| Warwick | 25.50 | $255,000 |
| West Warwick | 30.40 | $304,000 |
| **Total Property Taxes** | | |
| East Greenwich | | $473,900 |
| Providence | | $1,179,350 |
| Warwick | | $733,250 |
| West Warwick | | $818,500 |

*Source:* Division of Municipal Finance, Rhode Island Department of Revenue

In summary, the PTS had taken note of the relative property tax burden in this state as compared with our neighbors, the extraordinary variation in tax rates especially on commercial real estate, tangible property, and motor vehicles between municipalities, the variations in personal exemption policy between municipalities, and the cumbersomeness of the tax appeal process.

## VIII. MEETINGS OF THE ENTIRE WORKGROUP

The Tax Policy Strategy Workgroup first met on June 18, 2008. Governor Donald L. Carcieri took the opportunity not only to thank the Workgroup members for their willingness to serve, but to impress upon them the importance of this effort for the well-being of the state. The Governor was looking for this Workgroup to propose a tax strategy for Rhode Island that would facilitate economic growth in the state.

At this first meeting, Gary S. Sasse reviewed the work method of the group, breaking into the three subgroups and giving everyone background materials to begin work. As general background for everyone, a presentation was made of a report prepared for the Department of Administration by Ernst & Young which reviewed how Rhode Island measures against other states in terms of the health of the economy and state and local taxes. This report also outlined tax reform measures in other states in order to put the work of this group in context.

The method of the Tax Policy Strategy Workgroup has been to maintain a productive dialogue between the three subgroups and the main Workgroup. As the subgroups were investigating and honing ideas on individual, business, and property taxes, the whole Workgroup captured those ideas as they coalesced and gradually built a series of proposals that would form a coherent tax strategy.

The work of the subgroups was not meant to stand alone. The results of their study and discussion were intended to be woven together; this was the task of the Workgroup meeting as a whole. The particular components of the Tax Policy Strategy Workgroup proposals impact all the others and so the proposals must be considered together. This unifying function and comprehensive view have comprised the role proper to the Workgroup as a whole.

At each Workgroup meeting, the subgroups would submit relevant data, and report their findings and evolving proposals. Then, after discussion by the Workgroup, guidance was given to the subgroups for their further deliberations. In addition, special presentations were made to the Workgroup such as the Benchmarking Report by Ernst & Young, and a presentation on Streamline Sales Tax by Scott Peterson.

Reconciling the work of the subgroups and condensing their many discussions has been the task of the whole Workgroup. While addressing its mission of forming a tax strategy that would improve Rhode Island's economic competitiveness, the Workgroup had to uphold the hallmarks of good tax policy and maintain internal consistency across the entire tax system.

A chronological sequencing of the materials presented to the individual subgroups and the entire Workgroup are contained in Volume II of this report. It should be noted that these materials are literally a reproduction of the materials presented at these meetings. As a result, the information contained in this report may not be the same as the presentation material due to modifications by the Tax Policy Strategy Workgroup staff.

## IX. Workgroup Proposals

The following proposals are offered for consideration in each of the three areas of taxation: individual, business, and property. All of the propositions must be evaluated together to understand their significance for Rhode Islanders.

### Individual Taxes

#### Reform of the Personal Income Tax System

High marginal tax rates make Rhode Island an outlier in southern New England. These rates are, in some cases, offset by numerous tax credits and other tax preferences but these offsets make the system inequitable and difficult to understand, use, and administer. The complexity of the system and the high rates put Rhode Island at a competitive disadvantage to other states. On the one hand, the present system does not offer enough support to low-income residents, while on the other hand, it imposes relatively high burdens on upper income people.

The Tax Policy Strategy Workgroup proposes that:

> **The starting point for the state's personal income tax system be Federal Adjusted Gross Income (AGI) but that the number of modifications to Federal AGI that are made to determine Rhode Island Adjusted Gross Income be reduced.**

Rhode Island's current personal income tax system has eight modifications increasing Federal AGI in order to determine Rhode Island AGI for state income tax purposes. The Workgroup proposes that the number of current modifications increasing Federal AGI be reduced by one and that a new modification increasing Federal AGI be added.[55] The modification that is proposed for deletion is the recapture of Scituate Medical Savings Account modifications. The modification that would be added is the Section 199 deduction for domestic production activities.[56]

Rhode Island's current personal income tax system has 18 modifications decreasing Federal AGI in order to determine Rhode Island AGI for state income tax purposes. The Workgroup proposes that the number of current modifications decreasing Federal AGI be reduced by 11.[57] The 11 modifications to be eliminated are: elective deduction for new research and development activities; qualifying investment in a certified venture capital partnership; Family Education Accounts; Tuition Savings Program contributions (section 529 accounts) up to a maximum of $500 ($1,000 if filing a joint return); exemptions from tax on profit or gain for writers, composers, and artists; modification for performance based compensation realized by an eligible employee under the Jobs Growth Act; modification for exclusion for qualifying option, securities, or investment; modification for Tax Incentives for employers; interest on indebtedness incurred or continued to purchase or carry obligations or securities the income of which is exempt from Rhode

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[55] The current modifications increasing Federal AGI include income from the debt obligations of states and municipalities other than Rhode Island; a fiduciary adjustment for beneficiaries of an estate or trust; bonus depreciation that has been taken for federal purposes; Section 179 depreciation that has been taken for federal purposes; and three recapture modifications relating to Tuition Saving Program (section 529 accounts), Historic and Motion Picture Production Tax Credits, and Scituate Medical Savings Accounts.

[56] The Section 199 Deduction for Domestic Production Activities provides certain businesses with a 3.0 percent deduction from net income for U.S. based business activities.

[57] The current modifications decreasing Federal AGI include three federally mandated deductions: income from debt obligations of the U.S. government, railroad retirement benefits, and active duty military pay of non-residents stationed in Rhode Island, and 15 state enacted modifications. The Workgroup proposes the retention of four state enacted modifications decreasing Federal AGI. They are a fiduciary adjustment for beneficiaries of an estate or trust; bonus depreciation and Section 179 depreciation that has been taken on the federal return but not yet subtracted from Rhode Island income; and Historic Tax Credit and Motion Picture Production Tax Credit Income reported on Federal return that is tax exempt for Rhode Island purposes.

Island personal income tax; Scituate Medical Savings Account contributions; and amounts of insurance benefits for dependents and domestic partners included in Federal AGI.

The Tax Policy Strategy Workgroup proposes that:

> **A state determined standard deduction and state determined personal and dependent exemptions, both indexed for inflation, be the only deductions from Rhode Island AGI in determining Rhode Island taxable income.**

Under current law, Rhode Island's personal income tax system gives tax filers a choice of using the greater of a standard deduction[58] or itemized deductions passed through from the federal income tax return[59] in determining Rhode Island taxable income. In addition, current law allows tax filers a personal and dependent exemption amount of $3,500 per exemption taken on the filer's federal income tax return. The proposed standard deduction and personal exemption amounts are shown in the table below:

| Filing Status | Standard Deduction Amount | Exemption Type | Exemption Amount |
|---|---|---|---|
| Married Joint / Widow(er) | $ 15,000 | Personal | $2,500 |
| Single / Married Separate | $ 7,500 | Dependent | $2,500 |
| Head of Household | $ 11,250 | | |

The combined proposed standard deduction and exemption amounts are larger than those in current law. For example, a single filer using the standard deduction would have a combined standard deduction and exemption amount of $8,950 under current law vs. $10,000 under the proposed system. Similarly, a taxpayer that is married filing joint with two dependents would have a combined standard deduction and exemption amount of $23,100 under current law and $25,000 under the proposed system.

The Tax Policy Strategy Workgroup proposes that:

> **The personal income tax system consist of four taxable income brackets with a top marginal tax rate of 5.5 percent.**

Under current law, Rhode Island has a dual personal income tax system. Each Rhode Island taxpayer can elect to pay the lowest tax liability that results from using the

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[58] For tax year 2008, the Rhode Island standard deduction is $5,450 for single filers, $9,100 for married joint and qualifying widow(er) filers, $4,550 for married separate filers, and $8,000 for head of household filers.

[59] Itemized deductions passed through from the federal income tax return are those deductions taken on Schedule A of the federal 1040 tax form.

traditional five taxable income brackets system[60] or the alternative flat rate income tax system.[61] The proposed personal income tax system would eliminate the parallel income tax systems currently administered by the state. This would serve to increase the transparency and decrease the complexity of the personal income tax system. The proposed personal income tax brackets and rates are shown below:

| Taxable Income Bracket | Tax Rate |
|---|---|
| $0 to $54,999 | 3.50 % |
| $55,000 to $109,999 | 4.00 % |
| $110,000 to $174,999 | 4.50 % |
| $175,000 and more | 5.50 % |

Note that under the proposed personal income tax system taxable income brackets and the associated tax rate no longer is contingent upon filing status. In addition, marginal tax rates for all taxpayers are reduced from those in current law. Finally, the proposed income tax rate structure is comparable to those of Connecticut and Massachusetts. Connecticut has two taxable income brackets: $0 to $10,000 and $10,000 and more with marginal tax rates of 3.0 and 5.0 percent respectively and Massachusetts has a flat rate income tax of 5.3 percent. The four proposed taxable income brackets keeps Rhode Island's personal income tax system progressive, respecting the taxpayers' ability to pay.

The Tax Policy Strategy Workgroup proposes that:

> **Income from capital gains be taxed at ordinary income tax rates regardless of how long an asset has been held before sale.**

Under current law, Rhode Island taxes capital gains income based on the length of time for which the seller has owned the asset in question. If an asset is held for less than one year before sale, then the capital gains income associated with that asset is taxed at

[60] Rhode Island's five taxable income brackets system has the following income tax brackets and marginal income tax rates for tax year 2008:

| Taxable Income | | | | Tax Rate (%) |
|---|---|---|---|---|
| Single | Married Joint / Widow(er) | Head of Household | Married Separate | |
| $0 to $32,549 | $0 to $54,399 | $0 to $43,649 | $0 to $27,199 | 3.75 |
| $32,550 to $78,849 | $54,400 to $131,449 | $43,650 to $112,649 | $27,200 to $65,724 | 7.00 |
| $78,850 to $164,549 | $131,450 to $200,299 | $112,650 to $182,399 | $65,725 to $100,149 | 7.75 |
| $164,550 to $357,699 | $200,300 to $357,699 | $182,400 to $357,699 | $100,150 to $178,849 | 9.00 |
| $357,700 and more | $357,700 and more | $357,700 and more | $178,850 and more | 9.90 |

[61] Rhode Island's alternative flat rate income tax system in tax year 2008 taxes Rhode Island AGI at a rate of 7.0 percent. Taxpayers who file under the alternative flat rate income tax system are not allowed any deductions or exemptions from Rhode Island AGI nor can they use any tax credits, except for income taxes paid to other states, to lower or eliminate their tax liability.

ordinary income tax rates.[62] If an asset is held at least one year but less than five years before sale, then the capital gains income associated with that asset is taxed at a 2.5, 5.0, 6.25, or 7.0 percent rate contingent on the taxpayer's taxable income and the type of asset sold. If an asset is held for five or more years before sale, then the capital gains income associated with that asset is taxed at a 0.83, 1.67, 2.08, or a 2.33 percent rate contingent on the taxpayer's taxable income and the type of asset sold. By eliminating this distinction, the proposed personal income tax system would treat all sources of income equally and provide increased vertical equity in the tax system.

The Tax Policy Strategy Workgroup proposes that:

> **The personal income tax system allow only four tax credits: a refundable Earned Income Tax Credit, a Property Tax Relief Credit, a Lead Paint Abatement Credit, and Credit for Income Taxes Paid to Other States.**

Under the proposed personal income tax system, only the most commonly utilized tax credits would be allowed and the majority of those are designed to provide income supports to low wage earners. The proposed refundable earned income tax credit does differ from the current refundable earned income tax credit. Under current law, a low-income taxpayer receives 25.0 percent of the federal earned income tax credit as his or her allowable Rhode Island earned income tax credit. The taxpayer can then use the full amount of his or her allowable Rhode Island earned income tax credit to reduce his or her Rhode Island income tax liability to zero. Once the taxpayer's Rhode Island tax liability reaches zero, he or she receives as a tax refund 15.0 percent of the unused allowable Rhode Island earned income tax credit. The proposed refundable earned income tax credit is set equal to 15.0 percent of the federal earned income tax credit and any amount remaining after the taxpayer's Rhode Island tax liability has been eliminated is refunded to the taxpayer. Thus, the proposed Rhode Island earned income tax credit provides more tax relief to low-income workers than the current one does.

The current Rhode Island income tax system has nearly 48 allowable federal and state enacted income tax credits. The proliferation of these credits seriously compromises the horizontal equity of the income tax system. The proposed personal income tax system would go a long way to restoring horizontal equity to the system.

**Reform of the Estate Tax System**

The Tax Policy Strategy Workgroup proposes that:

> **The Rhode Island estate tax exemption be raised immediately to $1.0 million and be gradually increased to match the federal estate tax exemption which in 2009 is $3.5 million.**

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[62] Ordinary income tax rates are 3.75, 7.0, 7.75, 9.0, or 9.9 percent under Rhode Island's five bracket income tax system and 7.0 percent in tax year 2008 under Rhode Island's alternative flat rate income tax system.

Under current law, Rhode Island's $675,000 estate tax exemption is the lowest exemption amount in the country.[63] Due to this low exemption amount a number of Rhode Islanders of modest means are subject to the state's estate tax upon death simply by having some savings, a fully paid for primary residence, and a reasonable amount of life insurance. Typically, these Rhode Islanders may be less likely to engage in estate planning as they do not perceive themselves to be wealthy. In addition to incenting people who would have a taxable estate to not leave Rhode Island, increasing the estate tax exemption amount, many would argue, should be done on principle since the elements that generally comprise an estate have already been taxed at earlier points in time. Thus, an argument for outright repeal of the estate tax can be made and several members of the Workgroup believe that such repeal is warranted.

The table below shows the number of resident estate tax returns filed and the estate taxes paid by Rhode Island residents in TY 2008 for estates with gross taxable estate values of $1.0 million or less through $3.5 million or less:

| Gross Taxable Estate Value | Number of Resident Returns Filed | Percentage of Total Resident Returns Filed | Amount of Estate Taxes Paid by Residents | Percentage of Total Resident Estate Taxes Paid |
|---|---|---|---|---|
| ≤ $1,000,000 | 146 | 44.8 % | $ 3,237,130 | 11.1 % |
| ≤ $2,000,000 | 279 | 85.6 % | $ 10,882,315 | 37.4 % |
| ≤ $3,000,000 | 300 | 92.0 % | $ 13,613,268 | 46.8 % |
| ≤$3,500,000 | 308 | 94.5 % | $ 15,251,805 | 52.4 % |

Source: Estate Tax section, Rhode Island Division of Taxation

By 2010, under current federal law, Rhode Island would be one of only 18 states, including Connecticut and Massachusetts that impose a state estate tax. Connecticut's estate tax exemption amount is $2.0 million while Massachusetts' is $1.0 million. Aligning Rhode Island's estate tax exemption with the federal level will increase Rhode Island's competitive edge relative to Massachusetts and Connecticut.

**Reform of the Sales and Use Tax System**

Of all aspects of the state's taxation of individuals, consensus on reform of Rhode Island's sales and use tax system was the most elusive. The Tax Policy Strategy Workgroup did agree to the following:

> **Any expansion in the state's sales tax base must be accompanied by a reduction in Rhode Island's sales tax rate and a thorough assessment of the impact of such an expansion on small business**

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[63] New Jersey's estate exemption amount is also $675,000.

Several members of the Workgroup felt that, given the change in consumption patterns since Rhode Island instituted its general sales tax in 1947, it was necessary to at least consider an expansion of the state's sales tax base to be more aligned with current consumption patterns. In 1947, it was stated that consumption of goods was 60.0 percent of total consumption and consumption of services was 40.0 percent. In the 21st century that pattern has reversed itself with goods consumption comprising 40.0 percent of total consumption and services consumption comprising 60.0 percent.[64]

This fact combined with the fact that Rhode Island's 7.0 percent general sales tax rate is higher than both Connecticut's 6.0 percent general sales tax rate and Massachusetts' 5.0 percent general sales tax rate spurred the Workgroup to study a rate reduction-base broadening scenario for Rhode Island As an exercise, the Workgroup considered a scenario in which Rhode Island's general sales tax rate was decreased to 5.0 percent while the base of goods and services subject to taxation was expanded.

The list of consumer purchases that could be included in the expanded sales tax base is shown in the table below: A complete description of the items in the list is contained in **Appendix K**.

| **Consumer Purchases** |
|---|
| **Category** |
| Nonprescription drugs |
| Newspapers |
| Moving and storage |
| Rug and furniture cleaning |
| Electrical repair |
| Reupholstery and furniture repair |
| Household operation services |
| Motor vehicle repair |
| Other motor vehicle services |
| Legitimate theaters and opera, and entertainments of nonprofit institutions (except athletics) |
| Spectator sports |
| Radio and television repair |
| Clubs and fraternal organizations |
| Sightseeing |
| Private flying |
| Bowling and billiards |
| Other commercial participant amusements |
| Pets and pets services excluding veterinarians |
| Veterinarians |
| Photo studios |
| Sporting and recreational camp |
| Commercial amusements except internet service providers |
| Drycleaning |
| Laundry and garment repair |
| Beauty shops |
| Barber shops |
| Miscellaneous personal services |
| Employment agency fees |
| Money orders |
| Classified ads |
| Tax return preparation services |
| Motion picture theaters |

64 Source Gary S. Sasse.

In addition to currently untaxed consumer goods and services, the expansion of the state's general sales tax to business intermediate and business investment purchases was also considered. One of the aspects of taxing business purchases that must be considered is the impact of pyramiding. Essentially, pyramiding occurs when a business pays the sales tax on an input that is used to produce a good or service for final sale. When the final sale occurs, assuming the final product is taxable the sales tax is imposed again. In other words, the sales tax is imposed when the business buys the input and this sales tax cost is factored into the final price of the product and when sold a sales tax is assessed on the sales tax of the business input. To avoid this pyramiding problem, it was decided that sales tax base expansion to business investment purchases should not be undertaken and that only some business intermediate purchases should be included in the sales tax base expansion.

The list of business intermediate purchases that could be included in the expanded sales tax base is shown below. A complete description of the items in the list is contained in **Appendix K**.

| **Business Intermediate Purchases** |
| --- |
| **Category** |
| Nonresidential maintenance and repair |
| Residential maintenance and repair |
| Truck transportation |
| Transit and ground passenger transportation |
| Scenic and sightseeing transportation |
| Couriers and messengers |
| Warehousing and storage |
| Data processing, hosting, and related services |
| Facilities support services |
| Business support services |
| Services to buildings and dwellings |
| Employment services |
| Travel arrangement and reservations |
| Waste management and remediation services |
| Car washes |

Lowering the sales tax rate to 5.0 percent would give Rhode Island a more competitive rate, but the need to broaden the base – taxing more goods and services – would mitigate the benefits to some extent, especially if the base expansion put Rhode Island at odds with Connecticut's and Massachusetts' sales tax bases. If it were possible to lower the rate to 5.0 percent and keep a relatively narrow base of taxed goods and services that would be ideal but the Workgroup did not see that as a viable option at this time.

## BUSINESS TAXES

### Two Corporate Income Tax Proposals

The Tax Policy Strategy Workgroup and the Business Taxes Subgroup (BTS) had considerable discussion over the past several months about restructuring or replacing the Corporate Income Tax. The clear sentiment of most members of the Workgroup is that by making a dramatic change in Corporate Income Tax, Rhode Island will send a strong message that the state seeks to foster economic development and, thus, strengthen existing businesses and attract new business into the state. While there are many factors in decisions surrounding the establishment or expansion of companies – utility rates, access to capital, available and qualified labor, to name a few – it can be argued that taxation plays a role as to the cost and ease of doing business in any given state. The majority of members of the Tax Policy Strategy Workgroup concluded that modest changes in the Corporate Income Tax might be insufficient and that taking a more dramatic step would place Rhode Island in the horizon of companies as they look toward economic recovery and renewed business activity.

The Workgroup's deliberation centered on lowering or eliminating the corporate income tax, or adopting combined reporting coupled with a reduction in the rate. They also investigated instituting a gross receipts tax or a business enterprise tax, similar to New Hampshire's tax, to replace the Corporate Income Tax but decided against recommending either of those.

The Tax Policy Strategy Workgroup offers two options for consideration of Corporate Income Tax Reform. The first option would:

> **Eliminate the Corporate Income Tax and replace the current Franchise Tax system with a tiered system according to corporations' net income. The elimination of the Corporate Income Tax would have to be phased in over time.**

The majority of the Workgroup members favored a phased-in elimination of the Corporate Income Tax. Principally, they thought that such a noteworthy change would distinguish Rhode Island from other states as being business friendly, and, be striking enough to alter the negative perception of taxes in Rhode Island.

With the current Franchise Tax, every corporation chartered in Rhode Island or qualified to do business here must pay a tax of $2.50 for each $10,000 of authorized capital stock. No par stock is valued at $100 per share. The minimum franchise tax is $500. Inactive corporations and those not engaged in business here during the taxable year are taxed $500 where such stock does not exceed $1 million and $12.50 per additional $1 million or part thereof. This tax is payable only when it is more than the business corporation tax. A new Franchise Tax system would create rates tiered by net income. The following table lists the income groups and the corresponding Franchise Tax rates that would be instituted in a new tiered system.

| Proposed Franchise Tax Minimum Payment Structure | |
|---|---|
| | Proposed Franchise Tax Fee |
| LLCs & S-Corporations | 450 |
| | |
| Taxable Income | |
| Less than 9,999 | 450 |
| 10,000 to 24,999 | 500 |
| 25,000 to 49,999 | 750 |
| 50,000 to 74,999 | 1,000 |
| 75,000 to 99,999 | 1,500 |
| 100,000 to 249,999 | 2,000 |
| 250,000 to 499,999 | 3,000 |
| 500,000 to 999,999 | 5,000 |
| 1,000,000 to 2,499,999 | 7,500 |
| 2,500,000 and greater | 10,000 |

The second option would:

> **Reduce the Corporate Income Tax rate to 8.0%, eliminate all but three tax credits, and maintain the current Franchise Tax system.**

The lower rate would make Rhode Island comparable to or better than neighboring states. The current Corporate Income Tax rate in Rhode Island is 9.0%, in Massachusetts it is 9.5% (8.5% in 2010), and in Connecticut it is 7.5%.

The three tax credits that would be preserved are the Jobs Development Tax Credit, the Investment Tax Credit, and the Research and Development Tax Credit.

Within the corporate tax system, there are many tax credits whose cost-effectiveness is uncertain at best. While the intent of the tax credits is to advance economic growth, there is an open question as to whether or not any benefit was derived from credits and whether any such benefit was nullified by a greater cost to the state.

Besides the questionable benefit of tax credits to the state, the number and variety of tax credits make the business tax system unnecessarily complicated. Clarity and transparency engender confidence in a tax system.

The offering and use of tax credits can also lead to uneven treatment of businesses. Many times, older established Rhode Island businesses end up with higher tax liabilities than newer businesses that might be more able to take advantage of a certain credit. This problem is more pronounced in the world of property taxes but it is an issue with credits nonetheless. **Appendix L** contains a Tax Credit Disclosure Report and an Analysis of Rhode Island's Motion Picture Production Tax Credits that illustrate the questionable benefit of tax credits.

The Tax Policy Strategy Workgroup proposes that:

> **The Jobs Development Tax Credit be re-structured to make the eligible employee requirement be full-time employees with benefits and a minimum salary of at least 250 percent of the hourly RI minimum wage, currently $18.50.**

The current Jobs Development Tax Credit is not aligned with the economic development objectives of the state. Current law defines eligible employees as full-time employees with a minimum salary of at least 150 percent of the hourly minimum wage prescribed by Rhode Island law, currently $11.10. The question is, if Rhode Island is going to give a tax credit for creating jobs, what kind of job development behavior does the state want to reward? Should it not be creating higher-paying jobs with benefits?

The Tax Policy Strategy Workgroup proposes that:

> **The tax appeals process be restructured by moving tax appeals to a tax calendar in Superior Court. Also, the requirement to pay the tax assessment in full prior to the appeal would be eliminated.**

Right now, Rhode Island is one of only nine states that require full payment of assessment prior to an appeal in court. The creation of a tax calendar in Superior Court would improve the appeals process by having judges that are specifically trained in tax law.

**Combined Reporting**

Combined Reporting was a much-discussed topic in the Subgroup and the larger Workgroup as well. The current corporate income tax system allows multi-state corporations the ability to shift income out of state to other portions of their operation in states where there is little or no corporate tax and, thus, lower tax liability in Rhode Island. Combined Reporting requires that a corporation account for their taxes as a single business with the activity of all divisions counted together.

The Tax Policy Strategy Workgroup did not reach consensus on the issue of Combined Reporting. Many felt that it would make the tax compliance work of multi-state corporations too complex, that it would discourage economic development in the state by increasing those companies' tax liabilities, and that the revenue impact of implementing Combined Reporting was unclear.

Other members of the Tax Policy Strategy Workgroup wanted the assurance that corporations were paying their fair share of taxes. They argued that Combined Reporting determines tax liability based on business activity and not on a business' organizational structure and gives a truer tax picture of those companies. Local businesses contained within Rhode Island are put at a competitive disadvantage to multi-state corporations who are able to shift income out of state and avoid taxes; Combined Reporting would "level the playing field" between Rhode Island and multi-state businesses. While Combined Reporting may require complex tax calculations for multi-state companies, the tax maneuvers companies employ to shift income are also complicated. Additionally, they thought, doing Combined Reporting can be made easier administratively if the consolidated federal return is used.

A minority of the Tax Policy Strategy Workgroup would suggest moving to Combined Reporting. Most agreed, however, that if Combined Reporting were ever required in Rhode Island it must be linked to a reduction in the Corporate Income Tax rate to a rate as low as 6.0 percent.

### PROPERTY TAXES

The Property Taxes Subgroup (PTS) had taken note of the relative property tax burden in this state as compared with our neighbors, the extraordinary variation in tax rates especially on commercial real estate, tangible property, and motor vehicles between municipalities, the variations in personal exemption policy between municipalities, and the cumbersomeness of the tax appeal process.

There was a concern that high and uneven tax rates, inconsistent application of personal exemptions, and creation of unique classified tax rates hurt the Rhode Island taxpayer and economy in three ways:

- New businesses would avoid a state where property taxes are high to begin with and difficult to divine.
- It made it almost impossible to align the property tax system with the State Land Use Plan. Businesses were not attracted to the areas most suitable for development and were settling, if at all, in areas that are not marked for such development.
- The variances from municipality to municipality and between classes of property have made ascertaining the property tax capacity and analyzing comparable tax burden extremely difficult. That means that any formula state aid program is difficult to construct that fairly weights different attributes associated with a community's wealth.

The Tax Policy Strategy Workgroup proposes the following reform.

> **Move toward standardization of tangible property tax rates, commercial and industrial property tax rates and maximum tangible property and commercial property tax rates in every municipality. Tangible property tax rates should be capped at no more than double residential property tax rates while commercial property tax rates should be capped at no more than 50.0 percent greater than owner-occupied residential property tax rates.**[65]

[65] See Rhode Island General Law § 44-5-11.8.

These changes would bring more consistency to tax rates throughout the state and reduce the excessive commercial rates found in some communities that have been instituted at the urging of city and town councils with special General Assembly approval.  These piecemeal actions resulted from a desire to preserve the revenue base from commercial properties while moderating residential tax increases as residential values climbed more rapidly than commercial values.  Tables in the Appendix demonstrate the effect of standardizing tangible and commercial tax rates.  The standardization factors proposed are consistent with generic statutory authority already authorized for every municipality to enact following a revaluation.

Standardization of property tax rates and assured comparability of rate changes from one year to the next will give assurance to businesses that the commercial levy will not change dramatically.  It will allow business growth that is aligned with the long-term land use goals of the state.  It will also mitigate the need to use tax treaties to attract new businesses. In particular, the reduction or elimination of the use of tax treaties will level the playing field between newly-established businesses and existing taxpayers that do not benefit from such treaties.

The PTS recognizes that the mostly urban municipalities impacted by even a gradual phase in of these restrictions would face revenue product loss and only proposes the phase in be accompanied by state assistance to replace lost revenues resulting from the restrictions.  Tables in **Appendix M** demonstrate the effect of commercial and tangible tax rates and the state subsidy necessary to achieve the phase in.

The Tax Policy Strategy Workgroup proposes the following reform.

> **Move toward standardization of motor vehicle excise rates among municipalities while maintaining or expanding the current state $6,000 vehicle exemption. The standard rate would be $25 per thousand.**

The differences in motor vehicle excise tax rates among municipalities are remarkable with the rates of some towns and cities being four times as high as rates in other communities.  The first $6,000 of each vehicle's value is exempt with the remaining value subject to tax by the city or town. Reduced motor vehicle tax rate differentials will also reduce tax avoidance efforts by residents with two homes in the state. The $25 standard maximum rate is the same as currently applies in Massachusetts. Tables in the appendix demonstrate the effect of standardizing motor vehicle tax rates and the state subsidy necessary to achieve the phase in.

The Tax Policy Strategy Workgroup proposes the following reform.

> **Limit personal property tax exemptions to a fixed percentage (2.0 percent) of the total municipal levy.  These exemptions will also be limited by a statewide personal income and a residency qualifier.**

The tax capacity of some municipalities is undermined by aggressive personal exemption policies that are well-intentioned but transfer tax liability from one demographic group to another. Most personal exemptions are offered to the elderly, disabled and veterans. Personal exemptions as a percentage of tax levy for medium and large municipalities ranges from less than 0.4 percent in one city to over 4.3 percent in one larger town. Tables in the Appendix demonstrate the effect of limiting personal exemptions to 2.0 percent of tax levy.

The Tax Policy Strategy Workgroup proposes the following reform.

> **Retain current statutory tax exempt standards, however, give tax assessors the authority to limit or eliminate the exemption based upon substantial and material unrelated business taxable income (as defined by the Internal Revenue Service code) associated with any particular parcel owned by a tax exempt organization.**

This is a limited recommendation by the PTS to assure that tax capacity is not undermined by organizations using their tax exempt status to compete unfairly with property tax paying businesses and organizations.

The Tax Policy Strategy Workgroup proposes the following reform.

> **Guarantee state involvement in the assessment of certain types of property such as public utility or affordable housing property.**

This recommendation is recognition that the valuation of certain types of public utility property has been inconsistent from one municipality to another.

> **Develop statutory incentives that encourage municipalities to comply with state property tax policy.**

It was confirmed by a Supreme Court decision several years ago that municipalities have the right with General Assembly approval to create their own special and unique tax classification strategy. There was a concern on the part of the PTS that municipalities will continue to request special tax classification or personal exemption policies to fit their own perceived needs even though they work at cross purposes with a common state policy which encourages investment and prudent land use. Incentives to comply could include modest bonuses in existing state aid for municipalities which have complied with property tax rates within the state authorized classification guidelines and partial bonuses for municipalities on a schedule to achieve compliance.

The Tax Policy Strategy Workgroup proposes the following reform.

> **Expedite the tax appeal dispute resolution process within municipalities before going to court and establish a state tax court or special calendar in Superior Court to hear commercial real estate and residential property**

**appeals which exceed a certain threshold. Fine tune the appeal process in other ways to expedite the process.**

An elaborate decentralized property tax appeal process has prevented municipalities from completing the appeal process in a timely manner. Many cities with substantial commercial property are unable to complete the appeal process before commencing on a new revaluation. These administrative improvements would improve the timeliness of the property tax appeal process and make it less cumbersome.

## X. REVENUE AND INCIDENCE ANALYSIS

The Office of Revenue Analysis in conjunction with the Divisions of Taxation and Municipal Finance were tasked by the Governor's Tax Policy Strategy Workgroup to determine the revenue and incidence impacts of the Workgroup's proposals. Although the Workgroup's proposals are to be considered holistically, the revenue and incidence analyses are presented by subgroup for ease of exposition.

### REVENUE AND INCIDENCE ANALYSIS FOR INDIVIDUAL TAXES

The Office of Revenue Analysis (ORA) employed the following methodologies in evaluating the revenue and distributional impacts of the Workgroup's proposals as they related to the personal income tax, the estate tax and the general sales and use tax. With respect to the personal income tax, two approaches were employed. First, the Rhode Island tax burdens for taxpayer profiles that were discussed previously were recalculated using the parameters of the reformed Rhode Island personal income tax system. Second, ORA downloaded from the Division of Taxation's data warehouse, all of the resident and non-resident tax returns that were filed for tax year 2006.[66] This data was then used to re-compute the taxes owed by each taxpayer under the reformed Rhode Island personal income tax system and this result was compared to actual taxes paid by the taxpayers in tax year 2006[67] to determine the impact of the Workgroup's proposal on each taxpayer. The data was then aggregated by AGI class for reporting purposes.[68] For the estate tax, ORA used taxpayer return data provided by the Estate Tax section of the Division of Taxation for tax year 2008. For the sales and use tax, ORA used the sales and use tax simulation model procured by the General Assembly in FY 2008.

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[66] The total number of resident and non-resident Rhode Island tax returns filed in tax year 2006 was 594,624 comprised of 497,243 Rhode Island resident returns and 97,381 Rhode Island non-resident and/or part-year resident returns.

[67] A minor modification was made to the tax year 2006 tax liability to incorporate the fact that the alternative flat tax rate was 8.0 percent in tax year 2006 vs. 6.5 percent in tax year 2009. The taxpayer's final tax year 2006 tax liability was computed as the lower of the actual tax paid, including credits, or the tax owed under the alternative flat rate income tax system with a 6.5 percent tax rate.

[68] United States and Rhode Island law prohibit the reporting of tax data in such a manner that an individual taxpayer could be identified from the reporting of that data.

**Personal Income Taxpayer Profile Analysis**

The table below compares the Rhode Island tax liability owed for the eleven taxpayer profiles under the reformed Rhode Island personal income tax system and Connecticut's and Massachusetts' personal income tax systems. From the table it is apparent that the total personal income taxes paid under the reformed Rhode Island personal income tax system is less for nearly all taxpayer profiles than would be paid in either Connecticut or Massachusetts. The table below shows the tax liability amount and as a percentage of Adjusted Gross Income for the reformed Rhode Island, Connecticut, and Massachusetts income tax systems :

| | Reformed RI | | Massachusetts | | Connecticut | |
|---|---|---|---|---|---|---|
| Taxpayer Profile | Tax | % of AGI | Tax | % of AGI | Tax | % of AGI |
| Minimum Wage Worker | $ (1,007) | -6.54% | $ (707) | -4.59% | $ - | 0.00% |
| Retired Working Class | (300) | -1.25% | (900) | -3.75% | (500) | -2.08% |
| Dual Minimum Wage Workers | (106) | -0.35% | 85 | 0.28% | 71 | 0.23% |
| Single Professional | 1,240 | 2.73% | 1,923 | 4.23% | 1,764 | 3.88% |
| Working Class | 1,768 | 2.34% | 2,732 | 3.63% | 3,036 | 4.02% |
| Retired Professionals | 2,509 | 2.69% | 1,227 | 1.32% | 3,023 | 3.24% |
| Professionals | 4,910 | 3.22% | 6,805 | 4.46% | 7,223 | 4.74% |
| Investment Income Only | 5,541 | 3.23% | 8,640 | 5.04% | 8,174 | 4.77% |
| Executive | 6,398 | 3.36% | 8,822 | 4.63% | 9,125 | 4.79% |
| Small Business Owner | 15,190 | 4.30% | 17,434 | 4.94% | 17,260 | 4.89% |
| Senior Executive | 60,428 | 5.15% | 60,947 | 5.20% | 58,250 | 4.97% |

Relative to Massachusetts, each taxpayer profile under the reformed Rhode Island income tax system pays less than they would in Massachusetts except for two, Retired Working Class and Retired Professionals. The results for these two taxpayer profiles, however, are not due to the reformed Rhode Island tax system but rather are due to Massachusetts law which has a larger refundable property tax relief credit, $930 vs. $300 in Rhode Island, and exempts pensions from an eligible public source from the state income tax.[69]

Relative to Connecticut, each taxpayer profile under the reformed Rhode Island income tax system pays less than they would in Connecticut except for two, Retired Working Class and Senior Executive. The result for the Retired Working Class taxpayer profile is, like in Massachusetts, not due to the reformed Rhode Island income tax system but rather is due to the fact that Connecticut has a more generous property tax relief credit than does Rhode Island. For the Senior Executive taxpayer profile, the more favorable tax treatment in Connecticut is due to the fact that Connecticut's top marginal rate is 5.0 percent vs. 5.5 percent under the reformed Rhode Island personal income tax system.

[69] Pensions from an eligible public source include Massachusetts state and municipal pensions. Massachusetts will grant the same income tax exemption to out-of-state pensions from an eligible public source provided that the state of origin for the pension provides for reciprocal tax treatment for out-of-state public source pensions. For example, North Carolina provides preferential tax treatment to North Carolina and out-of-state pensions from an eligible public source so Massachusetts would tax a North Carolina source pension just like a Massachusetts source pension is taxed in North Carolina. Rhode Island, on the other hand, does not exempt public pensions from state income tax so Massachusetts taxes Rhode Island source pensions even though it exempts Massachusetts source pensions.

Importantly, low-wage workers[70] receive tax cuts under the reformed Rhode Island income tax system relative to both Massachusetts and Connecticut. This result is due to the enhanced refundable portion of the Rhode Island earned income tax credit and the lower marginal income tax rate to which their taxable income is subject. In addition, the Small Business Owner taxpayer profile experiences a reduced tax liability under the reformed Rhode Island income tax system vis-à-vis Massachusetts and Connecticut. This is an important result as this taxpayer profile reflects the personal financial position of an individual that creates jobs in Rhode Island.

**Tax Year 2006 Individual Personal Income Tax Return Analysis**

In addition to the taxpayer profile incidence analysis, the ORA also looked at individual taxpayer data to assess the impact that the reformed Rhode Island personal income tax system has on taxpayers. ORA downloaded taxpayer data for tax year 2006 for 594,624 resident, part-year resident, and non-resident tax returns. This data included information on filing status, federal AGI, modifications increasing and decreasing federal AGI, the number of exemptions, Rhode Island tax paid after credits other than the earned income tax credit, the property tax relief credit and the lead paint abatement tax credit, the amount of the Rhode Island earned income tax credit taken, the amount of the property tax relief credit taken, the amount of the lead paint abatement tax credit taken, the alternative flat tax liability, credit for taxes paid to other states, actual taxes paid to other states, and available Rhode Island earned income tax credit.[71]

Based on the data provided, ORA recomputed the tax liability for every taxpayer using the parameters specified in the Workgroup's proposal. After aggregating the individual taxpayer results by AGI, data on actual tax paid in tax year 2006, modified to account for the lower alternative flat tax rate of 6.5 percent[72] that is applicable in tax year 2009, was compared to the estimated tax that would be paid under the reformed Rhode Island personal income tax system. The table below shows the aggregate changes in tax paid for resident filers under the current income tax system and the reformed Rhode Island tax system adjusted to match the November Revenue Estimating Conference's FY 2009 personal income tax revenue estimate.

The table shows that nearly all AGI ranges less than $1,000,001 experience a decrease in overall tax liability under the reformed Rhode Island income tax system. The increase in tax liability for the AGI ranges of $1,000,001 and above is primarily due to the fact that these are the AGI classes in which capital gains comprises a larger portion of taxpayers' total income and these are the AGI classes that utilize not generally available tax credits, such as the Historic Structures and Motion Picture Production Tax Credits, at significantly higher rates than taxpayers in the other AGI classes. It should be noted that

[70] See the Minimum Wage Worker and the Dual Minimum Wage Workers taxpayer profiles.

[71] For non-resident and part-year resident tax returns the information included allocated Rhode Island values for tax paid, Rhode Island earned income tax credit taken, and alternative flat tax liability. In addition, income attributed to out-of-state sources and the income allocation percentage for Rhode Island was downloaded.

[72] Recall that the alternative flat tax rate for tax year 2006 was 8.0 percent.

the $30,001 to $40,000 AGI class experiences an increase of $118,113 in total tax liability but this increase is spread over nearly 50,000 tax filers.

| Resident Filers | | | | |
|---|---|---|---|---|
| AGI Range | Tax Under Current System | Tax Under Reformed System | Filer Count | Difference |
| $0 and Under | $ (247,754.32) | $ (335,103.87) | 20,026 | $ (87,349.55) |
| $1 to $12,500 | (3,862,879.54) | (10,755,275.15) | 98,897 | (6,892,395.61) |
| $12,501 to $20,000 | 4,305,658.58 | (2,408,076.05) | 55,914 | (6,713,734.63) |
| $20,001 to $30,000 | 19,981,132.87 | 16,912,655.95 | 62,673 | (3,068,476.92) |
| $30,001 to $40,000 | 34,106,864.23 | 34,294,977.07 | 49,916 | 188,112.84 |
| $40,001 to $55,000 | 58,911,746.78 | 58,747,007.42 | 54,516 | (164,739.36) |
| $55,001 to $75,000 | 85,848,598.21 | 85,625,621.49 | 52,839 | (222,976.72) |
| $75,001 to $110,000 | 139,488,634.79 | 136,373,812.29 | 53,657 | (3,114,822.51) |
| $110,001 to $175,000 | 150,795,343.64 | 136,519,886.75 | 31,491 | (14,275,456.89) |
| $175,001 to $250,000 | 76,158,546.33 | 67,014,478.51 | 8,750 | (9,144,067.82) |
| $250,001 to $500,000 | 99,562,112.33 | 88,388,782.58 | 5,895 | (11,173,329.75) |
| $500,001 to $1,000,000 | 61,700,964.60 | 59,547,953.19 | 1,748 | (2,153,011.41) |
| $1,000,001 to $5,000,000 | 76,900,150.76 | 82,985,988.64 | 832 | 6,085,837.88 |
| $5,000,001 to $10,000,000 | 16,123,753.03 | 20,137,490.52 | 53 | 4,013,737.49 |
| $10,000,001 and up | 38,751,648.96 | 68,068,122.81 | 36 | 29,316,473.85 |
| **Totals** | **$ 858,524,521.28** | **$ 841,118,322.17** | **497,243** | **$ (17,406,199.11)** |
| | | | | **-2.0%** |

Average changes in tax paid under the current income tax system and the reformed Rhode Island personal income tax system by AGI class for resident filers adjusted to match the November Revenue Estimating Conference's FY 2009 personal income tax revenue estimate are shown in the table below.

| Resident Filers | | | |
|---|---|---|---|
| AGI Range | Average Tax Under Current System | Average Tax Under Reformed System | Difference |
| $0 and Under | $ (12.37) | $ (16.73) | $ (4.36) |
| $1 to $12,500 | (39.06) | (108.75) | (69.69) |
| $12,501 to $20,000 | 77.01 | (43.07) | (120.07) |
| $20,001 to $30,000 | 318.82 | 269.86 | (48.96) |
| $30,001 to $40,000 | 683.29 | 687.05 | 3.77 |
| $40,001 to $55,000 | 1,080.63 | 1,077.61 | (3.02) |
| $55,001 to $75,000 | 1,624.72 | 1,620.50 | (4.22) |
| $75,001 to $110,000 | 2,599.64 | 2,541.58 | (58.05) |
| $110,001 to $175,000 | 4,788.52 | 4,335.20 | (453.32) |
| $175,001 to $250,000 | 8,703.83 | 7,658.80 | (1,045.04) |
| $250,001 to $500,000 | 16,889.25 | 14,993.86 | (1,895.39) |
| $500,001 to $1,000,000 | 35,298.03 | 34,066.33 | (1,231.70) |
| $1,000,001 to $5,000,000 | 92,428.07 | 99,742.77 | 7,314.71 |
| $5,000,001 to $10,000,000 | 304,221.76 | 379,952.65 | 75,730.90 |
| $10,000,001 and up | 1,076,434.69 | 1,890,781.19 | 814,346.50 |
| **Totals** | **$ 1,726.57** | **$ 1,691.56** | **$ (35.01)** |

As is evident from the table, nearly all AGI classes below $1,000,000 experience, on average, a tax decrease under the reformed Rhode Island personal income tax system. It is important to note that within a given AGI class, a given taxpayer can experience a tax increase or a tax decrease depending on his or her individual circumstances regarding itemized deductions, sources of income, etc.

The table below shows the aggregate changes in tax paid for part-year and non-resident filers under the current income tax system and the reformed Rhode Island tax system adjusted to match the November Revenue Estimating Conference's FY 2009 personal income tax revenue estimate.

| Non-Resident Filers | | | | |
|---|---|---|---|---|
| **AGI Range** | **Tax Under Current System** | **Tax Under New System** | **Filer Count** | **Difference** |
| $0 and Under | $ 58,785.00 | $ (5,471.69) | 977 | $ (64,256.69) |
| $1 to $12,500 | 265,182.69 | (147,133.72) | 13,415 | (412,316.42) |
| $12,501 to $20,000 | 897,027.07 | 451,098.47 | 7,283 | (445,928.60) |
| $20,001 to $30,000 | 2,290,392.46 | 1,959,948.02 | 8,687 | (330,444.44) |
| $30,001 to $40,000 | 3,309,823.04 | 3,163,331.06 | 7,304 | (146,491.98) |
| $40,001 to $55,000 | 6,795,550.33 | 6,348,293.29 | 9,900 | (447,257.04) |
| $55,001 to $75,000 | 10,113,941.77 | 9,529,706.55 | 11,175 | (584,235.22) |
| $75,001 to $110,000 | 19,954,194.78 | 18,332,818.40 | 14,554 | (1,621,376.37) |
| $110,001 to $175,000 | 26,745,446.70 | 22,679,192.91 | 11,273 | (4,066,253.79) |
| $175,001 to $250,000 | 15,318,212.32 | 12,402,098.11 | 4,067 | (2,916,114.22) |
| $250,001 to $500,000 | 20,521,376.24 | 16,341,340.45 | 3,900 | (4,180,035.79) |
| $500,001 to $1,000,000 | 12,753,160.09 | 11,284,493.35 | 1,936 | (1,468,666.75) |
| $1,000,001 to $5,000,000 | 19,280,337.41 | 19,643,969.99 | 2,064 | 363,632.58 |
| $5,000,001 to $10,000,000 | 3,956,816.87 | 4,650,852.72 | 332 | 694,035.86 |
| $10,000,001 and up | 10,215,231.95 | 12,278,345.43 | 514 | 2,063,113.48 |
| **Totals** | **$ 152,475,478.72** | **$ 138,912,883.32** | **97,381** | **$ (13,562,595.39)** |
| | | | | **-8.9%** |

The table shows that all AGI ranges less than $1,000,001 experience a decrease in overall tax liability under the reformed Rhode Island income tax system. The increase in tax liability for the AGI ranges of $1,000,001 and above is primarily due to the fact that these are the AGI classes in which capital gains comprises a larger portion of taxpayers' total income and these are the AGI classes that utilize not generally available tax credits, such as the Historic Structures and Motion Picture Production Tax Credits, at significantly higher rates than taxpayers in the other AGI classes. The reason that all AGI ranges of less than $1,000,001 experience a decrease in total tax liability is due to the higher use of standard deductions by these taxpayers.

Average changes in tax paid under the current income tax system and the reformed Rhode Island personal income tax system by AGI class for non-resident and part-year resident filers adjusted to match the November Revenue Estimating Conference's FY 2009 personal income tax revenue estimate are shown in the table below.

| Non-Resident Filers | | | |
|---|---|---|---|
| AGI Range | Average Tax Under Current System | Average Tax Under Reformed System | Difference |
| $0 and Under | $ 60.17 | $ (5.60) | $ (65.77) |
| $1 to $12,500 | 19.77 | (10.97) | (30.74) |
| $12,501 to $20,000 | 123.17 | 61.94 | (61.23) |
| $20,001 to $30,000 | 263.66 | 225.62 | (38.04) |
| $30,001 to $40,000 | 453.15 | 433.10 | (20.06) |
| $40,001 to $55,000 | 686.42 | 641.24 | (45.18) |
| $55,001 to $75,000 | 905.05 | 852.77 | (52.28) |
| $75,001 to $110,000 | 1,371.05 | 1,259.64 | (111.40) |
| $110,001 to $175,000 | 2,372.52 | 2,011.82 | (360.71) |
| $175,001 to $250,000 | 3,766.46 | 3,049.45 | (717.02) |
| $250,001 to $500,000 | 5,261.89 | 4,190.09 | (1,071.80) |
| $500,001 to $1,000,000 | 6,587.38 | 5,828.77 | (758.61) |
| $1,000,001 to $5,000,000 | 9,341.25 | 9,517.43 | 176.18 |
| $5,000,001 to $10,000,000 | 11,918.12 | 14,008.59 | 2,090.47 |
| $10,000,001 and up | 19,873.99 | 23,887.83 | 4,013.84 |
| **Totals** | **$ 1,565.76** | **$ 1,426.49** | **$ (139.27)** |

The table below shows the aggregate changes in tax paid for all filers under the current income tax system and the reformed Rhode Island income tax system adjusted to match the November Revenue Estimating Conference's FY 2009 personal income tax revenue estimate.

| All Filers | | | | |
|---|---|---|---|---|
| AGI Range | Tax Under Current System | Tax Under New System | Filer Count | Difference |
| $0 and Under | $ (188,969.32) | $ (340,575.56) | 21,003 | $ (151,606.25) |
| $1 to $12,500 | (3,597,696.85) | (10,902,408.87) | 112,312 | (7,304,712.02) |
| $12,501 to $20,000 | 5,202,685.65 | (1,956,977.58) | 63,197 | (7,159,663.23) |
| $20,001 to $30,000 | 22,271,525.33 | 18,872,603.97 | 71,360 | (3,398,921.36) |
| $30,001 to $40,000 | 37,416,687.28 | 37,458,308.13 | 57,220 | 41,620.86 |
| $40,001 to $55,000 | 65,707,297.11 | 65,095,300.70 | 64,416 | (611,996.41) |
| $55,001 to $75,000 | 95,962,539.98 | 95,155,328.03 | 64,014 | (807,211.94) |
| $75,001 to $110,000 | 159,442,829.57 | 154,706,630.69 | 68,211 | (4,736,198.88) |
| $110,001 to $175,000 | 177,540,790.34 | 159,199,079.66 | 42,764 | (18,341,710.68) |
| $175,001 to $250,000 | 91,476,758.65 | 79,416,576.62 | 12,817 | (12,060,182.03) |
| $250,001 to $500,000 | 120,083,488.58 | 104,730,123.03 | 9,795 | (15,353,365.54) |
| $500,001 to $1,000,000 | 74,454,124.70 | 70,832,446.54 | 3,684 | (3,621,678.16) |
| $1,000,001 to $5,000,000 | 96,180,488.17 | 102,629,958.63 | 2,896 | 6,449,470.46 |
| $5,000,001 to $10,000,000 | 20,080,569.90 | 24,788,343.25 | 385 | 4,707,773.35 |
| $10,000,001 and up | 48,966,880.91 | 80,346,468.24 | 550 | 31,379,587.33 |
| **Totals** | **$1,011,000,000.00** | **$ 980,031,205.49** | **594,624** | **$ (30,968,794.51)** |
| | | | | **-3.1%** |

The table shows that for nearly all AGI ranges less than $1,000,001 experience a decrease in aggregate tax liability. The increase in tax liability for the AGI ranges of $1,000,001 and above is primarily due to the fact that these are the AGI classes in which capital gains comprises a larger portion of taxpayers' total income and these are the AGI classes that utilize not generally available tax credits, such as the Historic Structures and Motion Picture Production Tax Credits, at significantly higher rates than taxpayers in the other AGI classes. It should be noted that the $30,001 to $40,000 AGI class experiences an increase of $41,621 in total tax liability but this increase is spread over more than 57,000 tax filers.

Average changes in tax paid under the current income tax system and the reformed Rhode Island personal income tax system by AGI class for all Rhode Island tax filers adjusted to match the November Revenue Estimating Conference's FY 2009 personal income tax revenue estimate are shown in the table below.

| All Filers | | | |
|---|---|---|---|
| **AGI Range** | **Average Tax Under Current System** | **Average Tax Under Reformed System** | **Difference** |
| $0 and Under | $ (9.00) | $ (16.22) | $ (7.22) |
| $1 to $12,500 | (32.03) | (97.07) | (65.04) |
| $12,501 to $20,000 | 82.32 | (30.97) | (113.29) |
| $20,001 to $30,000 | 312.10 | 264.47 | (47.63) |
| $30,001 to $40,000 | 653.91 | 654.64 | 0.73 |
| $40,001 to $55,000 | 1,020.05 | 1,010.55 | (9.50) |
| $55,001 to $75,000 | 1,499.09 | 1,486.48 | (12.61) |
| $75,001 to $110,000 | 2,337.49 | 2,268.06 | (69.43) |
| $110,001 to $175,000 | 4,151.64 | 3,722.74 | (428.91) |
| $175,001 to $250,000 | 7,137.14 | 6,196.19 | (940.95) |
| $250,001 to $500,000 | 12,259.67 | 10,692.20 | (1,567.47) |
| $500,001 to $1,000,000 | 20,210.13 | 19,227.05 | (983.08) |
| $1,000,001 to $5,000,000 | 33,211.49 | 35,438.52 | 2,227.03 |
| $5,000,001 to $10,000,000 | 52,157.32 | 64,385.31 | 12,227.98 |
| $10,000,001 and up | 89,030.69 | 146,084.49 | 57,053.80 |
| **Totals** | **$ 1,700.23** | **$ 1,648.15** | **$ (52.08)** |

In addition to the average tax changes noted above, the ORA also prepared an incidence analysis for resident filers only by AGI class for the number of taxpayers who experience a tax decrease under the reformed Rhode Island personal income tax system and for the number of taxpayers that experience a tax increase under the reformed Rhode Island personal income tax system. This analysis is shown in the table below.

Note that the table shows that the number of taxpayers that experience a tax decrease under the reformed Rhode Island personal income tax system is nearly three times the number of taxpayers that experience a tax increase.[73] Furthermore, only two AGI classes have more taxpayers that experience a tax increase than experience a tax decrease and these are the $5,000,001 to $10,000,000 and $10,000,001 and up classes.

[73] The table indicates that 420,057 resident taxpayers experience either a tax decrease or a tax increase under the reformed Rhode Island personal income tax system. The remaining 71,186 resident tax filers experience no change in their tax liability under the reformed Rhode Island personal income tax system.

| Resident Filers Only | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Returns with a Tax Decrease | | | Returns with a Tax Increase | | | Total Tax Change | | |
| AGI Range | Number of Returns | Tax Decrease Amount (Millions) | Average Tax Decrease | Number of Returns | Tax Increase Amount (Millions) | Average Tax Increase | Number of Returns | Total Tax Change Amount (millions) | Average Tax Change |
| $0 and Under | 618 | $ (0.09) | $ (145.08) | 6 | $ 0.00 | $ 384.71 | 624 | $ (0.09) | $ (139.98) |
| $1 to $12,500 | 55,406 | (6.97) | (125.76) | 1,546 | 0.08 | 48.75 | 56,952 | (6.89) | (121.02) |
| $12,501 to $20,000 | 45,247 | (7.42) | (164.05) | 5,366 | 0.71 | 132.11 | 50,613 | (6.71) | (132.65) |
| $20,001 to $30,000 | 46,461 | (5.44) | (117.15) | 13,726 | 2.37 | 172.97 | 60,187 | (3.07) | (50.98) |
| $30,001 to $40,000 | 32,520 | (3.96) | (121.90) | 14,835 | 4.15 | 279.90 | 47,355 | 0.19 | 3.97 |
| $40,001 to $55,000 | 32,135 | (8.12) | (252.68) | 19,786 | 7.96 | 402.06 | 51,921 | (0.16) | (3.17) |
| $55,001 to $75,000 | 29,560 | (12.11) | (409.57) | 21,788 | 11.88 | 545.44 | 51,348 | (0.22) | (4.34) |
| $75,001 to $110,000 | 31,817 | (21.20) | (666.38) | 20,964 | 18.09 | 862.79 | 52,781 | (3.11) | (59.01) |
| $110,001 to $175,000 | 23,158 | (28.49) | (1,230.43) | 7,920 | 14.22 | 1,795.32 | 31,078 | (14.28) | (459.34) |
| $175,001 to $250,000 | 6,774 | (16.21) | (2,393.68) | 1,902 | 7.07 | 3,717.53 | 8,676 | (9.14) | (1,053.95) |
| $250,001 to $500,000 | 4,487 | (21.87) | (4,873.93) | 1,373 | 10.70 | 7,790.25 | 5,860 | (11.17) | (1,906.71) |
| $500,001 to $1,000,000 | 1,204 | (10.73) | (8,915.05) | 541 | 8.58 | 15,860.82 | 1,745 | (2.15) | (1,233.82) |
| $1,000,001 to $5,000,000 | 459 | (9.68) | (21,091.03) | 370 | 15.77 | 42,612.48 | 829 | 6.09 | 7,341.18 |
| $5,000,001 to $10,000,000 | 23 | (1.58) | (68,578.76) | 29 | 5.59 | 192,794.79 | 52 | 4.01 | 77,187.26 |
| $10,000,001 and up | 9 | (2.48) | (275,929.27) | 27 | 31.80 | 1,177,771.75 | 36 | 29.32 | 814,346.50 |
| **Totals** | **309,878** | **$ (156.37)** | **$ (504.62)** | **110,179** | **$ 138.96** | **$ 1,261.25** | **420,057** | **$ (17.41)** | **$ (41.44)** |

## Estate Tax Return Revenue Analysis

The table below shows the revenue analysis of the Workgroup's proposal to immediately increase Rhode Island's estate tax exemption to $1.0 million and phase-in further increases in the exemption amount until it reaches $3.5 million. The actual data for the table is drawn from tax year 2008 estate tax returns filed and is adjusted to match the November Revenue Estimating Conference's FY 2009 estate tax revenue estimate.

| Exemption Amount | Number of Resident Returns | Percentage of Total Resident Returns Filed | Percentage Change in Estate Tax Revenue (TY 2008) | Total Estate Taxes Paid Resident and Nonresident (FY 2009) | FY 2009 Average Tax Savings |
|---|---|---|---|---|---|
| $1.0 million | 146 | 44.8% | -10.6% | $ (2,975,960) | $ 20,383 |
| $2.0 million | 279 | 85.6% | -36.4% | (10,187,064) | 36,513 |
| $3.5 Million | 308 | 94.5% | -51.7% | (14,474,867) | 46,996 |
| Repeal of Estate Tax | 326 | 100.0% | -100.0% | (28,000,000) | 85,890 |

Note that the immediate increase in the estate tax exemption to $1.0 million, the same exemption amount provided by Massachusetts, reduces the number of residents who have to file an estate tax return by 44.8 percent. The heirs of these estates would now receive, on average, $20,383 more than they would receive under Rhode Island's current estate tax exemption amount of $675,000. An increase in the exemption amount to $2.0 million, the same exemption amount provided by Connecticut, reduces the number of residents who have to file an estate tax return under the current exemption amount by 85.6 percent resulting in an average savings for these estates' heirs of $36,513. Finally, an increase in the exemption amount to $3.5 million, the exemption amount currently provided by the federal government, reduces the number of residents who have to file an estate tax return under the current exemption amount by 94.5 percent yielding an average savings for the heirs of these estates of $46,996.

**Sales and Use Tax Simulation Model Revenue Analysis**

To illustrate the potential changes that could result from expanding Rhode Island's sales tax base and reducing Rhode Island's general sales tax rate, the Workgroup asked for an analysis using the Rhode Island Sales and Use Tax Model to simulate a largely revenue neutral reduction in the general sales tax rate from 7.0 to 5.0 percent. The Workgroup deferred to ORA to determine the sales tax base expansion necessary to achieve revenue neutrality to the greatest extent possible.

The first step that ORA executed was to run a simulation that reduced Rhode Island's general sales tax rate to 5.0 percent from 7.0 percent with no change in the state's current sales tax base. The actual data for the table is a projection of tax year 2009 sales and use tax collections and is adjusted to match the November Revenue Estimating Conference's FY 2009 sales and use tax revenue estimate. The results are shown in the table below:

| | Baseline | | Alternative | | Change | |
|---|---|---|---|---|---|---|
| Sector | Base (Millions) | Tax (Millions) | Base (Millions) | Tax (Millions) | Base (Millions) | Tax (Millions) |
| **Business Investment** | | | | | | |
| Mining and drilling | $ - | $ - | $ - | $ - | $ - | $ - |
| Construction | - | - | - | - | - | - |
| Manufacturing machinery and eq | 1,219.90 | 70.22 | 1,219.90 | 50.16 | - | (20.07) |
| Transportation | - | - | - | - | - | - |
| Other | 0.08 | 0.01 | 0.08 | - | - | - |
| **FY 2009 Sub-Total** | **$ 1,219.97** | **$ 70.23** | **$ 1,219.97** | **$ 50.16** | **$ -** | **$ (20.07)** |
| **Business Intermediate** | | | | | | |
| Agriculture forestry fishing a | $ - | $ - | 0 | $ - | $ - | $ - |
| Mining | 57.16 | 3.30 | 57.16 | 2.36 | - | (0.94) |
| Utilities | 557.70 | 32.20 | 557.7 | 22.99 | - | (9.20) |
| Construction | - | - | 0 | - | - | - |
| Nondurable goods manufacture | 594.83 | 34.34 | 594.83 | 24.53 | - | (9.81) |
| Durable goods manufacture | 669.22 | 38.64 | 669.22 | 27.60 | - | (11.03) |
| Wholesale trade | - | - | 0 | - | - | - |
| Retail trade | - | - | 0 | - | - | - |
| Transportation and warehousing | - | - | 0 | - | - | - |
| Information | 685.72 | 39.59 | 685.72 | 28.28 | - | (11.31) |
| Finance insurance real estate | 261.38 | 15.09 | 261.38 | 10.78 | - | (4.31) |
| Professional and business serv | - | - | 0.00 | - | - | - |
| Educational services health ca | - | - | 0 | - | - | - |
| Arts entertainment recreation | 508.33 | 36.63 | 508.33 | 36.61 | - | (0.01) |
| Other services except governme | 209.18 | 12.07 | 209.18 | 8.63 | - | (3.45) |
| Government | - | - | 0 | - | - | - |
| Special Industries | - | - | 0 | - | - | - |
| **FY 2009 Sub-Total** | **$ 3,543.53** | **$ 211.86** | **3,543.53** | **$ 161.77** | **$ -** | **$ (50.06)** |
| **Consumer** | | | | | | |
| Durable goods | $ 4,083.94 | $ 202.94 | 4,083.94 | $ 144.95 | $ - | $ (57.99) |
| Nondurable goods | 12,022.07 | 266.79 | 12,022.07 | 190.56 | - | (76.23) |
| Services | 23,583.52 | 79.20 | 23,583.52 | 56.57 | - | (22.63) |
| **FY 2009 Sub-Total** | **$ 39,689.53** | **$ 548.93** | **39,689.53** | **$ 392.08** | **$ -** | **$ (156.85)** |
| **FY 2009 Grand Total** | **$ 44,453.03** | **$ 831.01** | **$ 44,453.03** | **$ 604.01** | **$ -** | **$ (226.97)** |

As is apparent from the table, a reduction in the state's general sales tax rate to 5.0 percent without an expansion in the sales tax base will cost the state $226.97 million in sales and use tax revenue in FY 2009.

When considering the broadening of Rhode Island's sales tax base, the Workgroup wanted to limit the base broadening to goods and services that at least 20 other states taxed that Rhode Island does not currently tax. To the greatest extent possible, ORA tried to adhere to this maxim. The macro results of the base broadening are show in the table below:

| Category | Baseline | | Alternative | | Change | |
|---|---|---|---|---|---|---|
| | Base (Millions) | Tax (Millions) | Base (Millions) | Tax (Millions) | Base (Millions) | Tax (Millions) |
| **Business Investment** | | | | | | |
| Mining and drilling | $ - | $ - | $ - | $ - | $ - | $ - |
| Construction | - | - | - | - | - | - |
| Manufacturing machinery and equipment | 1,219.90 | 70.22 | 1,219.90 | 50.16 | - | (20.06) |
| Transportation | - | - | - | - | - | - |
| Other | 0.08 | 0.01 | 0.08 | - | - | (0.01) |
| **FY 2009 Sub-Total** | **$ 1,219.98** | **$ 70.23** | **$ 1,219.98** | **$ 50.16** | **$ -** | **$ (20.07)** |
| | | | | | | |
| **Business Intermediate** | | | | | | |
| Agriculture, forestry, fishing and hunting | $ - | $ - | $ - | $ - | $ - | $ - |
| Mining | 57.16 | 3.30 | 57.16 | 2.36 | - | (0.94) |
| Utilities | 557.70 | 32.20 | 557.70 | 22.99 | - | (9.20) |
| Construction | - | - | 515.63 | 20.05 | 515.63 | 20.05 |
| Nondurable goods manufacture | 594.83 | 34.34 | 594.83 | 24.53 | - | (9.81) |
| Durable goods manufacture | 669.22 | 38.64 | 669.22 | 27.60 | - | (11.04) |
| Wholesale trade | - | - | - | - | - | - |
| Retail trade | - | - | - | - | - | - |
| Transportation and warehousing | - | - | 953.32 | 31.64 | 953.32 | 31.64 |
| Information | 685.72 | 39.59 | 1,684.13 | 39.50 | 998.41 | (0.09) |
| Finance, insurance, real estate | 261.38 | 15.09 | 8,524.49 | 10.78 | 8,263.11 | (4.31) |
| Professional and business services | - | - | 8,833.05 | 69.47 | 8,833.05 | 69.47 |
| Educational services health care | - | - | - | - | - | - |
| Arts, entertainment, recreation | 508.33 | 36.63 | 910.34 | 36.61 | 402.01 | (0.02) |
| Other services except government | 209.18 | 12.07 | 749.75 | 8.89 | 540.57 | (3.18) |
| Government | - | - | - | - | - | - |
| Special Industries | - | - | - | - | - | - |
| **FY 2009 Sub-Total** | **$ 3,543.52** | **$ 211.86** | **$ 24,049.62** | **$ 294.42** | **$ 20,506.10** | **$ 82.56** |
| | | | | | | |
| **Consumer** | | | | | | |
| Durable goods | $ 4,083.94 | $ 202.94 | $ 4,083.94 | $ 144.95 | $ - | $ (57.99) |
| Nondurable goods | 12,022.07 | 266.79 | $ 12,022.07 | $ 204.19 | - | $ (62.60) |
| Services | 23,583.52 | 79.20 | $ 23,583.52 | $ 141.59 | - | $ 62.39 |
| **FY 2009 Sub-Total** | **$ 39,689.53** | **$ 548.93** | **$ 39,689.53** | **$ 490.73** | **$ -** | **$ (58.20)** |
| | | | | | | |
| **FY 2009 Grand Total** | **$ 44,453.03** | **$ 831.01** | **$ 64,959.13** | **$ 835.31** | **$ 20,506.10** | **$ 4.30** |

Note that the sales tax base expansion increases the tax revenues generated from consumer, professional and business services by $131.86 million, from construction by $20.05 million, and from transportation and warehousing by $31.64 million. These increased revenues are offset by revenue decreases that result from purchases that were taxed at 7.0 percent but are now taxed at 5.0 percent. The biggest beneficiaries of the combined sales tax rate reduction / sales tax base expansion are consumers as sales taxes collected from them declines by $58.20 million while businesses pay $62.50 million more in sales taxes after the base broadening / rate reduction.

Of course, as with any change in the tax system, the devil is in the details. In other words, it is the items that are added to the sales tax base that matter. The table below shows the potential revenue that is generated from expanding the sales tax base to consumer and business intermediate purchases. ORA did not expand the sales tax base to business investment purchases as taxing investment purchases would serve to deter businesses from expanding their operations in the state.

| **Consumer Purchases** | | **Business Intermediate Purchases** | |
|---|---|---|---|
| **Category** | **FY 2009 Amount (millions)** | **Category** | **FY 2009 Amount (millions)** |
| Nonprescription drugs | $ 9.81 | Nonresidential maintenance and repair | $ 18.44 |
| Newspapers | 3.82 | Residential maintenance and repair | 1.61 |
| Moving and storage | 2.78 | Truck transportation | 5.46 |
| Rug and furniture cleaning | 0.71 | Transit and ground passenger transportation | 3.86 |
| Electrical repair | 0.28 | Scenic and sightseeing transportation | 5.25 |
| Reupholstery and furniture repair | 0.17 | Couriers and messengers | 8.45 |
| Household operation services | 3.87 | Warehousing and storage | 8.63 |
| Motor vehicle repair | 10.15 | Data processing, hosting, and related services | 11.22 |
| Other motor vehicle services | 2.78 | Facilities support services | 2.77 |
| Legitimate theaters and opera | 5.89 | Business support services | 9.70 |
| Spectator sports | 1.18 | Services to buildings and dwellings | 16.12 |
| Radio and television repair | 0.14 | Employment services | 25.93 |
| Clubs and fraternal organization | 4.24 | Travel arrangement and reservations | 3.55 |
| Sightseeing | 1.89 | Waste management and remediation services | 11.41 |
| Private flying | 0.19 | Car washes | 0.27 |
| Bowling and billiards | 0.57 | | |
| Other commercial participant amusements | 7.21 | | |
| Pets and pets services excl. veterinarians | 0.99 | | |
| Veterinarians | 3.11 | | |
| Photo studios | 1.41 | | |
| Sporting and recreational camp | 0.33 | | |
| Commercial amusements excl. internet service providers | 5.80 | | |
| Drycleaning | 1.23 | | |
| Laundry and garment repair | 1.46 | | |
| Beauty shops | 10.18 | | |
| Barber shops | 0.52 | | |
| Miscellaneous personal service | 8.86 | | |
| Employment agency fees | 0.57 | | |
| Money orders | 0.38 | | |
| Classified ads | 0.14 | | |
| Tax return preparation service | 1.46 | | |
| Motion picture theaters | 1.32 | | |
| ***Total*** | ***$ 93.42*** | | ***$ 132.67*** |

Expansion of the sales tax base to currently untaxed consumer purchases increases sales tax revenue by $93.42 million. This increase in revenue is primarily concentrated in personal services with a smaller amount in non-durable goods. Expansion of the sales tax base to currently untaxed business intermediate purchases increases sales tax revenue by $132.67 million. This increase in revenue is primarily concentrated in business services with smaller amounts in construction and transportation.

**Sales and Use Tax Simulation Model Incidence Analysis**

The table below shows the incidence analysis for the sales tax rate reduction and base broadening scenario described above. The incidence analysis focuses only on Rhode Island resident consumers.

| Resident Consumers Only | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Returns with a Tax Decrease | | | Returns with a Tax Increase | | | Total Tax Change | | |
| AGI Range | Number of Returns | Tax Decrease Amount (Millions) | Average Tax Decrease | Number of Returns | Tax Increase Amount (Millions) | Average Tax Increase | Number of Returns | Total Tax Change Amount (millions) | Average Tax Change |
| $0 and Under | 1,070 | $ (0.05) | $ (46.75) | 152 | $ 0.02 | $ 105.64 | 1,221 | $ (0.03) | $ (27.82) |
| $1 to $12,500 | 36,819 | (2.31) | (62.66) | 11,055 | 1.08 | 97.78 | 47,874 | (1.23) | (25.62) |
| $12,501 to $20,000 | 22,777 | (2.45) | (107.45) | 9,871 | 1.28 | 129.41 | 32,648 | (1.17) | (35.83) |
| $20,001 to $30,000 | 28,155 | (12.96) | (460.49) | 10,811 | 2.36 | 217.93 | 38,966 | (10.61) | (272.26) |
| $30,001 to $40,000 | 25,672 | (4.59) | (179.03) | 7,986 | 1.22 | 153.21 | 33,659 | (3.37) | (100.20) |
| $40,001 to $55,000 | 33,418 | (8.16) | (244.31) | 9,919 | 1.85 | 186.52 | 43,337 | (6.32) | (145.70) |
| $55,001 to $75,000 | 31,784 | (7.72) | (242.77) | 9,832 | 2.02 | 205.60 | 41,617 | (5.69) | (136.84) |
| $75,001 to $110,000 | 39,923 | (12.20) | (305.54) | 12,288 | 3.15 | 256.55 | 52,211 | (9.05) | (173.26) |
| $110,001 to $175,000 | 29,884 | (9.52) | (318.47) | 9,100 | 2.40 | 263.44 | 38,984 | (7.12) | (182.63) |
| $175,001 to $250,000 | 9,595 | (2.56) | (266.49) | 3,243 | 0.77 | 235.85 | 12,839 | (1.79) | (139.58) |
| $250,001 to $500,000 | 5,710 | (5.03) | (880.50) | 2,204 | 1.91 | 869.62 | 7,915 | (3.11) | (393.05) |
| $500,001 to $1,000,000 | 1,966 | (3.13) | (1,592.95) | 603 | 0.66 | 1,099.70 | 2,569 | (2.47) | (961.21) |
| $1,000,001 to $5,000,000 | 1,351 | (1.81) | (1,338.11) | 405 | 0.36 | 906.05 | 1,756 | (1.44) | (820.85) |
| $5,000,001 to $10,000,000 | 170 | (0.88) | (5,206.92) | 57 | 0.15 | 2,545.39 | 227 | (0.74) | (3,259.82) |
| $10,000,001 and up | 264 | (0.50) | (1,914.56) | 81 | 0.12 | 1,485.47 | 346 | (0.39) | (1,116.38) |
| **Totals** | **268,558** | **$ (73.88)** | **$ (275.09)** | **87,607** | **$ 19.35** | **$ 3,057.29** | **356,169** | **$ (54.52)** | **$ (153.08)** |

Note that the number of resident consumers that experience a decrease in sales and use taxes paid is more than three times the number of resident consumers that experience a tax increase under the base broadening / tax rate reduction scenario. Furthermore, on a net basis, all AGI ranges experience a net decrease in sales and use tax burden as a result of the base broadening / tax rate reduction.

## REVENUE AND INCIDENCE ANALYSIS FOR BUSINESS TAXES

The Division of Taxation employed the following methodologies in evaluating the revenue and distributional impacts of the Workgroup's proposals as they related to the corporate income tax. The Division of Taxation used tax year 2006 data to estimate the impacts of the proposals from the Workgroup. The table below summarizes the corporate income tax returns for tax year 2006. To create an estimate for fiscal year 2009 the data was adjusted to match the November Revenue Estimating Conference's FY 2009 corporate income tax revenue estimate.

| **Tax Year 2006** | | |
|---|---|---|
| | Total Revenue | Number of Taxpayers |
| Taxpayers Paying Min Tax: | 23,539,000.00 | 47,078 |
| | | |
| Taxpayers Paying Greater than $500: | | 3,527 |
| | | |
| Taxable Income | | |
| Less than 10,000 | 22,865,838.00 | 1,204 |
| 10,000 to 25,000 | 1,020,871.00 | 685 |
| 25,000 to 50,000 | 1,572,135.00 | 489 |
| 50,000 to 75,000 | 1,435,631.00 | 265 |
| 75,000 to 100,000 | 1,060,863.00 | 140 |
| 100,000 to 250,000 | 4,706,683.00 | 346 |
| 250,000 to 500,000 | 4,707,097.00 | 156 |
| 500,000 to 1,000,000 | 5,973,102.00 | 107 |
| 1,000,000 to 2,500,000 | 11,123,136.00 | 85 |
| 2,500,000 and greater | 47,529,131.00 | 50 |
| Total | 101,994,487.00 | 3,527 |
| | | |
| Grand Total | 125,533,487.00 | 50,605 |

The Tax Policy Strategy Workgroup offers two proposals for consideration of Corporate Income Tax Reform. The first proposal would:

> **Eliminate the Corporate Income Tax and replace the current Franchise Tax system with a tiered system according to corporations' net income.**

The following table lists the income groups and the corresponding Franchise Tax rates that would be instituted in a new tiered system.

| **Proposed Franchise Tax Minimum Payment Structure** | |
|---|---|
| | Proposed Franchise Tax Fee |
| LLCs & S-Corporations | 450 |
| | |
| Taxable Income | |
| Less than 9,999 | 450 |
| 10,000 to 24,999 | 500 |
| 25,000 to 49,999 | 750 |
| 50,000 to 74,999 | 1,000 |
| 75,000 to 99,999 | 1,500 |
| 100,000 to 249,999 | 2,000 |
| 250,000 to 499,999 | 3,000 |
| 500,000 to 999,999 | 5,000 |
| 1,000,000 to 2,499,999 | 7,500 |
| 2,500,000 and greater | 10,000 |

This proposal would have an estimated revenue loss to the state of $82.25 million. In determining this estimate, it was concluded that all minimum taxpayers would pay the new minimum tax of $450. The remaining filers were categorized by taxable income and their tax was determined using the proposed Franchise Tax scheduled listed above. The table below shows the revenue impact of this proposal as well as the distributional impact.

| | FY2009 Estimated Revenue | Number of Taxpayers | Proposed Franchise Tax Rate | Estimated Revenue | Total Tax Change |
|---|---|---|---|---|---|
| Taxpayers Paying Min Tax: | 23,539,000.00 | 47,078 | 450 | 21,185,100.00 | (2,353,900.00) |
| Taxpayers Paying Greater than $500: | | | | | |
| Taxable Income | | | | | |
| Less than 10,000 | 18,935,058 | 1,204 | 450 | 541,800.00 | (18,393,258.16) |
| 10,000 to 25,000 | 845,377 | 685 | 500 | 342,500.00 | (502,876.92) |
| 25,000 to 50,000 | 1,301,875 | 489 | 750 | 366,750.00 | (935,125.21) |
| 50,000 to 75,000 | 1,188,837 | 265 | 1,000 | 265,000.00 | (923,837.10) |
| 75,000 to 100,000 | 878,494 | 140 | 1,500 | 210,000.00 | (668,494.05) |
| 100,000 to 250,000 | 3,897,575 | 346 | 2,000 | 692,000.00 | (3,205,574.90) |
| 250,000 to 500,000 | 3,897,918 | 156 | 3,000 | 468,000.00 | (3,429,917.73) |
| 500,000 to 1,000,000 | 4,946,289 | 107 | 5,000 | 535,000.00 | (4,411,288.60) |
| 1,000,000 to 2,500,000 | 9,211,000 | 85 | 7,500 | 637,500.00 | (8,573,499.71) |
| 2,500,000 and greater | 39,358,578 | 50 | 10,000 | 500,000.00 | (38,858,577.62) |
| Total | 84,461,000.00 | 3,527 | | 4,558,550.00 | (79,902,450.00) |
| Grand Total | 108,000,000.00 | 50,605 | | 25,743,650.00 | (82,256,350.00) |

The second proposal would:

**Reduce the Corporate Income Tax rate to 8.0 percent, eliminate all but three tax credits, and maintain the current Franchise Tax.**

This proposal would have an estimated revenue loss to the state of $8.13 million. In determining this estimate, it was concluded that all minimum taxpayers would continue to pay the minimum tax of $500. The remaining corporation's tax was recalculated using an 8.0 percent tax rate. The proposal also included the elimination of all tax credits except for the Jobs Development Tax Credit, Research and Development Tax Credit and the Investment Tax Credit.

The table below details the revenue impact for proposal #2:

| **Proposal #2 Revenue Impact** | |
|---|---|
| Revenue Estimate FY2009 | 108.00 |
| Revenue Impact Rate Reduction | (9.38) |
| Revenue Impact Elimination of Credits | 1.25 |
| Net Revenue | 99.87 |

Using tax year 2006 data, the total value of the credits being eliminated is approximately $1.25 million. Listed below are the credits used during tax year 2006:

| Credit | Tax Year 2006 (millions) |
|---|---|
| Daycare Tax Credit | 0.02 |
| Enterprise Zone Tax Credit | 0.97 |
| Job Training Tax Credit | 0.17 |
| Motion Picture Tax Credit | 0.09 |
| Total | 1.25 |

The table below outlines the incidence analysis of the rate reduction:

| | FY2009 Estimated Revenue | Number of Taxpayers | Estimated Revenue with 8.0% Rate | Total Tax Change |
|---|---|---|---|---|
| Taxpayers Paying Min Tax: | 23,539,000.00 | 47,078 | 23,539,000 | - |
| Taxpayers Paying Greater than $500: | | | | |
| Taxable Income | | | | |
| Less than 10,000 | 18,935,058 | 1,204 | 16,831,162.81 | (2,103,895.35) |
| 10,000 to 25,000 | 845,377 | 685 | 751,446.15 | (93,930.77) |
| 25,000 to 50,000 | 1,301,875 | 489 | 1,157,222.41 | (144,652.80) |
| 50,000 to 75,000 | 1,188,837 | 265 | 1,056,744.09 | (132,093.01) |
| 75,000 to 100,000 | 878,494 | 140 | 780,883.60 | (97,610.45) |
| 100,000 to 250,000 | 3,897,575 | 346 | 3,464,511.03 | (433,063.88) |
| 250,000 to 500,000 | 3,897,918 | 156 | 3,464,815.76 | (433,101.97) |
| 500,000 to 1,000,000 | 4,946,289 | 107 | 4,396,700.98 | (549,587.62) |
| 1,000,000 to 2,500,000 | 9,211,000 | 85 | 8,187,555.29 | (1,023,444.41) |
| 2,500,000 and greater | 39,358,578 | 50 | 34,985,402.33 | (4,373,175.29) |
| Total | 84,461,000.00 | 3,527 | 75,076,444.44 | (9,384,555.56) |
| Grand Total | 108,000,000.00 | 50,605 | 98,615,444.44 | (9,384,555.56) |

## REVENUE AND INCIDENCE ANALYSIS FOR PROPERTY TAXES

The Division of Municipal Finance (DMF) employed the following methodology in evaluating the revenue impact of the Workgroup's proposals as they related to the tax on tangible personal property, commercial property, motor vehicle excise tax, and limitations on personal exemptions.

### Data Collection

The assessor in each municipality certifies its tax roll after the levy is enacted by the city or town council or financial town meeting. That information is forwarded to the state Division of Municipal Finance. The certification records the gross assessed value of all taxable real and tangible property. Typically, the assessor will provide gross assessed value information categorized as residential real estate, commercial or industrial real estate, tangible personal property, and motor vehicles. The certification also records the personnel exemptions applicable which are then deducted from gross assessed value to yield net assessed value. The approved tax rates are then applied to net assessed values to yield the final tax levy.

It is from the data supplied by assessors that DMF was able to analyze the impact restricting rate differentials on the different classes of property, and limiting the value of personal exemptions to a percentage of the net tax levy.

**Tax Rates**

Each certification records the tax rate assigned to each class of property and the value of any homestead exemption offered (an exemption on value for owner occupied homes). To get at the lowest effective tax rate (which is the base for limiting tangible and commercial rates), it is necessary to combine the classified rate for residential dwellings and the homestead exemption. This has been done on the table identified as "FY 2009 Tax Rates by Class of Property". Caveats for Central Falls, New Shoreham, and Scituate are explained in the footnotes.

**Tangible Tax Limitation**

The PTS recommendation was to cap tangible tax rates at twice the lowest effective tax rate. The simulation table applies tax rates on tangible property which are twice the effective base rate to the assessed values and compares the resulting levy to the actual levy applied using the tax rates applied to support FY 2009. There is an assumption that municipalities with tangible tax rates less than twice the base rate would not be forced to increase their tangible rates. The far right columns (losers only) therefore record the revenue loss and potential state aid assistance required to limit tangible rates to twice the base rate and the annual nominal dollar cost of a 10 year phase in.

**Incidence of the Tangible Tax Limitation Proposal**

The incidence of the current high tax rates on tangible property is typically (but not always) born by commercial entities in municipalities with a high proportion of commercial taxable property and results from those municipality's efforts to preserve the commercial revenue base.

**Commercial Real Property Tax Limitation**

The PTS recommendation was to cap commercial real property tax rates at fifty percent (50%) greater than the lowest effective tax rate. The simulation table applies tax rates on commercial property which are fifty percent greater the effective base rate to the assessed values and compares the resulting levy to the actual levy applied using the tax rates applied to support FY 2009. There is an assumption that municipalities with commercial tax rates less than fifty percent greater than the base rate would not be forced to increase their commercial rates. The far right columns (losers only) therefore record the revenue loss and potential state aid assistance required to limit commercial rates to fifty percent greater than the base rate and the annual nominal dollar cost of a 10 year phase in.

**Incidence of the Commercial Real Property Tax Limitation Proposal**

The incidence of the current high tax rates on commercial property is born by commercial entities in municipalities with a high proportion of commercial taxable property and results from those municipality's efforts to preserve the commercial revenue base after revaluations. Over 70% of the commercial levy exceeding the 50% threshold is in the City of Providence.

**Motor Vehicle Excise Tax Limitation**

The PTS recommendation was to limit the motor vehicle excise tax rate to $ 25 per thousand. This is the rate applied in Massachusetts. The simulation table applies the $25 per thousand tax rate on motor vehicles to the assessed value of non exempt motor vehicles as of December 31, 2007 and compares the resulting levy to the actual levy applied using the actual tax rates applied to support FY 2009. There is an assumption that municipalities with motor vehicle tax rates less than $25 per thousand would not be forced to increase their auto rates. The far right columns (losers only) therefore record the revenue loss and potential state aid assistance required to limit motor vehicle rates to $ 25 per thousand and the annual nominal dollar cost of a 10 year phase in.

**Incidence of the Motor Vehicle Excise Tax Limitation Proposal**

Twenty of the thirty nine municipalities in the state have motor vehicle tax rates which exceed $ 25 per thousand and would be impacted by this proposal. Although more typically urban municipalities, there is substantial variation of the type of municipality that adopted high motor vehicle tax rates before these tax rates were frozen in 1998.

**Limitation on Personal Exemptions**

The PTS recommendation was to cap personal exemptions at 2% of tax levy to preserve an even playing field of tax capacity among municipalities. The simulation table records the current tax value of personal exemptions and compares that value with the value if such exemptions were limited to 2% of tax levy for the tax year 2008. The far right columns therefore record additional revenue product if the cap on exemptions was applied. The summary tables in the body of the report do not record additional revenue product because the practical assumption is that personal exemptions would be limited going forward and not applied retroactively.

**Incidence of the Limitation on Personal Exemptions Proposal**

Fifteen of the thirty nine municipalities in the state offer personal exemptions which exceed the 2% threshold. It is typically suburban type communities which have chosen to grant personal exemptions and/or tax freezes. Exemptions and freezes for the elderly encompass over two thirds of all personal exemptions.

### SUMMARY – REVENUE ANALYSIS – PROPERTY TAXES

| | **Gross Costs (Muni Revenue)** | **10 Year Phase In Nominal Dollars** |
|---|---|---|
| Tangible Tax Rate - Double Base Rate | $ 36,300,000 | $ 3,630,000 |
| Commercial Tax Rate - 50% over base rate | $ 54,900,000 | $ 5,490,000 |
| Motor Vehicle @ $25 per thousand | $ 39,500,000 | $ 3,950,000 |
| Personal Exemptions - 2% of tax levy maximum * | $ – | |
| Total | $ 130,700,000 | $ 13,070,000 |

* Potential Revenue Addition of $8,600,000

### COMBINED REVENUE IMPACT OF THE WORKGROUP'S PROPOSALS

The Workgroup has developed two proposals for the Governor's consideration. Although the difference in the two proposals is slight, the difference in the revenue impacts of each proposal is substantive.

The first proposal consists of the following:

- Reform the Rhode Island Personal Income Tax
- Increase the Rhode Island Estate Tax Exemption to $1,000,000
- Repeal the Rhode Island Business Corporation Tax
- Restructure the Rhode Island Franchise Tax
- Standardize Rhode Island Property Tax Rates Between Property Classes

The second proposal consists of the following:

- Reform the Rhode Island Personal Income Tax
- Increase the Rhode Island Estate Tax Exemption to $1,000,000
- Decrease the Rhode Island Business Corporation Tax Rate to 8.0 percent
- Repeal or Restructure Business Corporation Tax Credits
- Standardize Rhode Island Property Tax Rates Between Property Classes

Each of these proposals has been explained in great detail in this report. The revenue impacts of these proposals are shown in the table below.

| Proposal One | |
|---|---|
| **Revenue Item** | **FY 2009 Impact** |
| Reform the Rhode Island Personal Income Tax | $ (30,968,795) |
| Increase the RI Estate Tax Exemption to $1,000,000 | (2,975,960) |
| Repeal the Rhode Island Business Corporation Tax | (84,461,000) |
| Restructure the Rhode Island Franchise Tax | 2,204,650 |
| **Revenue Items Sub-Total** | **$ (116,201,105)** |
| | |
| **Expenditure Item** | **FY 2009 Impact** |
| Standardize Property Tax Rates Between Property Classes* | (13,070,000) |
| **Expenditure Items Sub-Total** | **$ (13,070,000)** |
| * This amount is for the ten year phase-in provision. Expenditure reflects the increased state aid necessary to reimburse local governments for revenue loss. | |
| **Grand Total** | **$ (129,271,105)** |

| Proposal Two | |
|---|---|
| **Revenue Item** | **FY 2009 Impact** |
| Reform the Rhode Island Personal Income Tax | $ (30,968,795) |
| Increase the RI Estate Tax Exemption to $1,000,000 | (2,975,960) |
| Reduce RI Business Corporation Tax Rate to 8.0 percent | (9,384,556) |
| Repeal or Restructure Business Corporation Tax Credits | 1,250,000 |
| **Revenue Items Sub-Total** | **$ (42,079,311)** |
| | |
| **Expenditure Item** | **FY 2009 Impact** |
| Standardize Property Tax Rates Between Property Classes* | (13,070,000) |
| **Expenditure Items Sub-Total** | **$ (13,070,000)** |
| * This amount is for the ten year phase-in provision. Expenditure reflects the increased state aid necessary to reimburse local governments for revenue loss. | |
| **Grand Total** | **$ (55,149,311)** |

# INDIVIDUAL MEMBER COMMENTS

### COMMENTS FROM WORKGROUP MEMBERS GEORGE H. NEE, MICHAEL SABITONI, AND ROBERT WALSH

As representatives of organized labor, we are fully committed to the development of tax policies for the state of Rhode Island that will encourage both job creation and job retention. We also believe that a critical component of a fair and equitable tax policy is a reduction in the property tax burden on our citizens and our businesses. This is the tax that results in our state being ranked in some national rankings (although we do challenge their methodologies) as a high tax state.

We will be reviewing the proposals from a perspective of determining if there is evidence or precedent that similar proposals have resulted in positive economic development. Until we have had an opportunity to discuss these proposals with our organizations, we are unable at this time to endorse them. We are grateful for the opportunity to be a part of this commission and would like to compliment the staff of the Rhode Island Department of Revenue for a superb and professional job in providing a thorough analysis of our tax structure and providing quality information to the numerous suggestions and ideas on how it can be improved.

George H. Nee, Secretary-Treasurer
Rhode Island AFL-CIO

Michael Sabitoni, President
Rhode Island Building Trades

Robert Walsh, Executive Director
NEARI

## COMMENTS OF WORKGROUP MEMBER MICHAEL MAZEROV[74]

### Summary

For the following reasons, I respectfully dissent from the majority recommendations of the Governor's Strategic Tax Policy Workgroup:

1. **The proposals are unaffordable**. The corporate income tax, estate tax, and property tax proposals put forward by the Workgroup's majority would reduce state revenues and commit the state to additional spending for property tax relief, thereby significantly worsening the state's fiscal situation. If fully in place today, the recommendations would cost $219 million annually. On top of that, the personal income tax recommendation probably would cost revenue as well, because it would use declining and uncertain capital gains tax receipts to help finance deeper permanent cuts in income tax rates.

   These proposals would grow more costly over time. As result, they would likely force the state to enact cuts in education, health care, public safety, transportation, and other areas that are even deeper than the cuts already under consideration to close the state's current budget gap.

2. **The proposals are likely to hurt, not help, Rhode Island's economy**. The loss of revenue from the Workgroup's recommendations threatens to impair the competitiveness of Rhode Island's economy and job creation in the state by adversely affecting the state's ability to finance education, infrastructure, and other services needed and demanded by businesses. Substantial economic literature exists regarding the relationship between state and local tax structures, public services, and economic development. The consensus of that literature is that cutting state and local taxes can have, at most, a small positive "dynamic" impact on job creation and economic growth — *assuming* that it does not result in cutbacks in state and local public services that benefit businesses.

   Moreover, there are possible adverse macroeconomic effects on the Rhode Island economy of providing additional tax cuts to out-of-state businesses and individuals who are unlikely to spend their higher after-tax incomes in the state. Such effects could significantly offset any positive "supply side" incentives resulting from lower tax rates for businesses and high-income individuals.

   The Workgroup failed to learn from either Rhode Island's experiences or the experiences of other states that enacted tax cuts and incentives in recent years in the name of economic development as to whether they were either effective or cost-effective. Economic models from other states predict that corporate tax cuts lead to such small gains in economic activity that the individual hardship that would be created by the necessary cuts in public services would not be justified.

[74] Senior Fellow, Center on Budget and Policy Priorities, Washington, DC

3. **Eliminating the corporate income tax would be unfair to Rhode Island small businesses and residents**. Eliminating the state corporate income tax and substituting the type of tiered franchise tax recommended by the Workgroup would be profoundly unfair to Rhode Island's citizens and small businesses. Adopting it would mean that the out-of-state owners of large corporations doing business in Rhode Island would pay virtually no tax on the income they earn in the state through their ownership interests in such companies, while in-state business owners and investors would continue to be subject to personal income taxes on their share of business profits.

   The recommendation could impair the ability of small in-state businesses to compete effectively with their large out-of-state competitors. Because the proposal will disproportionately boost the after-tax profit of the largest companies doing business in Rhode Island, such firms may be able to attract capital at a lower cost or be better positioned to undercut the prices of smaller, in-state businesses.

By recommending a package of unaffordable and unfair tax changes, the Workgroup majority missed an opportunity to support a more reasonable but nonetheless significant set of reforms. The Workgroup could have won my support if it had made the following recommendations:

- Mandate the use of combined reporting to calculate the corporate income tax liability of corporations that are members of multi-corporate groups, and eliminate most or all economic development-oriented corporate income tax credits. In addition, enact a low-rate value added tax modeled on New Hampshire's Business Enterprise Tax. Use the revenue from these three changes to eliminate the current franchise tax and reduce the rate of the corporate income tax in a revenue-neutral package.

- Adopt the Workgroup's recommendations to tax capital gains the same as all other forms of income and to eliminate the optional flat tax, all itemized deductions, and most tax credits. Set tax rates, tax brackets, personal exemptions, and standard deductions to achieve revenue neutrality with current law while replicating as closely as possible the distribution of income tax liability across income classes that existed prior to the adoption of the optional flat tax and the reduced taxation of 5-year capital gains. Make the state Earned Income Tax Credit fully refundable at an amount equal to 25 percent of the federal EITC.

- Broaden the sales tax base to include most services purchased exclusively by households and services purchased primarily by households but sometimes by businesses as well (for example, telecommunications services and landscaping). Use the revenue gained thereby to finance additional aid to municipalities to "buy down" their classified property tax rates applied to businesses (as recommended by the Workgroup) and an expanded property tax circuit breaker that would be available to more moderate-income families. If not enacted as part of an income tax restructuring package, offset the adverse impact on low-income families of expanded sales taxation of services by making the EITC fully refundable at an amount equal to 25 percent of the federal EITC.

- Immediately increase the estate tax exemption to $1 million as recommended by the Workgroup if offset by a slight increase in the top personal income tax rate. Defer any consideration of additional increases in the exemption until the state's fiscal imbalance has been addressed and the future structure of the *federal* estate tax has been resolved.

Implementation of these recommendations would reduce business property tax liabilities in high-tax municipalities, level the playing field among different business entities, slightly reduce estate tax payments, and allow the personal and corporate income tax structures to raise an equivalent amount of revenue at somewhat lower marginal rates.

### Analysis of the Workgroup's Recommendations

For the following reasons, I respectfully dissent from the "consensus" recommendations of the Governor's Strategic Tax Policy Workgroup:

**The corporate income tax, estate tax, and property tax proposals will significantly worsen the state's fiscal situation**.

The Workgroup has recommended substituting a tiered corporate franchise tax for the existing corporate income tax, increasing the basic estate tax exemption from $635,000 to $3.5 million, and "buying-down" with additional state aid the disproportionate excise and property taxes that some cities and towns impose on motor vehicles and commercial real and tangible person property. If those recommendations were implemented immediately, the combined loss of revenue (from the corporate and estate tax cuts) and expenditure increases to which the state would be committed (to compensate local governments for reducing business property and motor vehicle excise taxes) would total $219 million annually.[75] That is equivalent to 6.7 percent of the adopted FY09 General Fund budget.

The Workgroup proposed to phase-in the property and vehicle excise tax "buy-down" over 10 years. It proposed to increase the estate tax exemption to $1 million immediately and to $3.5 million over an unspecified period of time. It offered no time frame for the corporate income tax changes but presumably intended for them to go into effect

[75] The substitution of a tiered franchise tax for the corporate income tax has been estimated to reduce FY09 revenue by $82.3 million, a $3.5 million estate tax exemption has been estimated to reduce annual revenue by $14.5 million, and the loss of local revenue from limiting the classification of commercial and motor vehicle property which the state would be called upon to replace with direct aid has been estimated at $122.2 million (net of increased revenue of $8.6 million from capping property tax exemptions at 2 percent of the annual levy). This is what these changes would cost if fully phased in during the current fiscal year. Most of these costs impact the General Fund, but there is a partial impact on the state's budget reserve resulting from the requirement that 2.25 percent of General Fund revenues be diverted to the reserve.

relatively soon given the stated desire to do something “bold” to attract new businesses to the state.

Such phase-ins do not alter the eventual cost of the proposals. As a percentage of the state budget, they are likely to be just as large as if they were fully in place today. For example, the nominal value of commercial property is likely to rise with inflation and real growth in the economy, meaning that the proposed limit on the rate at which such property can be taxed will increase the revenue loss in nominal terms.

If anything, the long-term cost of the corporate tax proposal is likely to be significantly *understated*. FY09 corporate income tax revenue, which was the benchmark used to estimate the $82 million revenue loss from the proposed new franchise tax, is severely depressed due to the recession. This year it is expected to fall almost $40 million short of its average yield in FY05 through FY08. Since the proposed franchise tax substitute would limit the liability of a particular corporation to $10,000 no matter how large its profits might be, the long-term loss of revenue is likely to be significantly greater when measured against the recent normal yield of the tax in non-recession years.

The state already confronts a $370 million budget gap in FY09, equivalent to 11 percent of the adopted budget. The gap for FY10 has been estimated by the House Fiscal Advisor to be $473 million.[76] Past tax cuts enacted with the objective of enhancing the state’s rate of growth and economic development have substantially contributed to these gaps. (See the discussion below.) I do not believe it is responsible or helpful to elected policymakers for the Workgroup to make recommendations that will worsen the state’s fiscal balance to this degree without recommending offsetting revenue sources or spending cuts and without forthrightly stating the time frames in which such recommendations should go into effect.

**The personal income tax recommendation carries a substantial risk of worsening the state’s fiscal situation because it proposes to use declining and uncertain capital gains tax receipts to help finance deeper permanent cuts in income tax rates**.

The consensus recommendation for a restructured state personal income tax proposes to eliminate itemized deductions, tax capital gains as ordinary income, and implement a four-rate bracket structure with a top rate of 5.5 percent. This recommendation is intended to be close to revenue neutral when measured against the existing structure with the optional flat taxed fully phased down to a tax rate of 5.5 percent. (As compared to 2009 law, under which the optional flat tax rate now stands at 6.5 percent, the Workgroup’s proposal to go immediately to a top tax rate of 5.5 percent would lose an additional $31 million in annual revenue.) Leaving aside the questionable wisdom of continuing to phase-down the rate for the optional flat tax during the current fiscal crisis, there is a serious risk that implementation of the Workgroup’s recommendation would reduce state personal income tax receipts even *more* than the fully phased-in flat tax.

[76] Staff presentation to the House Finance Committee, “Governor’s FY2009 Revised Budget – Current Status,” February 12, 2009.

Taxpayers currently electing the flat tax option are not allowed to claim any personal exemptions, deductions, or credits, nor do they receive the highly favorable tax rates that apply to capital gains income.[77] Accordingly, certain high-income individuals, particularly those with large amounts of capital gains income, find that they pay less income tax if they do not make the election — even though their non-capital-gains income is then taxed at a top marginal rate of 9.9 percent.[78] Effectively, the Workgroup recommendation eliminates the favorable capital gains rates for these individuals, requires them to file at a top marginal rate equal to the 5.5 percent flat tax rate, and uses their increased liability to finance *additional permanent* cuts in income tax liability for other taxpayers via increased standard deductions, lower tax rates, and full refundability of the earned income tax credit (albeit at a lower percentage of the federal EITC than at present).

In doing this, the Workgroup recommendation risks digging a deeper fiscal hole for the state in the short term and possibly in the long term as well. The problem arises from the fact that 2006 is the most recent year for which data are available on the sources of income reported on Rhode Island personal income tax returns; these data were used to formulate the supposedly revenue-neutral Workgroup recommendation. According to a recent report from the Rockefeller Institute of Government, capital gains income nationally was near record levels in that year (and in 2007 as well), but is expected to fall "30-50 percent in tax year 2008. . . followed by a [further] decline of perhaps 20-40 percent in the 2009 tax year."[79] It appears that in setting its permanent bracket structure and standard deduction amounts to achieve the objective of overall FY09 revenue neutrality for its personal income tax proposal, the Workgroup recommendation did not adequately factor-in the possibility that capital gains realizations may not return anytime soon to the levels that prevailed in 2006.[80]

In response to questions about this concern, staff of the Department of Revenue reported that the FY06 data available to the department were "aged" to FY09 by inflating them by the change in overall personal income tax revenue between actual FY06 collections and the forecasted FY09 collections in the November 2008 estimate of the Revenue Estimating Conference. The national economic forecasters upon whom the state relies do

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[77] Capital gains on assets held between 1 and 5 years are taxed at no more than 5 percent, roughly half the top 9.9 percent rate that applies to wage income. Capital gains on assets held at least five years are taxed at a 1.67 percent rate.

[78] According to estimates prepared by the Department of Revenue, 41 percent of taxpayers with Adjusted Gross Income over $1 million pay lower taxes by not using the optional flat tax. (See: House Fiscal Advisory Staff, Rhode *Island Revenue Facts*, October 2008, page 152.) High-income individuals may also pay less under the normal bracket structure than under the flat tax option because they have disproportionately large amounts of itemized deductions or can claim a variety of business tax credits on their personal income tax returns.

[79] Donald J. Boyd and Lucy Dadayan, "State Tax Revenue Falling Sharply in Fourth Quarter, Early Data Show," State Revenue Report Number 74, Nelson A Rockefeller Institute of Government, January 2009, p. 19.

[80] The Rockefeller Institute report indicates that capital gains realizations in 2006 were approximately 6 percent of Gross Domestic Product; they have average approximately 3 percent of GDP since 1950.

not separately forecast capital gains realizations by Rhode Island taxpayers. However, they do separately forecast quarterly estimated tax payments, which are significantly affected by capital gains realized by taxpayers over the course of the year. The November forecast predicted a decline in estimated tax payments between 2006 (actual) and 2009 (forecast) of 11.3 percent. Such a decline is much less deep than the national declines in capital gains income in FY08/FY09 of at least 50 percent predicted by the forecasters cited in the Rockefeller Institute study.

In sum, there is good reason to fear that a personal income tax restructuring proposal that was intended to be essentially revenue-neutral will actually lose revenue because a key policy choice making it revenue-neutral — starting to tax capital gains as ordinary income — relies on an overly-optimistic forecast of what such gains will be. If this proves to be the case, it would compound the damage to the state's fiscal integrity that will be inflicted by the Workgroup's proposals for corporate, estate, and property taxation — which are of course *intended* to reduce state and local revenues.

**The loss of revenue that would result from implementation of the Workgroup's recommendations threatens to impair the competitiveness of Rhode Island's economy and job creation in the state by adversely affecting the state's ability to finance services and infrastructure needed and demanded by businesses.**

The fundamental purpose of a state's tax system is to reliably generate sufficient revenues to fund the public services and investments needed and desired by its citizens. To be efficient and profitable producers, businesses need state and local government services — just as individuals do. As economist Robert Lynch has written:

> Businesses need to know that they can rely on high-quality, well-administered public services to facilitate the conduct of their enterprises. Snow removal and flood control must be reliable and timely; roads, bridges, and highways must be maintained in good repair; fire protection and police services must be there when needed; the justice system must be professional, impartial, and quick to resolve contract disputes; and the schools and colleges must help to generate a skilled and well-trained workforce.[81]

Like all taxpayers, businesses would like their taxes to be as low as possible. But forward-looking business executives and the people that advise them regarding their location decisions acknowledge the importance of high-quality public services and the tradeoffs between taxes and services:

> The industries that I think about the most, information technology and biological industries, they are far more sensitive to the quality of talent in a location than they are to the tax policies. If you say, ok, where in the United States did jobs around information technology grow up disproportionately? Well, California would be number one, and not because they have the most friendly tax policies, compared to

[81] Robert G. Lynch, *Do State and Local Tax Incentives Work*?, Economic Policy Institute, Washington, DC, 1996, p. 6.

> other states. . . It really is this issue about the R&D environment being positive and the great talent being there. And the state being a place where talent really enjoys coming there and working there and raising their kids in that location. . . . So there's some very specific issues, but if you took one, that when you step back and had to look at it that kind of trumps all others, it absolutely is K-12 education and university education. (Microsoft Corporation CEO Bill Gates, interview before the 2005 annual meeting of the National Conference of State Legislatures, August 17, 2005)

> [F]rankly what we`re really looking for is a well-educated, strong labor force. You know, that`s really what matters — what matters to us because when we choose a plant location, we expect to be there for a few decades or more. . .Quality of the work force, educational attainment of the work force, technical skills of the work force. (A.G. Lafley, President and CEO, Proctor and Gamble, interview on the Charlie Rose show, April 23, 2008.)

> [T]he "services" side of taxes is also carefully measured — what the company will receive for its tax dollars in the way of services, such as police protection, education capabilities, and the like. For our clients, education has been found to be the single most important service, greatly exceeding the value of all other services combined. A distant second is highway adequacy, followed by public safety and then infrastructure. The value of education and highways should be self-evident but the ranking of public safety may be surprising. The companies' concern is not only the effect that crime levels have on the safety and security of people and property, but also the effect on insurance rates. Effective crime prevention is important to companies considering locations. (Robert M. Ady, Executive Consultant, Deloitte & Touche/Fantus Consulting, in "The Effects of State and Local Public Policies on Economic Development," *New England Economic Review*, March/April 1997, p. 79)

The Workgroup has concerned itself with the potential disincentive effects of taxes on the investment and location decisions of businesses and affluent individuals and given little consideration to the impact of its recommendations on the ability of the state to finance public services needed by businesses. Throughout its deliberations, for example, members of the Workgroup have repeatedly brought up Rhode Island's low ranking relative to Massachusetts and Connecticut in the Tax Foundation's annual report that purports to rank business *tax* climates.[82] Yet at no point did the Workgroup examine the effect on the state's desirability as a place for corporations to invest and for entrepreneurs to start businesses of Rhode Island's "competitiveness" in providing high-quality services.

Tables 1 and 2 on the following pages reveal that on numerous measures of the performance of the states' education and highway systems, for example, Rhode Island falls short in comparison to its neighbors. As observed by the business executives quoted

[82] The ideological biases and flaws of the Tax Foundation study in assessing business tax climate in a meaningful way have been set forth in Peter Fisher, "Grading Places: What Do the Business Climate Rankings Really Tell Us?" Economic Policy Institute, June 2005.

above, these services are critical factors in business location decisions. In declining to discuss the potential impact on the ability of the state to provide — let alone improve — such services of diverting an additional $219 million annually into new state and local tax cuts, the Workgroup has failed to engage in a balanced analysis of the potential impact on the state's economic prospects of Rhode Island's tax structure and its own recommended changes.

**The Workgroup has failed to consider the possible adverse macroeconomic effects on the Rhode Island economy of providing additional tax cuts to out-of-state businesses and individuals who are unlikely to spend their higher after-tax incomes in the state.**

Given the state's balanced-budget requirement, the new tax cuts recommended by the Workgroup will require the state to cut spending or raise taxes by an equivalent amount — again, at least $219 million annually if the tax cuts were fully in place today. If spending is cut, the incomes of state employees and private sector suppliers of goods and services to the state will be reduced, and they in turn will have to reduce their purchases from other Rhode Island businesses. If taxes are increased for some people, this will reduce their after-tax incomes and, again, the amount of purchases they can afford to make from other Rhode Island businesses. In short, the first-order effect of the new tax cuts is likely to be a withdrawal of purchasing power or economic demand from the Rhode Island economy

**Table 1**
**Some Recent Measures of Educational Attainment, Affordability, and Investment: Rhode Island, Massachusetts and Connecticut**

| | Rhode Island | Massachusetts | Connecticut | Source |
|---|---|---|---|---|
| **Pre-K to Grade 12 Education** | | | | |
| Share of 3- and 4-year-olds enrolled in preschool, 2007 | 43.4% | 58.1% | 60.4% | 1 |
| Share of 4th grade public school students scoring at least "proficient" in reading on Ntl. Assessment of Educational Progress test, 2007 | 30.8% | 49.2% | 41.2% | 1 |
| Share of 8th grade public school students scoring at least "proficient" in math on Ntl. Assessment of Educational Progress test, 2007 | 27.7% | 50.7% | 34.7% | 1 |
| Share of students scoring at least a 3 on Advanced Placement Test during high school, 2008 graduating class | 9.5 % | 20.8 % | 21.0% | 2 |
| High-school graduation rates, 2004 | 70.6% | 73.2% | 79.8% | 1 |
| | | | | |
| **Public College/University Education** | | | | |
| Tuition cost per FTE student, FY 2007 | $6,362 | $4,935 | $5,414 | 3 |
| Share of higher education revenue supplied by student tuition, FY 2007 | 55% | 40% | 40% | 3 |
| Share of family income, after financial aid, needed to pay for public 4-year college, 2007-2008 year | 36% | 32% | 29% | 4 |
| Share of 18- 24-year-olds enrolled in college, 2008 | 50% | 41% | 33% | 4 |
| First-time, full-time students completing a bachelor's degree within 6 years, 2008 | 65% | 68% | 63% | 4 |

| Table 1 (cont.)<br>**Some Recent Measures of Educational Attainment, Affordability, and Investment:**<br>**Rhode Island, Massachusetts and Connecticut** | | | | |
|---|---|---|---|---|
| | Rhode Island | Massachusetts | Connecticut | Source |
| **Educational Attainment of Workforce** | | | | |
| Share of population over 25 high school graduate, 2006 | 84.0% | 89.9% | 88.4% | 5 |
| Share of population over 25 college graduate or higher, 2006 | 30.9% | 40.4% | 36.0% | 5 |

**Sources:**

1. Education Week Magazine, annual “Quality Counts” report, January 8, 2009
2. College Board, “5th Annual AP Report to the Nation,” February 4, 2009
3. State Higher Education Executive Officers, “State Higher Education Finance, FY2007”
4. National Center for Public Policy and Higher Education, “Measuring Up 2008: The State Report Card on Higher Education,” December 2008
5. U.S. Census Bureau, Statistical Abstract of the United States.

**Table 2**
**Some Recent Measures of Highway Infrastructure Quality**
**Rhode Island, Massachusetts, and Connecticut**

| | Rhode Island | Massachusetts | Connecticut |
|---|---|---|---|
| | | | |
| Share of rural arterial road mileage rated in poor condition | 10.2% | 0% | .6% |
| Share of urban interstate highway miles considered congested | 62.0% | 43.3% | 62.4% |
| Share of bridges considered deficient | 53.4% | 36.2% | 32.8% |

Source: Davit T. Hartgen and Ravi Karanam, "17th Annual Report on the Performance of State Highway Systems," Reason Foundation, 2008.

This would not be problematic if the recipients of the tax cuts were likely to re-inject their tax savings into the Rhode Island economy. However, this is unlikely to be the case. Many of the beneficiaries of the tax cuts proposed by the Workgroup will be individuals residing outside Rhode Island and corporations based outside the state. Roughly 10 percent of Rhode Island estate tax payments are made by non-resident decedents,[83] and, more significantly, many of the beneficiaries of estate-tax cuts given to Rhode Island decedents will be their out-of-state heirs. The bulk of the $82 million cut in corporate income taxes is likely to be received by large multistate corporations headquartered in other states — 58 percent of the cut is received by the 135 largest corporations.[84] The same is likely to be true (although probably to a lesser degree) of the proposed property tax cuts, which are almost exclusively targeted to businesses.

In each case, it seems likely that the out-of-state recipients of these tax cuts are much less likely to re-inject the additional money they receive into the Rhode Island economy than would the state employees, city police officers, doctors providing RiteCare services, local paving contractors, and other state vendors that would otherwise be paid with the tax revenues that will no longer be received. Out-of-state corporations are likely to reinvest most of their higher profits outside the state or pay higher dividends to out-of-state shareholders. The New York heir of someone who dies in Rhode Island is likely to spend or invest her higher inheritance where she lives. Accordingly, the net effect of the particular tax cuts recommended by the Workgroup is likely to be a reduction in purchasing power in the Rhode Island economy, with a concomitant reduction in employment.

Moreover, the property and corporate income tax cuts that will be received by *in*-state businesses will not be fully re-injected into the state's economy, either. Because both taxes are deductible from *federal* personal and corporate income taxes, as much as one-third of any tax savings provided to in-state businesses will not be spent in Rhode Island, but will instead flow to Washington in the form of higher federal tax liability.

In short, any claim that lower Rhode Island tax rates will, at the margin, provide a greater "microeconomic" incentive for business investment in the state must also consider the possible "macroeconomic" effect of directly reducing state spending and transferring the reduced revenue to individuals and businesses that will spend it out of state or have to send it to the federal treasury. There is no evidence that the Workgroup has taken these issues into account in formulating its recommendations.

**The Workgroup failed to investigate whether the numerous tax cuts enacted in the state in the last decade in the name of stimulating permanent economic development**

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[83] Governor's Strategic Tax Policy Workgroup, "Presentation of the Individual Taxes Subgroup," February 4, 2009, Powerpoint, slide 19.

[84] Governor's Strategic Tax Policy Workgroup, "Presentation of the Business Taxes Subgroup," February 4, 2009, Powerpoint, slide 4.

**were either effective or cost-effective before recommending both additional tax cuts and the reversal of some past tax cuts.**

As documented in Table 3, since 1996 Rhode Island policymakers have repeatedly and substantially cut individual and business taxes with the goal of enhancing economic growth in the state. These tax cuts have drained Rhode Island's General Fund of substantial amounts of revenue and reduced the receipts of the state's local governments as well. Indeed, the three enacted reductions in personal income tax revenues, combined with the additional aid to local governments to compensate them for the reduction in their motor vehicle excise tax receipts, are almost exactly equivalent to the estimated FY09 budget gap that policymakers are now struggling to close. In other words, but for these four tax cuts — just a portion of those enacted — there might not be a significant budget gap this year,

**Table 3**
**Rhode Island Tax Cuts, 1996-2008**

| **Description** | **Year Enacted** | **Estimated Current Annual Cost** |
|---|---|---|
| **Personal Income** | | |
| Cut in personal income tax (5-yr phase-in) from 27.5% to equivalent of 25% of federal tax liability | 1997 | $100 million |
| Cut in maximum rate of tax on capital gains for assets held for 5 years from 5% to 1.67% | 2001 | $ 39 million |
| Optional flat tax (cost shown is of full phase-in down to 5.5% rate) | 2006 | $ 76 million |
| | | |
| **Motor Vehicle Excise Tax** | 1998 | $140 million |
| | | |
| **Property Taxes** | | |
| Elimination of property taxes on business inventories (10-yr phase-in; cost shown is estimated combined loss of revenue to local governments and cost to state of increased Revenue Sharing) | 1998 | $100 million |
| Property tax cap | 2006 | unknown |

| Table 3 (cont.) Rhode Island Tax Cuts, 1996-2008 | | |
|---|---|---|
| **Description** | **Year Enacted** | **Estimated Current Annual Cost** |
| **Business Taxes** | | |
| Jobs development rate reduction | 1996 | $ 5 million |
| Doubling of investment tax credit | 1997 | unknown |
| Increase in R&D credit from 5% to 22.5% of eligible expenditures | | unknown |
| Historic preservation tax credit (cost shown is annual average of credits actually used thus far) | 2001 | $ 23 million |
| Double-weighted sales apportionment formula for manufacturers | 2003 | $ 4 million |
| Biotechnology investment tax credit | 2005 | $ 0 |
| Movie tax credits (cost shown is annual average of credits actually used thus far) | 2005 | $ 8 million |
| Exempt aircraft leases and sales and sales of aircraft parts from sales tax | 2005 | $ 1 million |

Given this rich history, one would think the Workgroup would have studied its lessons in formulating recommendations for additional changes in tax policy. Given the apparent agreement among the vast majority of Workgroup members that the state's tax structure is significantly to blame for Rhode Island's disappointing economic performance and that further tax cuts are essential to reversing it, one would think that it would have devoted some effort to examining whether economic development-motivated tax cuts and tax incentives enacted in the past were cost-effective in stimulating investment and job creation. Given the previous tax cuts that were suspended or scaled back because they proved to be unaffordable or more costly than expected,[85] one would think that the Workgroup would question whether there is any value to elected officials in proposing substantial tax cuts without suggesting offsetting sources of revenue. Nonetheless, there is little evidence these kinds of questions were asked.

Instead, the Workgroup approved a set of recommendations that is something of a grab-bag. The recommendations contradict in significant ways fundamental conclusions that apparently were reached in recent years about what Rhode Island's most serious tax problems were. They also do not evidence much systematic thinking about how incentives created by the tax system might be altered in the most cost-effective manner.

[85] Tax cuts or incentives that have been cut back or suspended after enactment include the drastically scaled-back motor vehicle excise tax cut, the suspended phase-out of tax on long-term capital gains, the now-suspended historic preservation tax credit, the capped motion picture credit, and the broken commitment to local governments to hold them harmless from the elimination of the property tax on inventories.

For example, the Property Taxes Subgroup seems to have leapt to the conclusion that achieving uniform tax rate ratios for business property throughout the state was the best way to mitigate the disincentive effects of high business property taxes without investigating the impact that the already-enacted property tax cap was likely to have on Rhode Island's business property taxes in the future or the impact of company-specific property tax abatements ("tax treaties") widely granted in the past. Moreover, it is not clear that the fact that particular jurisdictions are compelled to levy above-average commercial/industrial property taxes is a negative factor with regard to *state* economic development as long as there are local jurisdictions in the state in which business property tax rates are comparable to those in other "competing states."

In sum, the Workgroup chose to forgo the opportunity to gain insight concerning the economic development benefits that might be obtained from the enactment of additional tax cuts by studying the effects of the wide array of tax cuts implemented in Rhode Island in the recent past. This led to some recommendations that arguably are not logically consistent with each other or with conceptual constructs of how state and local taxes might affect economic decisions.

**In developing its recommendations, the Workgroup failed to give meaningful consideration to the substantial economic literature that exists regarding the relationship between state and local tax structures, public services, and economic development. The consensus of that literature is that cutting state and local taxes can have, at most, a small positive "dynamic" impact on job creation and economic growth — *assuming* that it does not result in cutbacks in state and local public services that benefit businesses.**

Not only did the Workgroup largely fail to examine the economic development outcomes of Rhode Island's previous tax cuts, but it also almost completely ignored numerous studies by economists that have examined the relationship between state and local tax burdens, the provision of state and local services, and relative rates of state economic growth, investment, and job creation. Indeed, this research was sometimes dismissed as inferior to the gut-level knowledge of business executives who have made location decisions for their own companies or anecdotes about businesses that allegedly chose not to expand in Rhode Island because of its tax structure. In other cases, Rhode Island was asserted to be in an utterly unique position rendering such research irrelevant — as if the District of Columbia was not also a small jurisdiction surrounded by two states with completely different tax systems and New York City was not located a short tunnel away from New Jersey.

A large amount of relevant information was available to Workgroup members who might have been interested in considering the findings of serious empirical research into these questions. Here are three examples:

- A recent paper by my Center on Budget and Policy Priorities colleague Elizabeth McNichol surveyed a number of studies that examine the impact of state and local taxes generally — and the estate tax specifically — in spurring out-migration of the elderly.[86] It summarized a peer-reviewed study by economists Karen Conway and Jonathan Rork that concluded "Our research casts doubt on the view that the elderly react to state EIG [estate, inheritance, and gift] tax policies in making their migration decisions." McNichol also reviewed a study by economists Jon Bakija and Joel Slemrod that found that "high state estate and inheritance taxes have a statistically significant, but small, negative effect on the number of elderly in a state" and that concluded that any resulting revenue loss from out-migration "would not be large relative to the revenue raised by the tax."

- At its final meeting, the Workgroup voted to recommend the complete elimination of the state's corporate income tax — a proposal that was brought up there for the first time. The apparent rationale was that doing something so "bold" would be the economic equivalent for Rhode Island's moribund economy of administering an electronic shock to someone with a misfiring heart. Had this proposal been vetted in the Business Taxes Subgroup, however — as it should have been — its members might have had an opportunity to consider a recent study by analyst Jon Honeck that examined the track record of an even more dramatic state tax restructuring recently adopted by Ohio.[87]

  Another state suffering from a rapidly-declining manufacturing base, in 2005, Ohio legislators voted to phase out the state's corporate income tax, phase in a gross receipts tax, cut personal income tax rates by 21 percent over five years, eliminate property taxation of all new business machinery and equipment, and phase out the property tax on existing equipment. The changes dramatically cut the effective rate of taxation of manufacturing industries. The state estimated that the reduction in state taxes alone resulting from the package would equal $2.1 billion in FY10. The outcome: between the third quarter of 2005 and the third quarter of 2008, Ohio non-farm employment fell approximately one-half percent. With the exception of Michigan, in every nearby state — Illinois, Indiana, Kentucky, New York, Pennsylvania, West Virginia, and Wisconsin — employment rose during the same period by anywhere from one-half percent to two and one-half percent. From 2005 to 2007, only six other states had lower rates of per capita GDP growth than did Ohio. The tax cuts have contributed substantially to a budget gap in the FY10-FY11 biennium recently estimated to be $4.7 billion-$7.3 billion, but have evidently provided no significant boost to the state's economy.

- Economists Stephen Mark, Therese McGuire, and Leslie Papke conducted a peer-reviewed study of the influence of state and local taxes and spending on rates of job and population growth among the various local jurisdictions making up the District of Columbia metropolitan area — including, of course, the District itself. They found that "Taxes on individuals (personal income, sales, and residential property

[86] Elizabeth McNichol, "Research Findings Cast Doubt on Argument that Estate Taxes Harm State Economies," Center on Budget and Policy Priorities, January 9, 2007.

[87] Jon Honeck, "The 2005 Tax Overhaul and Ohio's Economy," Policy Matters Ohio, January 2009.

taxes) and non-welfare public spending levels are not estimated to be important influences on residential choice." With respect to business taxes they found that "employment growth rates [were] highly sensitive to the levels of the personal property tax and the sales tax" but not corporate income taxes or real property taxes. They also found that "Higher levels of public services aside from welfare payments are associated with greater employment growth. . .".[88]

In connection with the same project, they conducted a comprehensive literature review of economic research examining the relationship between state and local taxes, public services, and economic development. They summarized the consensus of that literature as follows:

> [M]ost researchers find taxes to be a statistically significant factor in business location and expansion decisions, [but] the economic effect of taxes tends both to be small and to be less important than other factors. Labor force availability and quality, for example, appear to be more important for explaining differences across locations in economic activity. How tax revenues are spent tends to be important, important enough that high relative taxes may not be a deterrent to economic growth if the revenues are used to finance services of value to business, such as education and transportation infrastructure. *The studies do make clear that a policy of cutting taxes to induce economic growth is not likely to be efficient or cost-effective in the general case*. In specific cases, where a city's taxes have gotten far out of line or a state's industrial base is particularly sensitive to a specific tax, reductions in taxes may be warranted. But the evidence does not support the blanket use of tax incentives in the name of economic development.[89] [Emphasis added]

This is just a small sampling of the economic literature the Workgroup might have consulted had it been inclined to investigate the degree to which Rhode Island's tax structure is impeding its economic growth rather than taking it as a given that it is a serious problem. Additional recent studies are summarized in the Appendix. A fair reading of the consensus of this research is that cutting state and local taxes imposed on businesses and high-income individuals will, at best, stimulate small amounts of economic growth, investment, and job creation. Even this conclusion depends on the assumption that the revenue losses do not result in cuts in education, infrastructure, public safety, and other services that are needed by businesses.

**Eliminating the state corporate income tax and substituting the type of tiered franchise tax recommended by the Workgroup would be profoundly unfair to**

[88] Stephen T. Mark, Therese J. McGuire, and Leslie E. Papke, "The Influence of Taxes on Employment and Population Growth: Evidence from the Washington, D.C. Metropolitan Area," *National Tax Journal*, March 2000, pp. 120-121.

[89] Stephen T. Mark, Therese J. McGuire, and Leslie E. Papke, "What Do We Know About the Effect of Taxes on Economic Development? Lessons from the Literature for the District of Columbia," *State Tax Notes*, August 25, 1997, pp. 508-509.

**Rhode Island's citizens and small businesses. Adopting it would mean that the out-of-state owners of large corporations doing business in Rhode Island would pay virtually no tax on the income they earn in the state through their ownership interests in such companies, while in-state business owners and investors would continue to be subject to personal income taxes on their share of business profits. In addition to being highly inequitable, economic models from other states predict that corporate tax cuts lead to such small gains in economic activity that the individual hardship that would be created by the required cuts in public services would not be justified.**

At its final meeting, with little discussion and no prior vetting in the Business Taxes Subgroup, the Workgroup voted to recommend eliminating the state corporate income tax and substituting a tiered franchise tax. Regardless of the amount of profit earned in Rhode Island, no corporation doing business in the state would have an annual liability greater than $10,000 under the proposal.

At present, the 50 corporations that the Department of Revenue estimates would be subject to the maximum $10,000 payment under the new franchise tax pay corporate income taxes to the state averaging $787,000 annually. Thus, their average tax liability would be reduced by 98.7 percent. (Even this is likely an understatement, because, as noted above, corporate profits are down sharply in FY09, the base year used in making these estimates. In a non-recession year, their aggregate profits and income tax liability would be significantly higher.) In contrast, small corporations subject to Rhode Island's $500 corporate minimum tax would receive a tax cut of $50 — or 10 percent — under the recommendation. Under the Workgroup's personal income tax proposal, Rhode Island residents with incomes less than $75,000 would receive an average tax cut of $43, or 9 percent.

States tax the income of corporations doing business within their borders because services the states provide to those corporations – an educated workforce, transportation infrastructure, police and fire protection, a court system that enforces commercial contracts, to name a few – facilitate the earning of that income. Ultimately, stockholders in those corporations are beneficiaries of those services, because they receive the corporations' profits in the form of higher stock values and/or dividends. However, states cannot effectively tax the incomes of non-resident stockholders in corporations doing business within their borders for the benefits the corporations receive; instead, they tax the profits of the corporations at the corporate level.

Most of the large corporations that will receive the bulk of the tax savings under the Workgroup's corporate tax restructuring proposal likely are multistate companies headquartered outside Rhode Island; the bulk of their stockholders probably reside outside the state as well. In short, were the Workgroup's recommendation to be enacted, the generally affluent, mostly out-of-state owners of the largest corporations in Rhode Island would end up paying virtually no tax on the income they earn in the state through their investments in companies availing themselves of the market and the services and infrastructure provided by the state. Meanwhile, in-state owners of both unincorporated and incorporated businesses would pay tax on *their* share of the profit of such businesses at tax rates ranging between 3.5 percent and 5.5 percent.

In addition to creating serious inequities between in-state and out-of-state business owners and investors, the Workgroup's recommendation is unlikely to be a cost-effective means of stimulating economic growth in the state.

As noted above, because state corporate income taxes are deductible against a federal corporate income tax levied at a marginal rate of 35 percent, slightly more than one-third of any state tax savings a corporation receives from the proposal will flow to the federal treasury in the form of a higher federal corporate income tax payment. As also discussed previously, there is no guarantee that the net corporate tax savings the company retains after this effect will flow back into the Rhode Island economy; most of it is likely to be invested in other states or paid out as dividends to mostly out-of-state stockholders. Thus, the "macroeconomic" effect of the proposal on the Rhode Island economy is likely to be negative.

Second, the loss of $82 million in annual revenue could have a negative effect on the quality of public services needed by businesses. For example, it could necessitate somewhat higher state university tuition, compel some students to forgo attending college, and thereby shrink the pool of skilled labor available in the state. This would be harmful to businesses already in Rhode Island and make the state less attractive to businesses considering expanding or locating there.

Third, the recommendation could impair the ability of small in-state businesses to compete effectively with their large out-of-state competitors. Because the proposal will disproportionately boost the after-tax profit of the largest companies doing business in Rhode Island, such firms may be able to attract capital at a lower cost or be better positioned to undercut the prices of smaller, in-state businesses.

Of course, against these potential negative impacts of the recommendation on Rhode Island's economy must be set the potential positive impact of boosting the after-tax profitability of doing business in the state. The incentive or "supply-side" effects here are likely to be quite modest, however. All state and local taxes paid by businesses represent, on average, less than 2 1/2 percent of their total expenses, and the state corporate income tax less than 10 percent of that 2 1/2 percent.[90] There is just not that much leverage to be gained by cutting such a relatively small business expense – even substantially. Two state economic models confirm this:

- The Oregon Tax Incidence Model predicted that a 30 percent ($100 million) cut in state corporate income taxes would result *after five years* in a .06 percent increase in employment, .2 percent increase in personal income and a .5 percent increase in investment. These positive "dynamic effects" would not generate enough new

[90] See: Michael Mazerov, "Most Large North Carolina Manufacturers Are Already Subject to 'Combined Reporting' in Other States," Center on Budget and Policy Priorities, January 15, 2009, endnote 9.

taxable economic activity to enable the tax cut to "pay for itself;" only $16 million of the original $100 million tax cut would be recouped.[91]

- Similarly, the California Dynamic Revenue Analysis Model predicted that after five years a permanent 20 percent ($1 billion) cut in the Bank and Corporation Tax would lead to a .1 percent increase in employment (all of these 12,000 jobs filled by in-migration from other states) and a .2 percent increase in state personal income. Again, only 16 percent of the original revenue loss would be recouped from taxes on the increased economic activity; public services have been cut by $844 million annually.[92]

Dynamic effects of these magnitudes do not justify the economic hardship that would be caused by the reductions in public services that likely would result from implementation of the Workgroup's corporate tax restructuring recommendation.

## Modifications of and Alternatives to the Workgroup's Recommendations

**Corporate Income Tax**. I would support mandating the use of combined reporting to calculate the Rhode Island income tax liability of corporations that are members of multi-corporate groups, eliminating most or all economic development tax credits, and using the revenue gained through these actions to make a revenue-neutral reduction in the corporate income tax rate. I would also support the adoption of a corporate minimum tax modeled on the New Hampshire Business Enterprise Tax (a form of value-added tax), with the revenue used to eliminate the state franchise tax and, if possible, to finance an additional revenue-neutral reduction in the corporate income tax rate. The Business Enterprise Tax should apply to all business entities whose owners have limited liability.

Combined reporting is a tax accounting method that is mandated by 23 of the 45 states with corporate income and similar business taxes. New York enacted combined reporting in 2007, Massachusetts did so last year, and Wisconsin did so just this week. Vermont, New Hampshire, and Maine are also combined reporting states. For tax purposes, combined reporting treats corporations that are composed of a "parent" company and one or more "subsidiaries" owned by the parent as if they are a single legal entity.

In so doing, combined reporting nullifies an array of tax-avoidance strategies that large multistate corporations have devised that shift profits out of the states in which they are actually earned and onto the books of affiliated corporations located in states that will tax the shifted profit at a lower rate — or not at all. In recent years, Rhode Island has adopted targeted legislation aimed at nullifying two of these shelters — the so-called "Delaware trademark holding company" and the "captive REIT." However, combined reporting is a more comprehensive approach to the problem, and there are several well-

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[91] Oregon Legislative Revenue Office, "The Oregon Tax Incidence Model," March 16, 2001, p. 71.

[92] P. Berck, E. Golan, and B. Smith, "Dynamic Revenue Analysis for California," Summer 1996.

known tax-avoidance strategies that cannot be effectively addressed by states other than through mandatory combined reporting. Moreover, questions continue to be raised about the legality of some of the fallback approaches used to nullify certain income-shifting strategies, while combined reporting has twice been upheld by the U.S. Supreme Court as a fair means of taxing corporations that are members of multi-corporate groups.

The adoption of combined reporting by Rhode Island has the potential to enhance economic competitiveness by leveling the playing field between small in-state corporations that do not have the resources to create out-of-state subsidiaries and large multi-state corporations that do. No longer would the state reward with a lower corporate income tax liability those multistate corporations most willing to engage in aggressive tax avoidance. Corporations that cannot or do not engage in income-shifting strategies would benefit from a lower corporate income tax rate that the adoption of combined reporting would help finance. This is what Massachusetts did last year, trading-off a lower corporate tax rate against the implementation of combined reporting. To the extent that policymakers are concerned that the top corporate tax rate is a visible — albeit misleading—indicator to out-of-state companies of a state's corporate tax burden, lowering the rate obviously addresses that concern. I have addressed elsewhere the claims made by some members of the Workgroup that the enactment of combined reporting would be harmful to the state's economic development; see Michael Mazerov, "Most Large North Carolina Manufacturers Are Already Subject to 'Combined Reporting' in Other States," Center on Budget and Policy Priorities, January 15, 2009.[93]

Eliminating most or all of Rhode Island's economic development-oriented tax incentives would generate additional revenue that could be used to reduce the corporate tax rate further while causing no net revenue loss for the state. Many such incentives are not cost-effective because a large share of the revenue forgone merely provides a tax reduction to companies that would have engaged in the favored activity without the incentive. Moreover, as discussed above, roughly one-third of any state tax reduction provided to a corporation is wasted because it results in increased federal income tax liability. Eliminating targeted incentives and using the revenue generated to provide all corporations with a lower tax rate would be fairer.

Finally, I would support instituting a low-rate New Hampshire-style value-added tax and substituting it for the existing franchise tax. As in New Hampshire, it would be creditable against the corporate income tax, meaning that businesses would effectively pay the higher of the two taxes. In years in which a corporation is not profitable, it would ensure that the firm pays some tax to support the services from which it benefits. Such a tax is arguably less subject to manipulation than the existing franchise tax and, being based on the current level of the firm's economic activity in the state, provides a better measure of the current benefits received by the company than the firm's capital stock. All businesses whose owners have limited liability for the debts of the business – including Subchapter S corporations and Limited Liability Companies – would be subject to the tax even if they are not subject to the corporate income tax. However, as in New

[93] The report is available at www.cbpp.org/1-15-09sfp.pdf.

Hampshire, very small businesses could readily be exempted. Many S-corps and LLCs are fairly large businesses. Since they enjoy most of the benefits of corporations, they can reasonably be expected to pay more than the minimum corporate income tax of $500. Depending upon the rate at which it is set and the threshold at which small businesses become subject to it, the value-added tax could replace the revenue from the franchise tax and also finance a further, revenue-neutral reduction in the corporate income tax rate.

**Personal Income Tax**. I concur with the apparent conclusion of the Individual Taxes Subgroup that it would be preferable to have one unified personal income tax structure for Rhode Island rather than a basic structure with an additional flat tax option for upper-income taxpayers. I also concur with the implicit conclusion that capital gains should be taxed at the same rate as ordinary income. It is unfair to tax income from work more heavily than income from wealth; while wealth may result from superior effort of the wealth-holder, it may also be inherited or result from lucky investment choices. Moreover, from the standpoint of Rhode Island economic development, it has never been clear how the state benefits from taxing at highly favorable rates the capital gains received from selling a piece of artwork or a share of stock issued in 1970 by a corporation that has never created a single job in the state. Finally, I support the concept of eliminating itemized deductions and most economic development-oriented tax credits and using the revenue to allow for lower nominal tax rates.

Nonetheless, I cannot support the current recommendation of the Workgroup without additional information. First, as discussed above, there has been inadequate investigation of whether there are likely to be sufficient capital gains realizations in coming years to ensure that the overall package is revenue-neutral as compared with current law. Second, there has been insufficient analysis of the distributional impact of the plan. In order to make a fully-informed decision, policymakers should have available to them completely comparable data on: a) the distribution of personal income tax liability by income class prior to the adoption of favorable rates on 5-year capital gains and the flat tax option; b) the distribution of personal income tax liability with the flat tax fully phased in; and c) the distribution of personal income tax liability of the restructuring proposal under consideration. In broad outline, I would advocate a personal income tax structure that would eliminate itemized deductions and credits, tax capital gains as ordinary income, and set personal exemptions, standard deductions, brackets, and tax rates so as to replicate as closely as possible the distribution of personal income tax liability that existed prior to the adoption of the flat tax option and the reduced rates for 5-year gains.[94] Taken together, such a structure could generate an equivalent amount of revenue as current law while allowing for lower nominal rates.

**Property taxes and sales taxes.** It has been recognized for some time that it is in the area of property taxation that Rhode Island is most out of line with other states. (Connecticut's property taxes are higher than Rhode Island's, but Massachusetts' are

[94] In addition, I would advocate making the Earned Income Tax Credit fully refundable at 25 percent of the federal EITC, as the Subgroup was originally contemplating. This would help to mitigate the still substantial regressivity of Rhode Island's tax structure.

lower.) Property taxes also comprise the largest share of state and local taxes imposed on businesses. Thus, to the extent that concern is justified about the potential impact of state and local business taxes on a state's economic "competitiveness," a focus on property taxes arguably is more justified than is the attention the Workgroup has given to the state's personal and corporate income tax structures.

The Workgroup limited its property tax relief proposal to business property, even though Rhode Island's property taxes are burdensome to households as well. The Workgroup's major recommendation was that in jurisdictions in which real property tax rates for businesses are more than 50 percent greater than the base rate applicable to residential property, the business rates be phased down to that ratio over ten years. With respect to property taxes on tangible personal property — principally machinery and equipment — the recommendation called for phasing down the rates to twice the base rate.

The Subgroup seemed to recognize that achieving this goal would require additional aid from the state to offset the loss of local property tax revenue that would result from lowering business property taxes. It would not be realistic to expect cities to either absorb revenue losses of this magnitude (again, $122 million if fully in place today) or to raise residential property tax rates further to offset the lower rates on business property. Unfortunately, the Subgroup did not attempt to formulate a series of options for replacement revenue at the state level, and the short amount of time allotted for decision-making in the final meeting of the full Workgroup was not conducive to careful consideration of such a significant issue. Accordingly, as with its recommendations for corporate and estate tax cuts, the Workgroup punted and left it to state officials to determine what other taxes to raise or spending to cut to finance the property tax-related recommendations.

One place to look for an additional source of revenue with which to finance property tax relief for both households and businesses is an expanded sales tax base. Rhode Island currently taxes very few services in comparison to other states, and the Individual Taxes Subgroup obtained information from the Division of Taxation showing that expanding the base in this way could generate a significant amount of revenue. Moreover, taxing additional services has benefits beyond serving as a potential source of funding for property tax relief.[95]

First, it would enhance "horizontal equity." The sales tax is intended be a tax on consumption; there is no justification for taxing more heavily a person who prefers to spend her income on goods than someone who prefers to spend it on services. Second, an expansion of the base to encompass services is also needed to ensure that sales tax revenues do not erode as household consumption continues its long-term shift toward services and away from goods. Third, expanding the base to services enhances economic efficiency by removing an artificial competitive disadvantage for goods-selling

[95] For an expanded discussion of the benefits of expanding state sales tax bases to include more services, see Michael Mazerov, "Expanding the Sales Taxation of Services: Issues and Options," Center on Budget and Policy Priorities, June 2003.

businesses. Discussion of this issue at the final meeting of the Workgroup was filled with assertions about the alleged harm to small service-selling businesses of expanding the base. This completely ignores the fact that many goods-selling businesses are also small. A family that is choosing how to spend its limited entertainment budget might decide to go to a movie rather than to a small family restaurant because the meal has a 7 percent sales tax added and the movie does not.

Because it is intended to be a tax on household consumption, any expansion of the base to services should be focused on services purchased primarily by households. Taxation of services purchased almost exclusively by businesses, such as advertising and payroll processing, should be avoided. Taxing such services can create artificial incentives to bring the services in-house to avoid the tax — potentially harming small independent suppliers. It can also create incentives to purchase the services in states that do not tax them. Taxing services that are frequently purchased by both households and businesses — such as telephone service and landscaping — is less problematic and often necessary to prevent small businesses from claiming a business-to-business sales tax exemption for services that really have been purchased for personal use.

Additional sales tax revenue generated by expanding the base to include services should be used to furnish both household and business property tax relief. Household property tax relief should be furnished through a significant expansion of the existing property tax circuit-breaker to benefit more moderate-income households with above-average property tax burdens. Business property tax relief could be provided through the type of buy-down of above-average business property tax rates recommended by the Workgroup. Finally, since expansion of the sales tax base to additional services would be particularly burdensome to low-income households, part of the revenue should be used to offset those burdens. For example, if not enacted in implementing a restructuring of the personal income tax, making the Rhode Island Earned Income Tax Credit fully refundable at an amount equal to 25 percent of the federal credit would mitigate the impact of higher sales taxes on low-income working families.

**Estate Tax**. If it were done in a fiscally-responsible way, I could support — on the grounds of equity — the recommendation of the Workgroup to increase the estate tax exemption to $1 million. The exemption has not been increased for a number of years and its value has fallen in real terms because of inflation. One way to finance the $3 million annual cost would be to increase marginally the top rate of the personal income tax in the Workgroup's proposal.

In light of the state's current fiscal problems and the $14.5 million annual cost, I cannot support committing the state to phasing up the exemption to $3.5 million as recommended by the Workgroup. While further increases may be warranted, such decisions must take into account the state's fiscal outlook at the time as well as imminent decisions regarding the structure of the federal estate tax. There would be no justification for adopting a Rhode Island estate tax exemption larger than the federal exemption, for example. As discussed above, there is little evidence that state estate taxes significantly affect the decisions of the elderly to emigrate from states. Thus, the major economic development impacts of making further cuts in the Rhode Island estate tax would arise from the potential adverse effects on public services needed by businesses and on the draining of purchasing power from the Rhode Island economy that commensurate spending reductions would be likely to cause.

## Appendix

### Recent Studies on State and Local Taxes, Public Services, and Economic Growth

- A study by economists Robert Tannenwald — a member of the Workgroup — and George Plesko, measured interstate differences in *overall* state and local tax costs for five manufacturing corporations in 22 states in a particularly rigorous way. It found that there was not a statistically-significant (inverse) correlation between those costs and state success in attracting business investment.[96] In other words, it found no evidence that higher state and local business taxes impeded business investment at the differentials that existed among the states at that time.

- A 2006 study by economists Paul Bauer, Mark Schweitzer, and Scott Shane published by the Federal Reserve Bank of Cleveland found that high school and college attainment of the state population, plus the number of patents held by in-state individuals and businesses, are the key factors determining long-run state economic growth rates.[97] They found that overall state and local tax burdens are not correlated with relative rates of state economic growth.

- A 2006 paper by economists Donald Bruce and John Deskins prepared for the U.S. Small Business Administration found that many state tax policy choices alleged to be harmful for economic development in fact have no adverse consequences (and in some cases actually have small positive impacts) on the proportion of the state population engaged in small business.[98] For example, "top marginal rates on individual and corporate income do not have statistically-significant effects on state entrepreneurship rates," and "states with combined reporting and throwback rules for corporate income taxes tend to have *higher* entrepreneurship rates." [Emphasis added]. The paper also found that states with more progressive state personal income taxes also had slightly higher entrepreneurship rates. The overall conclusion of the report is that "State tax policy, including both tax rates and the type of taxes in a state's tax portfolio, has only a modest effect on aggregate state entrepreneurship rates."

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[96] George A. Plesko and Robert Tannenwald, "Measuring the Incentive Effects of State Tax Policies Toward Capital Investment," Federal Reserve Bank of Boston Working Paper 01-4, December 3, 2001.

[97] Paul W. Bauer, Mark E. Schweitzer, and Scott Shane, "State Growth Empirics: The Long-Run Determinants of State Economic Growth," Federal Reserve Bank of Cleveland Working Paper 06-06, May 2006.

[98] Donald Bruce and John Deskins, "State Tax Policy and Entrepreneurial Activity," paper prepared for the U.S. Small Business Administration, November 2006.

- In a second paper commissioned by the SBA the same economists found: "Small firm establishment births have a larger impact than any other factor examined on GSP [gross state product], SPI [state personal income], and total state employment. . . [T]his general finding reveals that state efforts to promote small business formation will be more fruitful in terms of generating economic growth than virtually any other policy option in our models."[99] Combine this with the finding in the preceding study that state and local tax policy has little impact on rates of small business formation, and it is clear that the focus on attracting branch plants of large corporations with tax incentives or tax cuts is a misdirected approach to stimulating economic development.

- In another Cleveland Fed paper, economist Yoonsoo Lee found "a relatively small role for relocation [of existing plants] in explaining the disparity of manufacturing employment growth rates across states" and "very weak effects of incentive programs on plant relocation."[100]

- Discussions in the Workgroup and its subgroups have been replete with references to the critical need to "attract more businesses to Rhode Island" and to stop companies from "fleeing Rhode Island for other states." Yet economists who have studied state growth dynamics have known for years that relocations of existing businesses — both in and out — account for a very small share of net job growth or decline. Using a newly-available national database, economists David Neumark, Junfu Zhang, and Jed Kolko of the Public Policy Institute of California have recently completed a detailed empirical study of that state's economy.[101] They found:

  > [P]olicymakers' (and the media's) concerns about jobs leaving California are for the most part unwarranted. Interstate relocation has a negligible effect on state employment, has little impact on the composition of jobs, and is not an indicator of the health of an industry. Thus, a focus on relocation is unlikely to be helpful either in devising effective policies to create or retain jobs or in detecting more serious problems an industry faces. California's overall business environment is much more dependent on business expansion, contraction, formation, and closure.

[99] Donald Bruce, John Deskins, Brian Hill, and Jonathan Rork, "Small Business and State Growth: An Econometric Investigation," paper prepared for the U.S. Small Business Administration, February 2007.

[100] Yoonsoo Lee, "Geographic Redistribution of U.S. Manufacturing and the Role of State Development Policy," Federal Reserve Bank of Cleveland Working Paper 04-15, December 2004.

[101] David Neumark, Junfu Zhang, and Jed Kolko, "Interstate Business Relocation: An Industry-Level Analysis," Public Policy Institute of California, June 19, 2006.

## COMMENTS OF WORKGROUP MEMBER ROBERT TANNENWALD[102]

(Note: the views expressed in this memo are mine only; they are not necessarily those of either the Federal Reserve Bank of Boston or the Board of Governors of the Federal Reserve System)

Right up until its final meeting, the Workgroup had a clear plan to guide its deliberations. The Workgroup was to design at least three separate packages of changes to Rhode Island's tax structure. Each package, per Governor Carcieri's explicit guidelines, would, make "*Rhode Island's tax structure…a competitive advantage in retaining jobs and recruiting businesses.*" The Governor also instructed the Workgroup to pursue tax strategies that would "*meet the test of equity, efficiency, predictability, competitiveness, and transparency*." In pursuing its mandate, the Workgroup divided into three sub-groups—one on property taxes, another on personal taxes, and a third on business taxes—each of which heard its own witnesses, engaged in its own analysis and debate, and reported its findings and preliminary recommendations to the Workgroup as a whole.

The Workgroup followed this strategy right through its second-to-last meeting, on January 20, 2009. The Workgroup's staff drew up four packages of tax reforms, each designed to make Rhode Island's tax structure more competitive, but each following its own distinctive path towards that end. *<u>The proposed changes in state taxes in all of the packages were roughly revenue neutral</u>*. This made sense because any set of tax reforms that is a net revenue loser must be financed, either by tax increases or spending reductions, which have their own competitive implications.

Yet, during the final meeting of the Workgroup, on February 4, 2009, . the Workgroup's members were presented with one proposed tax change, the elimination of the state's corporate income tax, that had not appeared in any previously considered package or been debated in any previous meeting of the Workgroup. Some Workgroup members were informed that a vote would be held on the abolition of the corporate income tax less than 24 hours before this vote took place. At the meeting, the Workgroup was informed that the proposal, in combination with some scaled increases in the minimum corporate income tax, would cost the state an estimated $82 million. Late on the night before the meeting, Workgroup members were e-mailed further proposed changes to the state's personal income tax. Although these changes had been raised before, their revenue consequences had been uncertain. According to the e-mailed analysis, the Workgroup learned for the first time that these changes would cost the state an estimated additional $31 million in revenue.

With these last minute proposals and revisions to revenue estimates, the Workgroup in effect abandoned the idea that the Workgroup's recommendations should be revenue neutral. Indeed, at the February 4 meeting, several Workgroup members explicitly rejected the relevance or desirability of revenue neutrality. They urged Rhode Island to make a "bold statement" to boost its competitive standing, even if its tax revenues were

[102] Vice President, Federal Reserve Bank of Boston and Director, New England Public Policy Center, Boston, MA

reduced sharply in the short run and no plans to close the resulting fiscal gap had been proposed. In my judgment, this represents a big fiscal gamble. If this change fails to generate the economic "shot in the arm" that its proponents hope, Rhode Island's fiscal condition, already weak, will be weakened much further.

I therefore urge Rhode Island's policymakers to pick up the threads of the Workgroup's recommendations, to regroup them into balanced packages, and subject them to further careful analysis. There are many promising avenues towards greater tax competiveness, efficiency, and fairness to be found in the options that the Workgroup crafted. However, which groups of recommendations are most cost-effectiveness in creating new jobs, income, and wealth and what tradeoffs these recommendations entail need to be much more clearly elucidated before policymakers adopt a strategy and enact it into law.

# Appendix A

## Summary Tables
## Personal Income Tax Provisions in the States

**Tax Base, Tax Rates and Brackets by State (Tax Year 2005)**

| State | Taxable Income Base | Marginal Tax Rates: Lowest Tax Rate | Marginal Tax Rates: Highest Tax Rate | Number of Brackets | Top Marginal Tax Rate Begins at: Single | Married-J | Married-S | Head of HH |
|---|---|---|---|---|---|---|---|---|
| Alabama | State Adjusted Gross Income | 2.000% | 5.000% | 3 | $3,001 | $6,001 | $3,001 | $3,001 |
| Alaska | No State Income Tax | | | | | | | |
| Arizona | Federal Adjusted Gross Income | 2.870% | 5.040% | 5 | $150,001 | $300,001 | $150,001 | $300,001 |
| Arkansas[a] | State Adjusted Gross Income | 1.000% | 7.000% | 6 | $29,200 | $29,200 | $29,200 | $29,200 |
| California | Federal Adjusted Gross Income | 1.000% | 9.300% | 6 | $41,477 | $82,953 | $41,477 | $56,457 |
| Colorado | Federal Taxable Income | 4.630% | 4.630% | Flat Rate | -- | -- | -- | -- |
| Connecticut | Federal Adjusted Gross Income | 3.000% | 5.000% | 2 | $10,001 | $20,001 | $10,001 | $16,001 |
| Delaware | Federal Adjusted Gross Income | 0.000% | 5.950% | 7 | $60,001 | $60,001 | $60,001 | $60,001 |
| Dist. of Columbia | Federal Adjusted Gross Income | 5.000% | 9.000% | 3 | $30,001 | $30,001 | $30,001 | $30,001 |
| Florida | No State Income Tax | | | | | | | |
| Georgia | Federal Adjusted Gross Income | 1.000% | 6.000% | 6 | $7,001 | $10,001 | $5,001 | $10,001 |
| Hawaii | Federal Adjusted Gross Income | 1.400% | 8.250% | 9 | $40,001 | $80,001 | $40,001 | $60,001 |
| Idaho | Federal Adjusted Gross Income | 1.600% | 7.800% | 8 | $23,179 | $46,357 | $23,179 | $46,357 |
| Illinois | Federal Adjusted Gross Income | 3.000% | 3.000% | Flat Rate | -- | -- | -- | -- |
| Indiana | Federal Adjusted Gross Income | 3.400% | 3.400% | Flat Rate | -- | -- | -- | -- |
| Iowa | State Adjusted Gross Income | 0.360% | 8.980% | 9 | $57,106 | $57,106 | $57,106 | $57,106 |
| Kansas | Federal Adjusted Gross Income | 3.500% | 6.450% | 3 | $30,001 | $60,001 | $30,001 | $30,001 |
| Kentucky | Federal Adjusted Gross Income | 2.000% | 6.000% | 6 | $75,001 | $75,001 | $75,001 | $75,001 |
| Louisiana | Federal Adjusted Gross Income | 2.000% | 6.000% | 3 | $25,001 | $50,001 | $25,001 | $25,001 |
| Maine | Federal Adjusted Gross Income | 2.000% | 8.500% | 4 | $17,700 | $35,450 | $17,700 | $26,600 |
| Maryland | Federal Adjusted Gross Income | 2.000% | 4.750% | 4 | $3,001 | $3,001 | $3,001 | $3,001 |
| Massachusetts[b] | Federal Adjusted Gross Income | 5.300% | 12.000% | Flat Rate | -- | -- | -- | -- |
| Michigan | Federal Adjusted Gross Income | 3.900% | 3.900% | Flat Rate | -- | -- | -- | -- |
| Minnesota | Federal Taxable Income | 5.350% | 7.850% | 3 | $65,331 | $115,511 | $57,761 | $98,391 |
| Mississippi | State Adjusted Gross Income | 3.000% | 5.000% | 3 | $10,001 | $10,001 | $10,001 | $10,001 |
| Missouri | Federal Adjusted Gross Income | 1.500% | 6.000% | 10 | $9,001 | $9,001 | $9,001 | $9,001 |
| Montana | Federal Adjusted Gross Income | 1.000% | 6.900% | 7 | $13,900 | $13,900 | $13,900 | $13,900 |
| Nebraska | Federal Adjusted Gross Income | 2.560% | 6.840% | 4 | $26,501 | $46,751 | $23,376 | $35,001 |
| Nevada | No State Income Tax | | | | | | | |
| New Hampshire | Interest and Dividends | 5.000% | 5.000% | Flat Rate | -- | -- | -- | -- |
| New Jersey[c] | State Gross Income | 1.400% | 8.970% | 6/7 | $500,001 | $500,001 | $500,001 | $500,001 |
| New Mexico | Federal Adjusted Gross Income | 1.700% | 5.700% | 4 | $16,001 | $24,001 | $12,001 | $20,001 |
| New York | Federal Adjusted Gross Income | 4.000% | 7.700% | 7 | $500,001 | $500,001 | $500,001 | $500,001 |
| North Carolina | Federal Taxable Income | 6.000% | 8.250% | 4 | $120,001 | $200,001 | $100,001 | $160,001 |
| North Dakota[d] | Federal Taxable Income | 2.100% | 5.540% | 5 | $326,451 | $326,451 | $163,226 | $326,451 |
| Ohio | Federal Adjusted Gross Income | 0.712% | 7.185% | 9 | $200,001 | $200,001 | $200,001 | $200,001 |
| Oklahoma[e] | Federal Adjusted Gross Income | 0.500% | 10.000% | 11 | $16,001 | $24,001 | $16,001 | $24,001 |
| Oregon | Federal Adjusted Gross Income | 5.000% | 9.000% | 3 | $6,651 | $13,301 | $6,651 | $13,301 |
| Pennsylvania | State Taxable Income | 3.070% | 3.070% | Flat Rate | -- | -- | -- | -- |
| Rhode Island | Federal Adjusted Gross Income | 3.750% | 9.900% | 5 | $326,451 | $326,451 | $163,226 | $326,451 |
| South Carolina | Federal Taxable Income | 2.500% | 7.000% | 6 | $12,651 | $12,651 | $12,651 | $12,651 |
| South Dakota | No State Income Tax | | | | | | | |
| Tennessee | Interest and Dividends | 6.000% | 6.000% | Flat Rate | -- | -- | -- | -- |
| Texas | No State Income Tax | | | | | | | |
| Utah | Federal Adjusted Gross Income | 2.300% | 7.000% | 6 | $4,314 | $8,627 | $4,314 | $8,627 |
| Vermont | Federal Taxable Income | 3.600% | 9.500% | 5 | $326,451 | $326,451 | $163,226 | $326,451 |
| Virginia | Federal Adjusted Gross Income | 2.000% | 5.750% | 4 | $17,001 | $17,001 | $17,001 | $17,001 |
| Washington | No State Income Tax | | | | | | | |
| West Virginia | Federal Adjusted Gross Income | 3.000% | 6.500% | 5 | $60,000 | $60,000 | $30,000 | $60,000 |
| Wisconsin | Federal Adjusted Gross Income | 4.600% | 6.750% | 4 | $132,581 | $176,771 | $88,391 | $132,581 |
| Wyoming | No State Income Tax | | | | | | | |

[a] Special tax table for low-income taxpayers.

[b] Massachusetts has flat tax rates, each of which is applied to different sources of income.

[c] Six rates for single and married-separate filers and seven rates for married-joint and head-of-household filers.

[d] North Dakota's standard method. There is also an optional method with separate rates and brackets.

[e] Oklahoma's method for taxpayers who deduct federal income tax. For taxpayers who do not, there is a separate method with its own rates and brackets.

**Personal Exemptions/Credits by State (Tax Year 2005)**

| State | Exemption / Credit | Single | Married-J | Married-S | Head of Household | Elderly | Dependent | Handicapped Dependent | Blind--B Deaf--D Disabled--DS |
|---|---|---|---|---|---|---|---|---|---|
| Alabama | Exemption | $1,500 | $3,000 | $1,500 | $3,000 | $0 | $300 | $0 | $0 |
| Alaska | No State Income Tax | | | | | | | | |
| Arizona | Exemption | $2,100 | $4,200 | $2,100 | $4,200/$3,100 | $2,100 | $2,300 | $0 | B -- $1,500 |
| Arkansas | Credit | $21 | $42 | $21 | $42 | $21 | $21 | $500 | B,D -- $21 |
| California | Credit | $87 | $174 | $87 | $87 | $87 | $272 | $0 | B -- $87 |
| Colorado | Exemption | Federal | Federal | Federal | Federal | Federal | Federal | Federal | Federal |
| Connecticut | Credit | 0-75% | 0-75% | 0-75% | 0-75% | $0 | $0 | $0 | $0 |
| Delaware | Credit | $110 | $220 | $110 | $110 | $110 | $110 | $0 | $0 |
| Dist. Of Columbia | Exemption | $1,370 | $2,740 | $1,370 | $2,740 | $1,370 | $1,370 | $0 | B -- $1,370 |
| Florida | No State Income Tax | | | | | | | | |
| Georgia | Exemption | $2,700 | $5,400 | $2,700 | $2,700 | $0 | $3,000 | $0 | $0 |
| Hawaii | Exemption | $1,040 | $2,080 | $1,040 | $1,040 | $1,040 | $1,040 | $0 | B,D,DS -- $7,000 |
| Idaho | Exemption | Federal | Federal | Federal | Federal | Federal | Federal | Federal | Federal |
| Illinois | Exemption | $2,000 | $4,000 | $2,000 | $2,000 | $1,000 | $2,000 | $0 | B -- $1,000 |
| Indiana | Exemption | $1,000 | $2,000 | $1,000 | $1,000 | $1,000 | $2,500/$1,000 | $0 | B -- $1,000 |
| Iowa | Credit | $40 | $80 | $40 | $80 | $20 | $40 | $0 | B -- $20 |
| Kansas | Exemption | $2,250 | $4,500 | $2,250 | $4,500 | $0 | $2,250 | $0 | $0 |
| Kentucky | Credit | $20 | $40 | $20 | $20 | $40 | $20 | $0 | B -- $40 |
| Louisiana | Exemption | $1,000* | $2,000* | $1,000* | $1,000* | $1,000 | $1,000 | $0 | B -- $1,000 |
| Maine | Exemption | $2,850 | $5,700 | $2,850 | $2,850 | $0 | $2,850 | $0 | $0 |
| Maryland | Exemption | $2,400 | $4,800 | $2,400 | $2,400 | $1,000 | $2,400 | $0 | B -- $1,000 |
| Massachusetts | Exemption | $3,575 | $7,150 | $3,575 | $5,525 | $700 | $1,000 | $0 | B -- $2,200 |
| Michigan | Exemption | $3,200 | $6,400 | $3,200 | $3,200 | $2,000 | $3,800/$3,200 | $0 | B,D,DS -- $2,000 |
| Minnesota | Exemption | Federal | Federal | Federal | Federal | Federal | Federal | Federal | Federal |
| Mississippi | Exemption | $6,000 | $12,000 | $6,000 | $8,000 | $1,500 | $1,500 | $0 | B -- $1,500 |
| Missouri | Exemption | $2,100 | $4,200 | $2,100 | $3,500 | $0 | $2,200/$1,200 | $0 | $0 |
| Montana | Exemption | $1,900 | $3,800 | $1,900 | $1,900 | $1,900 | $1,900 | $1,900 | B -- $1,900 |
| Nebraska | Credit | $103 | $206 | $103 | $103 | $0 | $103 | $0 | $0 |
| Nevada | No State Income Tax | | | | | | | | |
| New Hampshire | Exemption | $2,400 | $4,800 | $2,400 | $2,400 | $1,200 | $0 | $0 | B, DS -- $1,200 |
| New Jersey | Exemption | $1,000 | $2,000 | $1,000 | $1,000 | $1,000 | $1,500/$1,000 | $0 | B, DS -- $1,000 |
| New Mexico | Exemption | Federal | Federal | Federal | Federal | Federal | Federal | Federal | Federal |
| New York | Exemption | $0 | $0 | $0 | $0 | $0 | $1,000 | $0 | $0 |
| North Carolina | Exemption | $2,500/$2,000 $5,000/$2,000 | $2,500/$2,000 | $2,500/$2,000 | $0 | $2,500/$2,000 | $0 | $0 | $0 |
| North Dakota | Exemption | Federal | Federal | Federal | Federal | Federal | Federal | Federal | Federal |
| Ohio | Exemption/Credit | $1,350/$20 | $2,700/$40 | $1,350/$20 | $1,350/$20 | $0 | $1,350/$20 | $0 | $0 |
| Oklahoma | Exemption | $1,000 | $2,000 | $1,000 | $1,000 | $1,000 | $1,000 | $0 | B -- $1,000 |
| Oregon | Credit | $154 | $308 | $154 | $154 | $0 | $154 | $154 | DS -- $154 |
| Pennsylvania | None | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| Rhode Island | Exemption | Federal | Federal | Federal | Federal | Federal | Federal | Federal | Federal |
| South Carolina | Exemption | Federal | Federal | Federal | Federal | $3,200/Federal | Federal | Federal | Federal |
| South Dakota | No State Income Tax | | | | | | | | |
| Tennessee | Exemption | $1,250 | $2,500 | $1,250 | $1,250 | $0 | $0 | $0 | B, DS -- Exempt |
| Texas | No State Income Tax | | | | | | | | |
| Utah | Exemption | $2,400 | $4,800 | $2,400 | $2,400 | $0 | $2,400 | $2,400 | DS -- $2,400 |
| Vermont | Exemption | Federal | Federal | Federal | Federal | Federal | Federal | Federal | Federal |
| Virginia | Exemption | $900 | $1,800 | $900 | $900 | $800 | $900 | $0 | B -- $800 |
| Washington | No State Income Tax | | | | | | | | |
| West Virginia | Exemption | $2,000 | $4,000 | $2,000 | $2,000 | $0 | $2,000 | $0 | $0 |
| Wisconsin | Exemption | $700 | $1,400 | $700 | $700 | $250 | $700 | $0 | $0 |
| Wyoming | No State Income Tax | | | | | | | | |

*These personal exemption amounts are included in the combined standard deduction/personal exemption figures.

**Standard Deduction by State (Tax Year 2005)**

| State | % of AGI | Single | Married-J | Married-S | Head of Household |
|---|---|---|---|---|---|
| Alabama | 20% | $2,000 maximum | $4,000 maximum | $2,000 maximum | $2,000 maximum |
| Alaska | No State Income Tax | | | | |
| Arizona | | $4,125 | $8,250 | $4,125 | $8,250 |
| Arkansas | | $2,000 | $4,000 | $2,000 | $2,000 |
| California | | $3,254 | $6,508 | $3,254 | $6,508 |
| Colorado | | Federal | Federal | Federal | Federal |
| Connecticut | | $12,625 -$0 | $24,000 -$0 | $12,000 -$0 | $19,000 -$0 |
| Delaware | | $3,250 | $6,500 | $3,250 | $3,250 |
| District of Columbia | | $2,000 | $2,000 | $1,000 | $2,000 |
| Florida | No State Income Tax | | | | |
| Georgia | | $2,300 | $3,000 | $1,500 | $2,300 |
| Hawaii | | $1,500 | $1,900 | $950 | $1,650 |
| Idaho | | Federal | Federal | Federal | Federal |
| Illinois | | None | None | None | None |
| Indiana | | None | None | None | None |
| Iowa | | $1,610 | $3,970 | $1,610 | $3,970 |
| Kansas | | $3,000 | $6,000 | $3,000 | $4,500 |
| Kentucky | | $1,910 | $1,910 | $1,910 | $1,910 |
| Louisiana* | | $4,500 | $9,000 | $4,500 | $9,000 |
| Maine | | Federal | $8,300 | $4,150 | Federal |
| Maryland | 15% | $1,500-$2,000 | $3,000-$4,000 | $1,500-$2,000 | $3,000-$4,000 |
| Massachusetts | | None | None | None | None |
| Michigan | | None | None | None | None |
| Minnesota | | Federal | $8,700 | $4,350 | Federal |
| Mississippi | | $2,300 | $4,600 | $2,300 | $3,400 |
| Missouri | | Federal | Federal | Federal | Federal |
| Montana | 20% | $1,580 - $3,560 | $3,160 - $7,120 | $1,580 - $3,560 | $3,160 - $7,120 |
| Nebraska | | $4,980 -$0 | $8,320 -$0 | $4,160 -$0 | $7,330 -$0 |
| Nevada | No State Income Tax | | | | |
| New Hampshire | | None | None | None | None |
| New Jersey | | None | None | None | None |
| New Mexico | | Federal | Federal | Federal | Federal |
| New York | | $7,500 | $14,600 | $6,500 | $10,500 |
| North Carolina | | $3,000 | $6,000 | $3,000 | $4,400 |
| North Dakota | | Federal | Federal | Federal | Federal |
| Ohio | | None | None | None | None |
| Oklahoma | 15% | $1,000 -$2,000 | $1,000 -$2,000 | $500 - $1,000 | $1,000 -$2,000 |
| Oregon | | $1,770 | $3,545 | $1,770 | $2,855 |
| Pennsylvania | | None | None | None | None |
| Rhode Island | | Federal | $8,300 | $4,150 | Federal |
| South Carolina | | Federal | Federal | Federal | Federal |
| South Dakota | No State Income Tax | | | | |
| Tennessee | | None | None | None | None |
| Texas | No State Income Tax | | | | |
| Utah | | Federal | Federal | Federal | Federal |
| Vermont | | Federal | Federal | Federal | Federal |
| Virginia | | $3,000 | $6,000 | $3,000 | $3,000 |
| Washington | No State Income Tax | | | | |
| West Virginia | | None | None | None | None |
| Wisconsin | | $8,170 -$0 | $14,710 -$0 | $6,990 -$0 | $10,550 -$0 |
| Wyoming | No State Income Tax | | | | |

*These amounts represent the combined standard deduction and personal exemptions (excluding additional exemptions for dependents, elderly, and blind individuals), which are built into the tax tables.

Treatment of Itemized Deductions by Category of Deductions by State (Tax Year 2005)

| State | Itemized Deductions | State Income and Sales Taxes | Other Taxes | Interest Expenses | Medical Expenses | Charitable Contributions | Misc. & Other Deductions |
|---|---|---|---|---|---|---|---|
| Alabama | Yes | None | State | Federal | State | Federal | State |
| Alaska | No State Income Tax | | | | | | |
| Arizona | Yes | Federal | State | Federal | State | State | State |
| Arkansas | Yes | None | Federal | Federal | Federal | State | Federal |
| California | Yes | None | State | Federal | Federal | Federal | State |
| Colorado | Yes | None | Federal | Federal | Federal | Federal | Federal |
| Connecticut | No | None | None | None | None | None | None |
| Delaware | Yes | None | State | Federal | Federal | State | Federal |
| District of Columbia | Yes | None | Federal | Federal | Federal | Federal | Federal |
| Florida | No State Income Tax | | | | | | |
| Georgia | Yes | Federal | Federal | State | Federal | Federal | Federal |
| Hawaii | Yes | Federal | Federal | Federal | Federal | Federal | State |
| Idaho | Yes | None | State | Federal | Federal | Federal | Federal |
| Illinois | No | None | None | None | None | None | None |
| Indiana | No | None | None | None | None | None | None |
| Iowa | Yes | State* | State | Federal | Federal | State | State |
| Kansas | Yes | None | State | Federal | Federal | Federal | Federal |
| Kentucky | Yes | None | Federal | Federal | State | Federal | Federal |
| Louisiana | No | None | None | None | None | None | None |
| Maine | Yes | None | Federal | Federal | Federal | Federal | State |
| Maryland | Yes | State* | State | Federal | Federal | Federal | Federal |
| Massachusetts | Yes | None | None | None | State | None | State |
| Michigan | No | None | None | None | None | None | None |
| Minnesota | Yes | None | Federal | Federal | Federal | Federal | Federal |
| Mississippi | Yes | None | Federal | Federal | Federal | Federal | State |
| Missouri | Yes | State* | State | Federal | Federal | State | Federal |
| Montana | Yes | State | State | Federal | State | Federal | State |
| Nebraska | Yes | State* | State | Federal | Federal | Federal | Federal |
| Nevada | No State Income Tax | | | | | | |
| New Hampshire | No | None | None | None | None | None | None |
| New Jersey | No | None | None | None | None | None | None |
| New Mexico | Yes | Federal | Federal | Federal | Federal | Federal | Federal |
| New York | Yes | State* | State | Federal | State | Federal | State |
| North Carolina | Yes | None | State | Federal | Federal | Federal | Federal |
| North Dakota | Yes | State* | Federal | Federal | State | Federal | Federal |
| Ohio | No | None | None | None | None | None | None |
| Oklahoma | Yes | Federal | Federal | Federal | Federal | Federal | Federal |
| Oregon | Yes | None | Federal | Federal | State | Federal | State |
| Pennsylvania | No | None | None | None | None | None | None |
| Rhode Island | Yes | Federal | Federal | Federal | Federal | Federal | Federal |
| South Carolina | Yes | None | State | Federal | Federal | Federal | State |
| South Dakota | No State Income Tax | | | | | | |
| Tennessee | No | None | None | None | None | None | None |
| Texas | No State Income Tax | | | | | | |
| Utah | Yes | State* | Federal | Federal | Federal | Federal | Federal |
| Vermont | Yes | Federal | Federal | Federal | Federal | Federal | Federal |
| Virginia | Yes | State* | State | Federal | Federal | Federal | Federal |
| Washington | No State Income Tax | | | | | | |
| West Virginia | No | None | None | None | None | None | None |
| Wisconsin | Yes | None | None | State | Federal | Federal | None |
| Wyoming | No State Income Tax | | | | | | |

*Does not allow itemized deductions for state income taxes but does permit itemized deductions for sales taxes deducted for federal income tax purposes.

State Tax Exclusion for Pension/Retirement Income and Social Security Benefits (Tax Year 2005)

| State | Private | State & Local | Federal Civilian | Military | Social Security Benefits |
|---|---|---|---|---|---|
| Alabama | State Calculation | Most exempt | Exempt | Exempt | Exempt |
| Alaska | No State Income Tax | | | | |
| Arizona | None | $2,500 | $2,500 | $2,500 | Exempt |
| Arkansas | $6,000 | $6,000 | $6,000 | $6,000 | Exempt |
| California | None | None | None | None | Exempt |
| Colorado | $20,000/$24,000 | $20,000/$24,000 | $20,000/$24,000 | $20,000/$24,000 | $20,000/$24,000* |
| Connecticut | None | None | None | None | Exempt** |
| Delaware | $2,000/$12,500 | $2,000/$12,500 | $2,000/$12,500 | $2,000/$12,500 | Exempt |
| District of Columbia | None | $3,000 | $3,000 | $3,000 | Exempt |
| Florida | No State Income Tax | | | | |
| Georgia | $15,000 | $15,000 | $15,000 | $15,000 | Exempt |
| Hawaii | State Calculation | Exempt | Exempt | Exempt | Exempt |
| Idaho | None | $23,268/$34,902 [a] | $23,268/$34,902 | $23,268/$34,902 | Exempt |
| Illinois | State Calculation | Exempt | Exempt | Exempt | Exempt |
| Indiana | None/$5,250 | None/$5,250 | $2,000/$7,250 | $2,000/$5,250 | Exempt |
| Iowa | $6,000 | $6,000 | $6,000 | $6,000 | Up to 50% are taxable |
| Kansas | None | Some exempt | Exempt | Exempt | Same as federal |
| Kentucky | $41,110 | State Calculation | State Calculation | State Calculation | Exempt |
| Louisiana | $6,000 | $6,000/Exempt | Exempt | Exempt | Exempt |
| Maine | $6,000 | $6,000 | $6,000 | $6,000 | Exempt |
| Maryland | $21,500 | $21,500 [b] | $21,500 | $21,500 | Exempt |
| Massachusetts | None | Exempt [c] | Exempt [c] | Exempt | Exempt |
| Michigan | $39,570 | Exempt | Exempt | Exempt | Exempt |
| Minnesota | None | None | None | None | Same as federal |
| Mississippi | Exempt | Exempt | Exempt | Exempt | Exempt |
| Missouri | $6,000 | $6,000 | $6,000 | $6,000 | Same as federal |
| Montana | $3,600 | $3,600 | $3,600 | $3,600 | Separate state calculation |
| Nebraska | None | None | None | None | Same as federal |
| Nevada | No State Income Tax | | | | |
| New Hampshire | Exempt | Exempt | Exempt | Exempt | Exempt |
| New Jersey | $15,000 | $15,000 | $15,000 | Exempt | Exempt |
| New Mexico | None | None | None | None | Same as federal |
| New York | $20,000 | Exempt | Exempt | Exempt | Exempt |
| North Carolina | $2,000 | $4,000/Exempt | $4,000 | $4,000 | Exempt |
| North Dakota | None | None/$5,000 | None/$5,000 | None/$5,000 | Same as federal |
| Ohio | $200 credit | $200 credit | $200 credit | $200 credit | Same as federal |
| Oklahoma | $7,500 | $7,500 | $7,500 | $7,500 | Exempt |
| Oregon | 9% credit | 9% credit | 9% credit/pre-1991 exempt | 9% credit | Exempt |
| Pennsylvania | Exempt | Exempt | Exempt | Exempt | Exempt |
| Rhode Island | None | None | None | None | Same as federal |
| South Carolina | $3,000/$10,000 | $3,000/$10,000 | $3,000/$10,000 | $3,000/$10,000 | Exempt |
| South Dakota | No State Income Tax | | | | |
| Tennessee | Exempt | Exempt | Exempt | Exempt | Exempt |
| Texas | No State Income Tax | | | | |
| Utah | $4,800/$7,500 | $4,800/$7,500 | $4,800/$7,500 | $4,800/$7,500 | Same as federal |
| Vermont | None | None | None | None | Same as federal |
| Virginia | None | None | None | Most taxable | Exempt |
| Washington | No State Income Tax | | | | |
| West Virginia | None | $2,000 | $2,000 | $2,000 | Same as federal |
| Wisconsin | None | Pre-1964 Exempt | Pre-1964 Exempt | Exempt | Up to 50% are taxable |
| Wyoming | No State Income Tax | | | | |

[a] Applies only in the case of certain public safety officials.

[b] All pension benefits to police and firefighters (or their beneficiaries) as a result of job related injuries (or death) are exempt.

[c] Only contributory pension income is exempt.

* Exemption amoiunts are based on age.

** Exemption is subject to income limitation.

**Alternative Minimum Tax (Tax Year 2007)**

| State | AMT |
|---|---|
| Alabama | No |
| Alaska | No State Income Tax |
| Arizona | No |
| Arkansas | No |
| California | Yes |
| Colorado | Yes |
| Connecticut | Yes |
| Delaware | No |
| Dist. of Columbia | No |
| Florida | No State Income Tax |
| Georgia | No |
| Hawaii | No |
| Idaho | No |
| Illinois | No |
| Indiana | No |
| Iowa | Yes |
| Kansas | No |
| Kentucky | No |
| Louisiana | No |
| Maine[a] | No |
| Maryland | No |
| Massachusetts | No |
| Michigan | No |
| Minnesota | Yes |
| Mississippi | No |
| Missouri | No |
| Montana | No |
| Nebraska | No |
| Nevada | No State Income Tax |
| New Hampshire | No |
| New Jersey | No |
| New Mexico | No |
| New York[b] | No |
| North Carolina | No |
| North Dakota | No |
| Ohio | No |
| Oklahoma | No |
| Oregon | No |
| Pennsylvania | No |
| Rhode Island | Yes |
| South Carolina | No |
| South Dakota | No State Income Tax |
| Tennessee | No |
| Texas | No State Income Tax |
| Utah | No |
| Vermont[c] | No |
| Virginia | No |
| Washington | No State Income Tax |
| West Virginia | Yes |
| Wisconsin | Yes |
| Wyoming | No State Income Tax |

[a] Imposes a state minimum tax.

[b] A 6.0 percent minimum tax is imposed.

[c] Allows prior AMT credit for tax years 2002 and 2003

# Appendix B

**Detailed Data**
**Taxpayer Profiles**

**Detailed Taxpayer Profiles**

| Assumptions | Minimum Wage Worker | Married Retired Working Class | Dual Minimum Wage Workers | Single Professional | Married Working Class | Married Retired Professionals | Married Professionals | Married Investment Income Only | Married Executive | Married Small Business Owner | Married Senior Executive |
|---|---|---|---|---|---|---|---|---|---|---|---|
| ***Income*** | | | | | | | | | | | |
| Wages-Taxpayer | $ 15,392 | $ - | $ 15,392 | $ 45,000 | $ 45,000 | $ - | $ 90,000 | $ - | $ 180,000 | $ 100,000 | $ 1,000,000 |
| Wages-Spouse | $ - | $ - | $ 15,392 | $ - | $ 30,000 | $ - | $ 60,000 | $ - | $ - | $ - | $ - |
| K1 Distribution | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 200,000 | $ - |
| Pension Income | $ - | $ 8,000 | $ - | $ - | $ - | $ 45,000 | $ - | $ - | $ - | $ - | $ - |
| Social Security Income | $ - | $ 15,000 | $ - | $ - | $ - | $ 24,000 | $ - | $ - | $ - | $ - | $ - |
| Taxable Interest Income | $ - | $ 520 | $ - | $ 50 | $ 100 | $ 1,050 | $ 500 | $ 5,000 | $ 2,000 | $ 3,000 | $ 15,000 |
| Tax Exempt Interest Income | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 10,000 | $ - | $ - | $ - |
| Dividend Income | $ - | $ 300 | $ - | $ 150 | $ 50 | $ 1,150 | $ 1,150 | $ 50,000 | $ 2,300 | $ 10,000 | $ 23,000 |
| Short-Term Capital Gains Income | $ - | $ 200 | $ - | $ 215 | $ 350 | $ 2,000 | $ 200 | $ 31,475 | $ 2,000 | $ 15,000 | $ 35,000 |
| Long-Term Capital Gains Income | $ - | $ - | $ - | $ - | $ - | $ 20,000 | $ 600 | $ 75,000 | $ 4,200 | $ 25,000 | $ 100,000 |
| **Total Income** | **$ 15,392** | **$ 24,020** | **$ 30,784** | **$ 45,415** | **$ 75,500** | **$ 93,200** | **$ 152,450** | **$ 171,475** | **$ 190,500** | **$ 353,000** | **$ 1,173,000** |
| Dependents | 2 | - | 3 | - | 2 | - | 2 | - | 4 | 4 | 3 |
| Filing Status | HoH | MFJ | MFJ | S | MFJ | MFJ | MFJ | MFJ | MFJ | MFJ | MFJ |
| ***Personal Exemptions*** | | | | | | | | | | | |
| Taxpayer | | | | | | | | | | | |
| Spouse | | | | | | | | | | | |
| Dependents | | | | | | | | | | | |
| 65 or Over | | | | | | | | | | | |
| ***Standard Deduction*** | Yes | Yes | Yes | Yes | Maybe | Maybe | No | No | No | No | No |
| ***Itemized Deductions*** | No | No | No | No | Maybe | Maybe | Yes | Yes | Yes | Yes | Yes |
| State Income & Sales Taxes | | | | | $ 2,349.22 | $ 3,733.03 | $ 6,822.59 | $ 4,331.55 | $ 9,624.27 | $ 25,721.21 | $ 85,470.20 |
| Real Estate Taxes | | | | | $ 2,684.82 | $ 3,487.93 | $ 5,306.46 | $ 6,139.21 | $ 6,971.91 | $ 7,311.35 | $ 24,295.21 |
| Mortgage Interest | | | | | $ 6,142.99 | $ - | $ 10,612.91 | $ 3,979.12 | $ 13,261.79 | $ 11,992.71 | $ 39,851.13 |
| Charitable Contributions | | | | | $ 1,284.05 | $ 2,828.70 | $ 3,214.20 | $ 7,230.62 | $ 4,016.43 | $ 9,836.13 | $ 32,684.92 |
| Other | | | | | $ 437.74 | $ - | $ 879.36 | $ 989.09 | $ 1,098.83 | $ 1,525.39 | $ 5,068.78 |
| Total Itemized Deductions | | | | | $ 12,899 | $ 10,049.66 | $ 26,835.51 | $ 22,669.60 | $ 34,973.23 | $ 56,386.78 | $ 187,370.25 |
| Total Itemized Deductions as a % of Total Income | | | | | 17.1% | 10.8% | 17.6% | 13.2% | 18.4% | 16.0% | 16.0% |

***Credits***

- Earned Income Tax Credit (EITC)
- Refundable EITC
- Child Tax Credit
- Child Care Tax Credit
- Property Tax Relief Credit

***Other Tax Systems***

- Alternative Flat Tax
- Alternative Minimum Tax

***Other Assumptions***

- Retired tax filers are assumed to be 65 or over
- Minimum wage workers work full-time, 40 hours a week
- All interest income is taxable for state purposes
- Pension income is non-military but from a public source
- Minimum wage worker and Single professional worker are renters, all other taxpayers are assumed to be homeowners
- Short-Term Capital Gains Income refers to assets held at least one year but less than five years
- Long-Term Capital Gains Income refers to assets held at least five years

**Taxpayer Profiles Tax Year 2007 Incidence Analysis**

| State | Minimum Wage Worker Estimated Liability | Minimum Wage Worker Percentage of Total Income | Minimum Wage Worker Rank (ascending by liability) | Married Retired Working Class Estimated Liability | Married Retired Working Class Percentage of Total Income | Married Retired Working Class Rank (ascending by liability) |
|---|---|---|---|---|---|---|
| Rhode Island | $ (477) | -3.10% | 3 | $ (300) | -1.25% | 3 |
| Massachusetts | (707) | -4.59% | 2 | (900) | -3.75% | 1 |
| Connecticut | 0 | 0.00% | 4 | (500) | -2.08% | 2 |
| North Carolina | 9 | 0.06% | 5 | 0 | 0.00% | 6 |
| New Jersey | (943) | -6.13% | 1 | (50) | -0.21% | 5 |
| Virginia | 0 | 0.00% | 4 | 0 | 0.00% | 6 |
| Delaware | 0 | 0.00% | 4 | 0 | 0.00% | 6 |
| New Hampshire | 0 | 0.00% | 4 | (272) | -1.13% | 4 |

| State | Dual Minimum Wage Workers Estimated Liability | Dual Minimum Wage Workers Percentage of Total Income | Dual Minimum Wage Workers Rank (ascending by liability) | Single Professional Estimated Liability | Single Professional Percentage of Total Income | Single Professional Rank (ascending by liability) |
|---|---|---|---|---|---|---|
| Rhode Island | $ (56) | -0.18% | 2 | $ 1,529 | 3.37% | 3 |
| Massachusetts | 85 | 0.28% | 6 | 1,923 | 4.23% | 6 |
| Connecticut | 71 | 0.23% | 5 | 1,864 | 4.10% | 5 |
| North Carolina | 117 | 0.38% | 7 | 2,667 | 5.87% | 8 |
| New Jersey | (79) | -0.26% | 1 | 962 | 2.12% | 2 |
| Virginia | 175 | 0.57% | 8 | 2,129 | 4.69% | 7 |
| Delaware | 0 | 0.00% | 4 | 1,822 | 4.01% | 4 |
| New Hampshire | (50) | -0.16% | 3 | 0 | 0.00% | 1 |

| State | Married Working Class Estimated Liability | Married Working Class Percentage of Total Income | Married Working Class Rank (ascending by liability) | Married Retired Professionals Estimated Liability | Married Retired Professionals Percentage of Total Income | Married Retired Professionals Rank (ascending by liability) |
|---|---|---|---|---|---|---|
| Rhode Island | $ 1,533 | 2.03% | 3 | 2,274 | 2.44% | 5 |
| Massachusetts | 2,732 | 3.62% | 6 | 1,227 | 1.32% | 3 |
| Connecticut | 3,036 | 4.02% | 8 | 3,023 | 3.24% | 7 |
| North Carolina | 3,016 | 3.99% | 7 | 3,219 | 3.45% | 8 |
| New Jersey | 1,222 | 1.62% | 2 | 659 | 0.71% | 2 |
| Virginia | 2,666 | 3.53% | 5 | 2,981 | 3.20% | 6 |
| Delaware | 2,029 | 2.69% | 4 | 1,984 | 2.13% | 4 |
| New Hampshire | 0 | 0.00% | 1 | 0 | 0.00% | 1 |

| State | Married Professionals Estimated Liability | Married Professionals Percentage of Total Income | Married Professionals Rank (ascending by liability) | Married Investment Income Only Estimated Liability | Married Investment Income Only Percentage of Total Income | Married Investment Income Only Rank (ascending by liability) |
|---|---|---|---|---|---|---|
| Rhode Island | $ 5,808 | 3.81% | 4 | $ 4,344 | 2.28% | 2 |
| Massachusetts | 6,805 | 4.46% | 6 | 8,640 | 4.54% | 7 |
| Connecticut | 7,223 | 4.74% | 7 | 8,174 | 4.29% | 5 |
| North Carolina | 8,261 | 5.42% | 8 | 10,602 | 5.57% | 8 |
| New Jersey | 5,179 | 3.40% | 2 | 6,753 | 3.54% | 4 |
| Virginia | 5,827 | 3.82% | 5 | 8,190 | 4.30% | 6 |
| Delaware | 5,662 | 3.71% | 3 | 6,526 | 3.43% | 3 |
| New Hampshire | 0 | 0.00% | 1 | 3,010 | 1.58% | 1 |

| State | Married Executive Estimated Liability | Married Executive Percentage of Total Income | Married Executive Rank (ascending by liability) | Married Small Business Owner Estimated Liability | Married Small Business Owner Percentage of Total Income | Married Small Business Owner Rank (ascending by liability) |
|---|---|---|---|---|---|---|
| Rhode Island | $ 8,368 | 4.39% | 4 | $ 19,415 | 5.50% | 7 |
| Massachusetts | 8,822 | 4.63% | 5 | 17,434 | 4.94% | 4 |
| Connecticut | 9,125 | 4.79% | 7 | 17,250 | 4.89% | 2 |
| North Carolina | 10,945 | 5.75% | 8 | 24,265 | 6.87% | 8 |
| New Jersey | 7,361 | 3.86% | 2 | 18,125 | 5.13% | 6 |
| Virginia | 8,874 | 4.66% | 6 | 17,933 | 5.08% | 5 |
| Delaware | 7,383 | 3.88% | 3 | 15,328 | 4.34% | 1 |
| New Hampshire | 0 | 0.00% | 1 | 17,410 | 4.93% | 3 |

| State | Married Senior Executive Estimated Liability | Married Senior Executive Percentage of Total Income | Married Senior Executive Rank (ascending by liability) |
|---|---|---|---|
| Rhode Island | $ 64,515 | 5.50% | 6 |
| Massachusetts | 60,947 | 5.20% | 4 |
| Connecticut | 58,250 | 4.97% | 3 |
| North Carolina | 84,844 | 7.23% | 7 |
| New Jersey | 87,280 | 7.44% | 8 |
| Virginia | 61,446 | 5.24% | 5 |
| Delaware | 57,934 | 4.94% | 2 |
| New Hampshire | 1,660 | 0.14% | 1 |

*Notes:* Rhode Island amounts are the lesser of the current personal income tax system or the alternative flat rate income tax system with a 5.5% flat rate.

# Appendix C

## Detailed Information
## Personal Income Tax Credits

**Allowable Federal Personal Income Tax Credits**

| RI Individual Income Tax Credits | Credit description: | Credit Cost $ (Tax Year 2006) | Other States Personal Income Tax credits<br>State with similar law: Credit as named |
|---|---|---|---|
| **Public Good Credits** | | | |
| Disabled access | Business related credit -<br>Credit allowed to an "eligible small business" for any taxable year in the amount of 50 percent of the eligible access expenditures as exceed $250 but do not exceed $10,250. | *Other allowable federal credit | KS, MO: Disabled access<br>CA: Disabled access for eligible small businesses<br>VA: Disabled home accessibility<br>GA: Disabled person home purchase or retrofit<br>NC: Disabled taxpayer or dependent |
| Adoption tax credit | A taxpayer entitled to the federal adoption credit is entitled to a credit against the RI taxable income. Credit is allowed against personal income tax. | $ 133,869 | |
| Child and dependent care expenses | Nonrefundable personal credit -<br>Credit is allowed against the tax imposed for the taxable year with respect to each qualifying child of the taxpayer of an amount equal to $1,000. | $ 2,509,533 | Child and dependent care:<br>CA, DE, DC, IA, KY, ME, MD, MN, NY, OH,OR, SC<br>Child and dependent care expenses:<br>HI, KS, NE, NC, VT<br>Child care: AR, CO, LA, NM<br>Child care contribution: CO<br>Child care expenses: OK<br>Child care service provider: OK<br>Dependent care assistance program: IL |
| Elderly and disabled | Nonrefundable personal credit -<br>Credit equal to 15 percent of specified amounts and filing status for an individual 65 years of age or older or a retired individual who was permanently and totally disabled. | $ 10,833 | Elderly and disabled: NE, VT<br>Elderly: ME<br>Elderly care: MO |
| Earned income | Refundable credit - Credit is allowed to an eligible individual based upon income or qualifying child, against the tax imposed in an amount equal to a specified credit percentage of the taxpayer's earned income and credit does not exceed the earned income amount. | $ 8,198,474<br>$ 4,101,862<br>$ 12,300,336 | Earned income: NJ<br>Earned income credit: VT<br>Earned income tax credit:<br>DC, IL, IN, IA, KS, ME, MD, MA, NY, OK, OR, WI: |
| Qualified electric vehicle | Credit allowed in an amount equal to 10% of the cost of any qualified electric vehicle placed in service by the taxpayer, not exceeding $4,000. Any electric vehicle placed in service after 12/31/05 will be reduced by 75% of the credit otherwise available. | *Other allowable federal credit | Electric vehicle charger: GA |
| Low-income housing | Business related credit -<br>Credit determined in an amount equal to the applicable percentage [70% present value credit for certain new buildings; 30% present value credit for certain other buildings] of the qualified basis of each qualified low-income building. | *Other allowable federal credit | Low Income housing:<br>CA, CO, GA, HI, MO, NY, NC, UT, VA<br>Low income household renter: HI<br>Low-income housing credit (builder/developer credit): MA |

## Allowable Federal Personal Income Tax Credits

| RI Individual Income Tax Credits | Credit description: | Credit Cost $ (Tax Year 2006) | Other States Personal Income Tax credits<br>State with similar law: Credit as named |
|---|---|---|---|
| **Public Good Credits** | | | |
| Mortgage interest | Nonrefundable personal credit -<br>Credit is allowed for the taxable year in an amount equal to the product of the certificate credit rate and the interest paid or accrued during the taxable year on the remaining principal of the certified indebtedness amount. | $ 49,340 | |
| Foreign tax | Tax credit allowed in the amount of taxes imposed by foreign countries and possessions of the U.S. | $ 2,754,240 | Federal credits--less of $25 or 10% of federal elderly foreign tax, investment tax and jobs credits: LA |
| Prior year alternative minimum tax | Minimum tax credit allowed in an amount equal to the excess (if any) of the adjusted net minimum tax imposed for all prior taxable years, beginning after 1986, over the amount allowable as a credit under the minimum tax credit allowance. | *Other allowable federal credit | Prior year alternative minimum tax: CA<br>Alternative minimum tax: CT, MN<br>Minimum tax carry forward: IA |
| **Economic Development Credits** | | | |
| General business | The credit is a combination of other federal credits [investment credit, work opportunity credit, Hurricane Katrina housing credit, etc.] and is limited to certain percentages of the federal tax liability.<br>Credit is allowed against personal income tax. | $ 607,000 | |
| Certain contributions to community development corporations | A general business credit of 5% is allowed of any qualified CDC contribution made to a selected CDC during the 5-year period on the date of corporation selection. The contribution to be used by the CDC for qualified low-income assistance within its operational area. The aggregate amount of contribution may not exceed $2.0 million. | *Other allowable federal credit | Community development: SC<br>Community development assistance: NE<br>Community foundations: MT<br>Community investment: MD |
| Empowerment zone and renewal community employment | A 20% credit is allowed of the qualified zone wages paid or incurred during the calendar year by an employer for services performed by a qualified zone employee. With respect to each qualified employee, the amount of qualified zone wages which may be taken into account for a calendar year may not exceed $15,000. | *Other allowable federal credit | Enterprise zone:<br>AL, AR, AZ, CO, HI, IA, LA, MD, MO, UT, VA<br>Enterprise zone employment credit: CA<br>Enterprise zone hiring and sales or use tax: CA<br>Enterprise zone investment: IL<br>Enterprise zone/airport development: IN<br>Investment in capital companies, economically distressed areas, and musical recording productions infrastructures: LA<br>Empowerment zone: MT<br>Economic opportunity area credit: MA |

## Allowable Federal Personal Income Tax Credits

| RI Individual Income Tax Credits | Credit description: | Credit Cost $ (Tax Year 2006) | Other States Personal Income Tax credits<br>State with similar law: Credit as named |
|---|---|---|---|
| **Economic Development Credits** | | | |
| Certain employer payroll taxes | Refundable credit - The amount withheld under the federal withholding tax law allows the recipient of the income a credit against the tax imposed. | *Other allowable federal credit | Payroll tax: VT |
| Indian employment | Business related credit - Employer related credit determined by an amount equal to 20% of the excess (if any) of the sum of the qualified wages paid or incurred, plus qualified employee health insurance costs paid or incurred, over the sum of the qualified wages and qualified employee health insurance costs, which were paid or incurred by the employer. | *Other allowable federal credit | |
| Increasing research activities | Business related credit - Credit determined in an amount equal to the sum of 20% of the excess (if any) of the qualified research expenses over the base amount, 20% of the basic research payments and 20 % of the amounts paid or incurred in carrying on any trade or business to an energy research consortium for energy research. | *Other allowable federal credit | Increasing research activities: AZ<br>Research activities: HI, IA, UT |
| Alcohol used as fuel | Business related credit - Credit is an amount equal to the sum of: Alcohol mixture credit; Alcohol credit; Small ethanol producer credit; Cellulosic biofuel producer credit. | *Other allowable federal credit | Alternative Energy Systems: MT |
| Enhanced oil recovery | Business related credit - Credit allowed is 15% of the taxpayer's qualified enhanced oil recovery costs of tangible property, which is an integral part of a qualified enhanced oil recovery project. | *Other allowable federal credit | Enhanced oil recovery: CA |
| Federal tax paid on fuels | A credit is allowed for federal excise tax imposed on certain fuels for nontaxable uses of each fuel as provided. | *Other allowable federal credit | |
| Renewable electricity production | Credit in the amount equal to the product of 1.5 cents, multiplied by the kilowatt hours of electricity produced by the taxpayer from qualified energy sources and at a qualified facility during the 10-year period beginning on the date the facility was originally placed in service, and sold by the taxpayer to an unrelated person. | *Other allowable federal credit | Alternative energy systems: MT<br>Renewable energy property: NC<br>Renewable energy systems: UT<br>Renewable energy technologies: HI<br>Renewable energy source: MA |
| | | *Other allowable federal credits cost: $1.0 million | |

## State Enacted Personal Income Tax Credits

| RI Individual Income Tax Credits | Credit description: | Credit Cost $ (Tax Year 2006) | Other States Personal Income Tax Credits<br>State with similar law: Credit as named |
|---|---|---|---|
| **Public Good Credits** | | | |
| Credit for accommodations under ADA | A credit equal to 10% of the total amount expended (not exceeding the sum of $1,000), to a small business taxpayers that incurs expenses to provide access to persons with disabilities.<br>Credit is allowed against business and personal income tax. | $ - | |
| Child day care assistance and development | A 30% credit is allowed for a RI licensed daycare purchased for the taxpayer's employees' dependent children, for the costs to establish and / or operate a RI licensed daycare facility; or for rentals / leases foregone such that the RI licensed daycare facility could be established and / or operated. The maximum annual credit is $30,000; not refundable; amounts of credit based on daycare purchased have no carryover; amounts of credit based on daycare facilities established and / or operated have a 5 year carryover. | $ 24,409 | Child care center investment: CO<br>Child care for employees and purchase of child care property: GA<br>Child day care assistance (employers only): KS<br>Day care facility investment: VA |
| Qualified widow(er) | RI resident is allowed a 2% credit who qualifies and files as a "surviving spouse" with the IRS, is age 65 or older and has adjusted gross income of less than $25000. Maximum allowed up to $500. | $ 147 | |
| Adult education credit | A credit of 50% of the costs incurred solely and directly for the non-worksite or worksite-based adult education programs. The employee for whose adult education programs credit is claimed by the employer must remain in the employ of the business for a minimum of 13 consecutive weeks and a minimum of 455 hours of paid employment. The maximum credit per employee is $300 and the maximum overall credit per taxable year per employer is $5,000.<br>Credit is allowed against business and personal income tax. | $ 5,220 | |
| Tax credit for contributions to scholarship organizations | A credit is allowed for business entities making voluntary cash contributions to a certified scholarship organization. The maximum credit allowed a business entity is no greater than $100,000 in any tax year. The total aggregate amount of all tax credits approved cannot exceed $1,000,000.<br>Credit is allowed against business and personal tax.<br>Credit is allowed against personal income tax. | * Other state enacted credit | |

## State Enacted Personal Income Tax Credits

| RI Individual Income Tax Credits | Credit description: | Credit Cost $ (Tax Year 2006) | Other States Personal Income Tax Credits<br>State with similar law: Credit as named |
|---|---|---|---|
| **Public Good Credits** | | | |
| Property tax relief (circuit breaker) | RI residents who meet certain eligibility requirements may be entitled to relief against property taxes accrued or rents paid, which constitute property taxes paid. The credit is computed by a percentage based upon income level and household size. The maximum credit allowed is $500 per household per year.<br>Credit is allowed against personal income tax or as a rebate. | $ 14,090,126 | Senior circuit breaker (property tax / rent): MA<br>Property tax: MO<br>Property tax / rent: AZ, DC, MI, NJ, NY, WI<br>Property tax on primary residences and motor vehicles: CT<br>Property tax rebate (age 65 and over): NM<br>Property tax relief (low AGI and over 65 or disabled): OK<br>Elderly homeowner or renter: MT<br>Senior citizen property tax: WV |
| Juvenile restitution credit | An employer of a juvenile hired under the juvenile victim restitution program of the Family Court is entitled to receive a 10% credit of the wages paid to the juvenile. The credit cannot exceed $3,000 annually.<br>Credit is allowed against business and personal income tax. | * Other state enacted credit | |
| Credit for fees to the affordable energy fund | A credit for the amount of fee due and paid to the affordable energy fund (for the purpose of supporting weatherization and energy conservation educational programs and services for low-income and very low-income households) against gross receipts tax for the sales and use of heating fuel not exempted from taxation.<br>Credit is allowed against business and personal tax. | * Other state enacted credit | |
| Residential renewable energy system | An eligible person who pays all or part of the cost of an eligible renewable energy system of either a photovoltaic system, a solar domestic hot water system, an active solar space heating system, a geothermal system or a wind generating system, which is installed in a dwelling is entitled to a non-refundable credit for the cost of the energy system in the tax year that the system is placed into service.<br>No carry forward is provided.<br>Credit is allowed against business and personal income tax. | $ 71,421 | Renewable energy technologies: HI<br>Renewable energy property: NC<br>Renewable energy systems: UT<br>Solar and fuel cell electric generating equipment: NY<br>Solar and wind energy credit: MA<br>Solar and wind energy system: CA<br>Solar energy: AZ |
| Historic residence | RI resident may claim a credit up to 20% of the certified costs of renovation in the year the work is completed. Maximum credit - $2,000<br>Carry forward allowed by owner. | $ 3,005,614 | See Historic commercial building |
| Residential lead abatement | Credit or refund is allowed for the amount paid for lead paint removal or lead hazard reduction. Credit or refund is provided for the required lead paint abatement or mitigation of up to a maximum per dwelling unit of $1,500 for mitigation and $5,000 per dwelling unit for abatement. | $ 110,273 | Lead paint: MA |

### State Enacted Personal Income Tax Credits

| RI Individual Income Tax Credits | Credit description: | Credit Cost $ (Tax Year 2006) | Other States Personal Income Tax Credits<br>State with similar law: Credit as named |
|---|---|---|---|
| **Public Good Credits** | | | |
| Credit to trust beneficiary for distribution | A resident beneficiary of a trust whose RI income includes all of part of an accumulation distribution by the trust is allowed a credit for all or a proportionate part of any tax paid by the trust. The credit can not reduce the tax otherwise due from the beneficiary.<br>Credit is allowed against personal income tax. | * Other state enacted credit | |
| Credit for trust beneficiary | A nonresident beneficiary of a trust whose RI income includes all or part of an accumulation distribution by the trust is allowed a credit against the tax otherwise due and computed in the same manner with respect to a resident beneficiary.<br>Credit is allowed against personal income tax. | * Other state enacted credit | |
| Income tax paid to other states | A credit is allowed against Rhode Island tax when the income of a RI resident has been reported to another state and a personal income tax has been paid to that state, and this also applies to part-year residents. | $ 126,783,548 | Income tax paid to other states:<br>AL, AR, CA, CO, ID, IL, KS, KY, LA, MD, MO, NE, NM, VA, WV, WI<br>Income tax paid to another state:<br>DE, DC, GA, MI, MN, MS, ND, OH, SC, UT<br>Income tax paid to another state or country: NC<br>Income tax paid to another state or jurisdiction: MA<br>Income tax paid to Michigan cities: MI<br>Income tax paid to other jurisdictions: CT, ME, NJ<br>Income tax paid to other state or Canadian province: VT<br>Income tax paid to other states and localities: IN<br>Income tax paid to other states/countries:<br>AZ, HI, IA, MT, PA<br>Income taxed by another state (resident credit): OH, OR<br>Income tax paid to other states or Canada: NY |
| **Economic Development Credits** | | | |
| Farm to school income tax credit | A 5% credit is allowed to an individual or entity domiciled within RI for the purchase of produce grown in the state which is used in connection with the individual or entity's agreement to provide food, services or other products to a local education agency. The credit is equal to 5% of the cost of farm products grown or produced in the state. There is no carry over provided.<br>Credit is allowed against business and personal tax. | * Other state enacted credit | |
| Motion picture production | A credit of 25% of the state certified production costs incurred directly attributable to activity within RI and total production budget minimum of $300,000.<br>Credit allowed against business and personal income tax.<br>Credit is allowed against business and personal income tax. | $ 19,551,483 | Film incentive credit: MA<br>Motion picture production: HI<br>Motion picture investment and employment: LA<br>Motion picture incentive: MS<br>Motion picture: SC<br>Film employment production and qualified expenditures: MT<br>MO, NM, PA: Film production<br>Film production development contributions: OR<br>Film production services: IL<br>Empire state film production: NY<br>Film tax: GA |

## State Enacted Personal Income Tax Credits

| RI Individual Income Tax Credits | Credit description: | Credit Cost $ (Tax Year 2006) | Other States Personal Income Tax Credits<br>State with similar law: Credit as named |
|---|---|---|---|
| **Economic Development Credits** | | | |
| Building rehabilitation investment tax credit | A certified building owner who owns and operates an eligible business within a certified building may be allowed a credit equal to 100% of the total amount o RI salaries and wages paid to qualified employees in excess of RI salaries and wages paid to qualified employees in excess of RI salaries and wages paid to the same employees in the prior calendar year. The maximum credit allowable per year is $3,000 per qualified employee.<br>Credit is allowed against business and personal tax. | * Other state enacted credit | |
| Historic commercial building | Credit in an amount equal to 30% allowed on all projects placed in service prior to 1-1-08 of the qualified rehabilitation expenditures for redevelopment and reuse of RI historic structures certified by RI Historical Preservation & Heritage Commission.<br>Continuing projects must pay a processing fee ranging from 3% to 5% of qualified rehabilitation expenditures in combination with a specified range of tax credit percentages.<br>Credit is allowed against business and personal income tax. | $ 34,519,437 | Historic barn restoration: NY<br>Historic preservation: CO, DE, KS, MI, MO, MT, UT<br>Historic preservation and cultural entertainment: IA<br>Historic preservation restoration: KY<br>Historic rehabilitated building investment: WV<br>Historic rehabilitation: GA, IN, ME, MA, NC, OK, VT, VA, WI<br>Historic structures: SC |
| Credit for artwork exhibition | A credit of 10% of each $1,000 of the purchase price of qualifying artwork to a maximum purchase price of $10,000. The credit is available to taxpayers with a written certification by the board of curators.<br>Credit is allowed against personal income tax. | * Other state enacted credit | |
| Apprenticeship credit | A taxpayer who is an employer and employs a machine tool, metal trade apprentice of plastic process technician apprentice enrolled and registered under the terms of a qualified program is allowed a credit of 50% of the actual wages paid to the qualifying apprentice or $4,800, whichever is less.<br>The number of apprenticeships for which the tax credit is allowed must exceed the average number of apprenticeships begun during the 5 preceding years.<br>The credit is nonrefundable and has no carry forward provision.<br>Credit is allowed against business and personal income tax. | $ - | |

## State Enacted Personal Income Tax Credits

| RI Individual Income Tax Credits | Credit description: | Credit Cost $ (Tax Year 2006) | Other States Personal Income Tax Credits<br>State with similar law: Credit as named |
|---|---|---|---|
| **Economic Development Credits** | | | |
| Enterprise zone wage credit | A qualified business in an enterprise zone is allowed a credit of 50% of the RI salaries and wages paid only to those newly hired enterprise jobs workers comprising of a 5% test used for certification. The credit has a maximum of $2,500 per enterprise jobs worker, is refundable and has no carryover. A credit is also provided for those employees who are domiciliaries of an enterprise zone for a maximum of $5,000 per enterprise job employee.<br>Credit is allowed against business and personal income tax. | $ 674,433 | |
| Enterprise zone interest credit (eliminated in 2004) | Regular loan interest credit: A taxpayer is allowed a 10% credit ($10,000 annual maximum) for interest on loans made to certified businesses.<br><br>Special rehabilitation loan interest credit: A taxpayer is allowed a 100% credit ($20,000 annual maximum) for interest on loans made to certified businesses for rehabilitation of Council certified industrial or commercial property if the loan is at least 25% of the certified business' basis in the realty. | $ 373,392 | Enterprise zone:<br>AL, AR, AZ, CO, HI, IA, LA, MD, MO, UT, VA<br>Enterprise zone employment credit: CA<br>Enterprise zone hiring and sales or use tax: CA<br>Enterprise zone investment: IL<br>Enterprise zone/airport development: IN<br>Investment in capital companies, economically distressed areas, and musical recording productions infrastructures: LA<br>Economic opportunity area credit: MA<br>Empowerment zone: MT |
| Jobs training expenses | An employer qualified by the Human Resource Investment Council is allowed a 25% credit for expenses in 1996 and 50% for expenses after 1996 to provide training or retraining of qualifying employees. The maximum credit allowed per employee is $5,000 in any 3 year period.<br>Credit is allowed against business and personal income tax. | $ 360,905 | Job training: OH<br>Job mentorship: NM<br>Jobs: IL, MD, MS, NC<br>Jobs and investment: ME<br>Jobs creation: PA |
| Biotechnology investment tax credit | An investment tax credit is allowed for any company engaged in commercial biological research and development or manufacturing and sale of biotechnology products or pharmaceutical ingredients. The company must pay employees that work a minimum of 30 hours per week within RI and must provide benefits typical to the biotechnology industry. A 10% credit is allowed of the cost or other basis of tangible property, buildings acquired, constructed and principally used in the production of biotechnology products.<br>Credit is allowed against business and personal tax. | * Other state enacted credit | |
| Innovation and growth tax credit | A tax credit is allowed in the amount of 50% of any investment made by an eligible qualified innovative company. This is applicable to companies identified as "innovation industries" by the RI Science and Technology Advisory Council. (effective 1-1-2007 and would be repealed on 12-31-2016)<br>Credit is allowed against business and personal tax. | * Other state enacted credit | |

## State Enacted Personal Income Tax Credits

| RI Individual Income Tax Credits | Credit description: | Credit Cost $ (Tax Year 2006) | Other States Personal Income Tax Credits<br>State with similar law: Credit as named |
|---|---|---|---|
| **Economic Development Credits** | | | |
| Investment Tax Credit | A 4% credit is allowed for realty and tangible personalty in the production of goods by manufacturing for purchases of buildings, structural components and a 10% credit for purchased or leased property. The 10% credit can only reduce a tax liability by 50%.<br>Credits are nonrefundable & 7-year carry over.<br>Credit is allowed against business and personal income tax. | $ 4,157,290 | Investment: GA, ID<br>Investment credit: VT |
| Research and development expense | A one-year write off [deduction] is allowed for expenditures paid or incurred during a taxable year for the construction, reconstruction, erection or acquisition of any property which is used or to be used for the purposes of research and development in the experimental or laboratory sense. The deduction is nonrefundable and has no carryover provision.<br>Credit is allowed against business and personal income tax. | $ 1,460,149 | Research: CA, GA, MT<br>Research activities: HI, IA, UT<br>Research and development: IL, KS, LA, MD, PA, VT<br>Research and development skills: MS<br>Research expense: IN |
| Research and development property | A 10% credit is allowed with respect to tangible personal property (buildings and structural components of buildings), with principal use in research and development in the experimental or laboratory sense. Credit is not available for leased property; is not refundable and has a 7 year carryover.<br>Credit is allowed against business and personal income tax. | $ 192,812 | See Research and development expense |
| Hydroelectric power credit | A hydroelectric power developer will be allowed a credit in the amount of 10% of the installation costs of a small hydroelectric power production facility at an existing dam site in RI. The credit is limited to $500,000 in expenditures for a maximum credit of $50,000. The credit is nonrefundable.<br>Credit is allowed against business and personal income tax. | * Other state enacted credit | |
| | | * Other state enacted credits totaled $309,988 | |

# Appendix D

## Tax Treatment of Capital Gains

State Tax Treatment of Capital Income (Tax Year 2005)

| State | Asset Base | Holding Periods | Treatment of Losses | Treatment of Gains | Short / Long Term Rates |
|---|---|---|---|---|---|
| Alabama | Same as federal | Same as federal | 100% deductible in year incurred | 100% taxable in year incurred | 5.000% |
| Alaska | No State Income Tax | | | | |
| Arizona | Same as federal | Same as federal | Same as federal | Same as federal | 5.040% |
| Arkansas | Same as federal | Same as federal | Same as federal | Same as federal | 7.0% / 4.9% |
| California | Same as federal | Same as federal | Same as federal | Same as federal | 9.300% |
| Colorado | Same as federal | Same as federal | Same as federal | Same as federal [a] | 4.630% |
| Connecticut | Same as federal | Same as federal | Same as federal | Same as federal [b] | 5.000% |
| Delaware | Same as federal | Same as federal | Same as federal | Same as federal | 5.950% |
| District of Columbia | Same as federal | Same as federal | Same as federal | Same as federal | 9.000% |
| Florida | No State Income Tax | | | | |
| Georgia | Same as federal | Same as federal | Same as federal | Same as federal | 6.000% |
| Hawaii | Same as federal | Same as federal | Same as federal | Same as federal | 7.250% |
| Idaho | Same as federal | Same as federal | Same as federal | Same as federal [c] | 7.800% |
| Illinois | Same as federal | Same as federal | Same as federal | Same as federal | 3.000% |
| Indiana | Same as federal | Same as federal | Same as federal | Same as federal | 3.400% |
| Iowa | Same as federal | Same as federal | Same as federal | Same as federal [d] | 8.980% |
| Kansas | Same as federal | Same as federal | Same as federal | Same as federal | 6.450% |
| Kentucky | Same as federal | Same as federal | Same as federal | Same as federal [e] | 6.000% |
| Louisiana | Same as federal | Same as federal | Same as federal | Same as federal | 6.000% |
| Maine | Same as federal | Same as federal | Same as federal | Same as federal [f] | 8.500% |
| Maryland | Same as federal | Same as federal | Same as federal | Same as federal | 4.750% |
| Massachusetts | Same as federal | Same as federal | Same as federal | Same as federal | 12.0% / 5.3% |
| Michigan | Same as federal | Same as federal | Same as federal | Same as federal [g] | 3.900% |
| Minnesota | Same as federal | Same as federal | Same as federal | Same as federal [h] | 7.850% |
| Mississippi | Same as federal | Same as federal | Same as federal | Same as federal | 5.000% |
| Missouri | Same as federal | Same as federal | Same as federal | Same as federal [i] | 6.000% |
| Montana | Same as federal | Same as federal | Same as federal | Same as federal [j] | 6.900% |
| Nebraska | Same as federal | Same as federal | Same as federal | Same as federal [k] | 6.840% |
| Nevada | No State Income Tax | | | | |
| New Hampshire | Same as federal | Same as federal | Same as federal | Same as federal | Exempt |
| New Jersey | Same as federal | Same as federal | Same as federal [l] | Same as federal [l] | 8.970% |
| New Mexico | Same as federal | Same as federal | Same as federal | Same as federal [m] | 5.700% |
| New York | Same as federal | Same as federal | Same as federal | Same as federal | 7.700% |
| North Carolina | Same as federal | Same as federal | Same as federal | Same as federal [n] | 8.250% |
| North Dakota | Same as federal | Same as federal | Same as federal | Same as federal [o] | 5.540% |
| Ohio | Same as federal | Same as federal | Same as federal [p] | Same as federal [p] | 7.185% |
| Oklahoma | Same as federal | Same as federal | Same as federal | Same as federal [q] | 10.000% |
| Oregon | Same as federal | Same as federal | Same as federal | Same as federal | 9.000% |
| Pennsylvania | Same as federal | Same as federal | 100% deductible in year incurred | 100% taxable in year incurred | 3.070% |
| Rhode Island | Same as federal | Same as federal | Same as federal | Same as federal | 25% of federal rate |
| South Carolina | Same as federal | Same as federal | Same as federal | Same as federal | 7.00% / 3.92% |
| South Dakota | No State Income Tax | | | | |
| Tennessee | Same as federal | Same as federal | Same as federal | Same as federal | Exempt [r] |
| Texas | No State Income Tax | | | | |
| Utah | Same as federal | Same as federal | Same as federal | Same as federal [s] | 7.000% |
| Vermont | Same as federal | Same as federal | Same as federal | Same as federal [t] | 5.700% |
| Virginia | Same as federal | Same as federal | Same as federal | Same as federal [u] | 5.750% |
| Washington | No State Income Tax | | | | |
| West Virginia | Same as federal | Same as federal | Same as federal | Same as federal | 6.500% |
| Wisconsin | Same as federal | Same as federal | Limited to $500 | Same as federal [v] | 6.75% / 2.70% |
| Wyoming | No State Income Tax | | | | |

Notes to the table are on the following page.

Notes to the preceding table:

[a] Capital gain from certain Colorado sources is exempt if held for specified periods

[b] Gains/losses from the sale of Connecticut state and local bonds are subtracted/added back

[c] 60% exclusion for long-term gains from the sale of certain real and tangible Idaho property

[d] 100% exclusion on qualifying business assets

[e] Gains on Kentucky Turnpike bonds and property taken by eminent domain are exempt

[f] Earnings from fishing operations contributed to a capital conservation fund and income from the Northern Maine Transmission Corp. are exempt

[g] Exempts U.S. government bonds. Persons age 65 or over may deduct up to $8,828/person in interest, dividends, and capital gains

[h] Sale of farm property is exempt if insolvent at time of sale

[i] 25% exclusion for certain sales of low-income housing

[j] 40% exclusion for installment sales entered into before 1987. Gains from certain small business investment companies are exempt. Tax credit for 10% of net capital gains

[k] Special one-time deduction for sale of stock in qualified corporation by certain taxpayers

[l] Capital gains from New Jersey obligations are exempt and capital losses may not be deducted from ordinary income

[m] Deduct the greater of 30% or $1,000 of federally taxable gains

[n] Exemption for gains from certain North Carolina obligations issued before July 1, 1995.

[o] 30% of net long-term capital gains deductible or gains realized on sale of property under eminent domain and corporate stock that relocated to N.D. exempt

[p] Losses (gains) from the disposition of Ohio public obligations and gains (losses) from an Electing Small Business Trust (ESBT) are added back (deducted)

[q] Deduction for gains from certain Oklahoma property and stock. 50% exclusion for sales of historic battle site property to the state

[r] Capital gains from mutual funds are taxed at 6.0% rate

[s] Deduction for certain gains used to purchase qualifying stock in a Utah small business corporation

[t] 60% deferral for gains invested in eligible angel ventures

[u] Exclusion for gains on land sales for open space use

[v] Gains from qualified small business stock and family business sales are excluded

# Appendix E

## Estate Taxes

| Estate / Inheritance Tax - Comparison to other states | | | | | |
|---|---|---|---|---|---|
| **State:** | **Decoupled ?** | **Exclusion amount:** | **Estate tax eliminated by 1/1/06** | **Retained Estate and Inheritance Taxes** | **Comments:** |
| Alabama | NO | | | | |
| Alaska | | | | X | |
| Arizona | NO | | X | | |
| Arkansas | NO | | | | |
| California | NO | | X | | |
| Colorado | NO | | X | | No estate tax imposed for decedents on or after 2005. |
| Connecticut | | | | X | Replaced pick-up tax with estate tax not tied to the federal tax. |
| Delaware | NO | | | | Repealed requirement to file currently from 2005 through 2010. |
| District of Columbia | YES | $ 1,000,000 | | | |
| Florida | | | | X | Limited estate tax related to federal estate tax collection. |
| Georgia | NO | | | X | Limited estate tax related to federal estate tax collection. |
| Hawaii | NO | | | X | Limited estate tax related to federal estate tax collection. |
| Idaho | | | X | | |
| Illinois | YES | $ 2,000,000 | | X | |
| Indiana | NO | | | X | Levy an estate tax that was never tied to the federal pick-up tax. |
| Iowa | NO | | X | | |
| Kansas | NO | | * | | *Repealed its tax on July 1, 2008. |
| Kentucky | NO | | | X | |
| Louisiana | NO | | | X | |
| Maine | YES | $ 1,000,000 | | X | |
| Maryland | YES | $ 1,000,000 | | X | Levy an estate tax that is similar to the pre-2001 pick-up tax and separate inheritance tax. |
| Massachusetts | YES | $ 1,000,000 | | X | |
| Michigan | NO | | X | | |
| Minnesota | YES | | | X | |
| Mississippi | | | X | | |
| Missouri | | | X | | |
| Montana | | | X | | |
| Nebraska | NO | | * | | *Repealed effective January 1, 2007. |
| Nevada | | | X | | If federal estate tax credit is reinstated, Nevada will require filing at that time. |
| New Hampshire | NO | | X | | |
| New Jersey | YES | $ 675,000 | | X | Levy an estate tax that is similar to the pre-2001 pick-up tax and separate inheritance tax. |
| New Mexico | | | X | | |
| New York | YES | $ 1,000,000 | | X | |
| North Carolina | YES | | | X | |
| North Dakota | | | X | | |
| Ohio | NO | | X | | |
| Oklahoma | NO | | | X | Levy a tax never tied to federal pick-up tax. Scheduled to repeal its tax in 2010. |
| Oregon | YES | $ 1,000,000 | | X | |
| Pennsylvania | NO | | | X | |
| Rhode Island | YES | $ 675,000 | | X | |
| South Carolina | NO | | X | | |
| South Dakota | NO | | | X | |
| Tennessee | NO | | X | | No estate tax imposed for decedents on or after 2005. |
| Texas | | | X | | No estate tax imposed for decedents on or after 2005. |
| Utah | | | X | | No estate tax imposed for decedents on or after 2005. |
| Vermont | YES | | | X | |
| Virginia | YES | | | X | |
| Washington | YES | $2,000,000 | | X | |
| West Virginia | | | | | Estate tax is not imposed on estates of persons who died in 2005. |
| Wisconsin | YES | | | | |
| Wyoming | | | X | | No estate tax imposed for decedents on or after 2005. |

# Appendix F

## Detailed Information
## State and Local Option Sales Tax Rates

| 50 State Comparison of Sales Tax With Local Option | | | | | |
|---|---|---|---|---|---|
| **State** | **State Rate** | **Range of Local Rates** | **Local Rates Apply To Use Tax** | **Major City with Highest State and Local Sales Tax** | **Highest County Total State and Local Sales Tax** |
| **Alabama** | 4.000% | 0% - 8% | Yes/No (1) | Mobile | 7.000% |
| **Alaska** | No State Sales Tax | 0% - 7.5% (4), (7) | Yes/No (1) | Anchorage | 7.5% - rental car |
| **Arizona** | 5.600% | 0 -5.5% (4), (7) | Yes/No (2) | Phoenix | 7.670% |
| **Arkansas** | 6.000% | 0% - 5.50% (4), (7) | Yes | Little Rock | 6.750% |
| **California** | 7.250% | 0% - 1.5% | Yes | Los Angeles | 8.250% |
| **Colorado** | 2.900% | 0% - 7% (7) | Yes/No (1) | Denver | 7.600% |
| **Connecticut** | 6.000% (10) | No Local Option | No Local Option | n/a | 6.000% |
| **Delaware** | No State Sales Tax (3) | | | | |
| **Florida** | 6.000% (10) | 0% - 1.50% (4), (7) | Yes | Miami | 7.000% |
| **Georgia** | 4.000% (10) | 1% - 3% | Yes | Atlanta | 8.000% |
| **Hawaii** | 4.000% (5), (10) | 0% - 0.5% | N/A | Honolulu | 4.500% |
| **Idaho** | 6.000% | 0% - 3% (7) | No | Boise | 6.000% |
| **Illinois** | 6.250% (10) | 0% - 4.00% (7) | No | Chicago | 10.250% |
| **Indiana** | 7.000% | No Local Option | No Local Option | n/a | 7.000% |
| **Iowa** | 6.000% | 0% - 2% (7) | No | Des Moines | 6.000% |
| **Kansas** | 5.300% (10) | 0% - 3% (7) | Yes | Wichita | 7.300% |
| **Kentucky** | 6.000% | No Local Option | No Local Option | n/a | 6.000% |
| **Louisiana** | 4.000% (10) | 0% - 6.75% (6) (7) | Yes | Baton Rouge | 9.000% |
| **Maine** | 5.000% (10) | No Local Option | No Local Option | n/a | 5.000% |
| **Maryland** | 6.000% | No Local Option | No Local Option | n/a | 6.000% |
| **Massachusetts** | 5.000% | No Local Option | No Local Option | n/a | 5.000% |
| **Michigan** | 6.000% (10) | No Local Option | No Local Option | n/a | 6.000% |
| **Minnesota** | 6.500% (10) | 0% - 1% (7) | Yes | Minneapolis | 7.150% |
| **Mississippi** | 7.000% (10) | 0% - 0.25% (7) | No | Jackson | 7.000% |
| **Missouri** | 4.225% | 0.5% - 4.75% | Yes/No (1) | Kansas City | 6.480% |
| **Montana** | No State Sales Tax | | | | |
| **Nebraska** | 5.500% | 0% - 2% (7) | Yes | Omaha | 7.000% |
| **Nevada** | 6.500% (12) | 0% - 1.25% | Yes | Las Vegas | 7.750% |
| **New Hampshire** | No State Sales Tax | | | | |
| **New Jersey** | 7.000% (13) | No Local Option | No Local Option | n/a | 7.000% |
| **New Mexico** | 5.000% (9) | 0.125% - 3.438% | No | Albuquerque | 7.438% |
| **New York** | 4.000% | 0% - 5% | Yes | New York City | 8.380% |
| **North Carolina** | 4.250% (10) | 2% - 3% | Yes | Charlotte | 7.250% |
| **North Dakota** | 5.000% (10) | 0% - 2.50%(4), (7) | Yes | Grand Forks | 6.750% |
| **Ohio** | 5.500% | 0 - 2.25% | Yes | Cleveland | 7.750% |
| **Oklahoma** | 4.500% | 0% - 6% (7) | Yes/No (1) | Oklahoma City | 8.375% |
| **Oregon** | No State Sales Tax | | | | |
| **Pennsylvania** | 6.000% | 0% - 1% (7) | No | Philadelphia / Pittsburgh | 7.000% |
| **Rhode Island** | 7.000% | No Local Option | No Local Option | n/a | 7.000% |
| **South Carolina** | 6.000% (10) | 0% - 2% (7) | Yes | Charleston | 7.500% |
| **South Dakota** | 4.000% (10), (11) | 0% - 2% (7) | Yes | Sioux Falls | 5.920% |
| **Tennessee** | 7.000% (10) | 1.5% - 2.75%(4) | Yes | Memphis / Nashville / Knoxville | 9.250% |
| **Texas** | 6.250% | 0% - 2% (7) | Yes | Dallas / Ft. Worth / Houston | 8.250% |
| **Utah** | 4.650% (10) | 1% - 3.6% | Yes | Salt Lake City | 6.600% |
| **Vermont** | 6.000% (10) | 0% - 1% (7) | No | Burlington | 7.000% |
| **Virginia** | 5.000% (10) | No Local Option | No Local Option | n/a | 5.000% |
| **Washington** | 6.500% | 0.5% - 2.50% | Yes | Seattle | 8.900% |
| **West Virginia** | 6.000% | No Local Option | No Local Option | n/a | 6.000% |
| **Wisconsin** | 5.000% | 0% - 1% (7) | Yes/No (1) | Milwaukee | 5.600% |
| **Wyoming** | 4.000% (10) | 0% - 3% (7) | Yes | Cheyenne / Casper | 5.000% |

*Notes:*

1. Some of the cities and counties do apply use tax.
2. Some of the cities do apply use tax. The counties do not apply a use tax.
3. Delaware does not have a sales tax. They do have a rental tax of 1.92%.
4. A cap on the local sales/use tax applies on sales of any item of tangible personal property.
5. There is a 0.500% use tax on merchandise imported into the state for resale purposes.
6. The combined local rates for a particular city range from 1.8% to 6.75%.
7. Some local jurisdictions do not impose a sales tax.
8. Effective 7/1/94, sales occurring in Salem County will be taxed at the reduced state sales
9. The basic state gross receipts tax rate is 5%. The law provides for an automatic credit of
10. The state has reduced rates for sales of certain types of items.
11. Sales and deliveries to certain Indian reservations are subject to the Tribal sales, use and
12. The Nevada Minimum Statewide Tax rate of 6.5% consists of several taxes combined:
13. Effective 7/15/2006, the New Jersey state rate increased to 7.000%

*Source: www.salestaxinstitute.com dated 9/1/2008*

# Appendix G

## Detailed Information
## State Sales Tax Bases for Major Items

| State Comparison of General Sales Tax on Selected Items | | | | | | |
|---|---|---|---|---|---|---|
| State | State General Sales Tax Rate (%) | Food | Prescription Drugs | OTC Drugs | Alcoholic Beverages | Remarks |
| Alabama | 4.0 | Taxable | Exempt | Taxable | Taxable | |
| Alaska | NO STATE SALES TAX | | | | | |
| Arizona | 5.6 | Exempt | Exempt | Taxable | Taxable. | Unless sold by a wholesaler |
| Arkansas | 6.0 | 3.0% | Exempt | Taxable | Taxable | |
| California [1,2] | 7.25 | Exempt | Exempt | Taxable | Taxable | |
| Colorado | 2.9 | Exempt | Exempt | Taxable | Taxable | |
| Connecticut | 6.0 | Exempt | Exempt | Exempt | Taxable | |
| Delaware | NO STATE SALES TAX | | | | | |
| Florida | 6.0 | Exempt | Exempt | Exempt | Taxable | |
| Georgia [3] | 4.0 | Exempt | Exempt | Taxable | Taxable | |
| Hawaii [4] | 4.0 | Taxable | Exempt | Taxable | Taxable | Liquor Tax Permit Required |
| Idaho [4] | 6.0 | Taxable | Exempt | Taxable | Taxable | Sales by the state liquor dispensary to licensed retail liquor distributors for resale are exempt. |
| Illinois | 6.25 | 1.0% | 1.0% | 1.0% | Taxable | |
| Indiana | 7.0 | Exempt | Exempt | Taxable | Taxable | |
| Iowa | 6.0 | Exempt | Exempt | Taxable | Taxable | |
| Kansas [4] | 5.3 | Taxable | Exempt | Taxable | Exempt | Malt beverages are taxable |
| Kentucky | 6.0 | Exempt | Exempt | Taxable | Taxable | Gross receipts from sales of such beverages that are not consumed on premises licensed for their sale are exempt |
| Louisiana [3] | 4.0 | Exempt | Exempt | Taxable | Taxable | |
| Maine | 5.0 | Exempt | Exempt | Taxable | Taxable | |
| Maryland [5] | 6.0 | Exempt | Exempt | Exempt | Taxable | |
| Massachusetts | 5.0 | Exempt | Exempt | Taxable | Taxable | |
| Michigan | 6.0 | Exempt | Exempt | Taxable | Taxable | |
| Minnesota | 6.5 | Exempt | Exempt | Exempt | Taxable | Also subject to a separate gross receipts tax |
| Mississippi | 7.0 | Taxable | Exempt | Taxable | Taxable | |
| Missouri | 4.225 | 1.225% | Exempt | Taxable | Taxable | |
| Montana | NO STATE SALES TAX | | | | | |
| Nebraska | 5.5 | Exempt | Exempt | Taxable | Taxable | |
| Nevada | 6.5 | Exempt | Exempt | Taxable | Taxable | |
| New Hampshire | NO STATE SALES TAX | | | | | |
| New Jersey | 7.0 | Exempt | Exempt | Exempt | Taxable | |
| New Mexico | 5.0 | Exempt | Exempt | Taxable | Taxable | |
| New York | 4.0 | Exempt | Exempt | Exempt | Taxable | |
| North Carolina [3,6] | 4.25 | Exempt | Exempt | Taxable | Taxable | For spirituous liquor. Excise tax applies to beer, wine, and liquor. |
| North Dakota | 5.0 | Exempt | Exempt | Taxable | Taxable | |
| Ohio | 5.5 | Exempt | Exempt | Taxable | Taxable | |
| Oklahoma [4] | 4.5 | Taxable | Exempt | Taxable | Taxable | |
| Oregon | NO STATE SALES TAX | | | | | |
| Pennsylvania | 6.0 | Exempt | Exempt | Exempt | Taxable | |
| Rhode Island | 7.0 | Exempt | Exempt | Exempt | Taxable | |
| South Carolina | 6.0 | Taxable | Exempt | Taxable | Taxable | |
| South Dakota [4] | 4.0 | Taxable | Exempt | Taxable | Taxable | |
| Tennessee | 7.0 | 5.5% | Exempt | Taxable | Taxable | |
| Texas | 6.25 | Exempt | Exempt | Exempt | Taxable | Unless subject to mixed beverage tax |
| Utah | 4.65 | 1.75% | Exempt | Taxable | Taxable | |
| Vermont | 6.0 | Exempt | Exempt | Exempt | Exempt | Eff. 01/01/2007, beer retail sales are taxable |
| Virginia [2] | 5.0 | 2.5% | Exempt | Exempt | Taxable | |
| Washington | 6.5 | Exempt | Exempt | Taxable | Exempt | Special excise tax applies |
| West Virginia [7] | 6.0 | 4.0% | Exempt | Taxable | Taxable | |
| Wisconsin | 5.0 | Exempt | Exempt | Taxable | Taxable | |
| Wyoming [4,8] | 4.0 | Exempt | Exempt | Taxable | Taxable | |

Notes to the table follow the last table in the appendix..

| State Comparison of General Sales Tax on Selected Items | | | | | |
|---|---|---|---|---|---|
| **State** | **State General Sales Tax Rate (%)** | **Clothing** | **Remarks** | **Gasoline** | **Remarks** |
| **Alabama** | 4.0 | Taxable | | Exempt | |
| **Alaska** | NO STATE SALES TAX | | | | |
| **Arizona** | 5.6 | Taxable | | Exempt | |
| **Arkansas** | 6.0 | Taxable | | Exempt | |
| **California** [1,2] | 7.25 | Taxable | | Taxable | |
| **Colorado** | 2.9 | Taxable | | Exempt | |
| **Connecticut** | 6.0 | Exempt | Clothing and footwear costing less than $50 is exempt. | Exempt | 7.0% petroleum products gross earnings tax collected at wholesale |
| **Delaware** | NO STATE SALES TAX | | | | |
| **Florida** | 6.0 | Taxable | | Taxable | |
| **Georgia** [3] | 4.0 | Taxable | | Taxable | |
| **Hawaii** [4] | 4.0 | | Taxable | Taxable | |
| **Idaho** [4] | 6.0 | Taxable | | Exempt | |
| **Illinois** | 6.25 | Taxable | | Taxable | |
| **Indiana** | 7.0 | Taxable | | Taxable | |
| **Iowa** | 6.0 | Taxable | | Exempt | |
| **Kansas** [4] | 5.3 | Taxable | | Exempt | |
| **Kentucky** | 6.0 | Taxable | | Exempt | |
| **Louisiana** [3] | 4.0 | Taxable | | Exempt | |
| **Maine** | 5.0 | Taxable | | Exempt | |
| **Maryland** [5] | 6.0 | Taxable | | Exempt | |
| **Massachusetts** | 5.0 | Exempt | Up to $175 | Exempt | |
| **Michigan** | 6.0 | Taxable | | Taxable | |
| **Minnesota** | 6.5 | Exempt | | Exempt | |
| **Mississippi** | 7.0 | Taxable | | Exempt | |
| **Missouri** | 4.225 | Taxable | | | |
| **Montana** | NO STATE SALES TAX | | | | |
| **Nebraska** | 5.5 | Taxable | | Exempt | |
| **Nevada** | 6.5 | Taxable | | Exempt | |
| **New Hampshire** | NO STATE SALES TAX | | | | |
| **New Jersey** | 7.0 | Exempt | Certain listed items are taxable | Exempt | |
| **New Mexico** | 5.0 | Taxable | | Exempt | |
| **New York** | 4.0 | Exempt | Sales of clothing and footwear costing less than $110 per item or pair, respectively, are exempt. | Exempt | Local county sales tax between 3.125% to 4.75% |
| **North Carolina** [3,6] | 4.25 | Taxable | | Exempt | |
| **North Dakota** | 5.0 | Taxable | | Exempt | |
| **Ohio** | 5.5 | Taxable | | Exempt | |
| **Oklahoma** [4] | 4.5 | Taxable | | Exempt | |
| **Oregon** | NO STATE SALES TAX | | | | |
| **Pennsylvania** | 6.0 | Exempt | Exemption does not apply to “not-for-every-day” wear and luxury items | Exempt | |
| **Rhode Island** | 7.0 | Exempt | | Exempt | |
| **South Carolina** | 6.0 | Taxable | Sales of clothing during tax holidays are exempt | Exempt | |
| **South Dakota** [4] | 4.0 | Taxable | | Exempt | |
| **Tennessee** | 7.0 | Taxable | | Exempt | |
| **Texas** | 6.25 | Taxable | Clothing/footwear of less than $100 is exempt during annual August sales tax holiday | Exempt | |
| **Utah** | 4.65 | Taxable | | Exempt | |
| **Vermont** | 6.0 | Exempt | Clothing accessories or equipment, protective equipment, or sport and recreational equipment taxable | Exempt | |
| **Virginia** [2] | 5.0 | Taxable | | Exempt | 2.0% sales Tax in Northern Virginia |
| **Washington** | 6.5 | Taxable | | Exempt | |
| **West Virginia** [7] | 6.0 | Taxable | | Taxable | 5% Variable wholesale tax |
| **Wisconsin** | 5.0 | Taxable | | Exempt | |
| **Wyoming** [4,8] | 4.0 | Taxable | | Exempt | |

| State Comparison of General Sales Tax on Selected Items | | | | | |
|---|---|---|---|---|---|
| State | State General Sales Tax Rate (%) | Automobile | Remarks | 100% Trade In Allowed | Remarks |
| Alabama | 4.0 | 0.0 | | Yes | |
| Alaska | NO STATE SALES TAX | | | | |
| Arizona | 5.6 | Taxable | | Yes | |
| Arkansas | 6.0 | Taxable | | | |
| California [1,2] | 7.25 | Taxable | | No | |
| Colorado | 2.9 | Taxable | | Yes | |
| Connecticut | 6.0 | Taxable | | | |
| Delaware | NO STATE SALES TAX | | | | |
| Florida | 6.0 | Taxable | | Yes | |
| Georgia [3] | 4.0 | Taxable | | Yes | |
| Hawaii [4] | 4.0 | Taxable | | Yes | |
| Idaho [4] | 6.0 | Taxable | | Yes | |
| Illinois | 6.25 | Taxable | | Yes | |
| Indiana | 7.0 | 0.1 | | Yes | |
| Iowa | 6.0 | Taxable | | Yes | |
| Kansas [4] | 5.3 | 6.0% - 7.0% | | Yes | Used car purchase only |
| Kentucky | 6.0 | Taxable | | Yes | |
| Louisiana [3] | 4.0 | Taxable | | Yes | |
| Maine | 5.0 | Taxable | | Yes | |
| Maryland [5] | 6.0 | Taxable | Excise tax | yes | |
| Massachusetts | 5.0 | Taxable | | Yes | |
| Michigan | 6.0 | Taxable | | No | |
| Minnesota | 6.5 | Taxable | | Yes | |
| Mississippi | 7.0 | 5.0% | | | |
| Missouri | 4.225 | Taxable | | Yes | |
| Montana | NO STATE SALES TAX | | | | |
| Nebraska | 5.5 | Taxable | | | |
| Nevada | 6.5 | Taxable | | No | |
| New Hampshire | NO STATE SALES TAX | | | | |
| New Jersey | 7.0 | Taxable | | Yes | |
| New Mexico | 5.0 | Taxable | Excise Tax | Yes | |
| New York | 4.0 | Taxable | | Yes | |
| North Carolina [3,6] | 4.25 | 3.0% | | yes | |
| North Dakota | 5.0 | Taxable | Excise Tax | Yes | |
| Ohio | 5.5 | Taxable | | Yes | New car purchase only |
| Oklahoma [4] | 4.5 | 3.25% | Excise Tax | | |
| Oregon | NO STATE SALES TAX | | | | |
| Pennsylvania | 6.0 | Taxable | | Yes | |
| Rhode Island | 7.0 | Taxable | | Yes | Passenger car only |
| South Carolina | 6.0 | 5.0% | Maximum Tax $300 | Yes | |
| South Dakota [4] | 4.0 | Taxable | If excise tax is also exempt | Use tax | |
| Tennessee | 7.0 | Taxable | | Yes | |
| Texas | 6.25 | Taxable | Subject to Motor Vehicle sales and use tax | Yes | |
| Utah | 4.65 | 0.05 | | Yes | |
| Vermont | 6.0 | Taxable | Motor Vehicle Purchase and Use tax | Yes | |
| Virginia [2] | 5.0 | 3.0% | Motor vehicle Sale and Use tax $ 35 minimum | No | |
| Washington | 6.5 | Taxable | | Yes | |
| West Virginia [7] | 6.0 | 5.0% | | | |
| Wisconsin | 5.0 | Taxable | | Yes | |
| Wyoming [4,8] | 4.0 | Taxable | | Yes | |

Notes to the table:

1. California: Sales tax rate may be adjusted annually according to a formula based on balances in the unappropriated general fund and the school foundation fund.
2. California and Virginia: Tax rates include statewide local tax of 1.0%.
3. Georgia, Louisiana, and North Carolina: Food sales are subject to local sales tax.
4. Hawaii, Idaho, Kansas, Oklahoma, South Dakota, Wyoming: Some states tax food, but allow a rebate or income tax credit to compensate low-income households.
5. Maryland: Sales tax rate increased from 5.0% to 6.0% on 01/03/08.
6. North Carolina: Sales tax rate is scheduled to increase to 4.5% on 010/1/08.
7. West Virginia: Tax rate on food is scheduled to fall to 3.0% on 07/01/08.
8. Wyoming: Food sales exempt through 06/30/08.

Source: Federation of Tax Administrators (http://www.taxadmin.org/fta/rate/sales.html), March 2008.

# Appendix H

## Detailed Information
## The Taxation of Services by States

| Category of Service | RI* | MA | CT | ME | VT | NH* | Total States with Tax |
|---|---|---|---|---|---|---|---|
| | | | | | | | |
| **General Sales Tax Rate** | 7% | 5% | 6% | 5% | 6% | 0% | |
| **Agricultural Services** | Rate at Which Service is Taxed | | | | | | |
| Soil prep., custom baling, other ag. services | E | E | E | E | E | | 4 |
| Veterinary services (both large and small animal) | E | E | E | E | E | | 5 |
| Horse boarding and training (not race horses) | E | E | E | E | E | | 9 |
| Pet grooming | E | E | E | E | E | | 18 |
| Landscaping services (including lawn care) | E | E | 6 | E | E | | 21 |
| **Industrial and Mining Services** | Rate at Which Service is Taxed | | | | | | |
| Metal, non-metal and coal mining services | E | E | E | E | E | | 5 |
| Seismograph & Geophysical Services | E | E | E | E | E | | 6 |
| Oil Field Services | E | E | E | E | E | | 10 |
| Typesetting service; platemaking for the print trade | E | E | 6 | E | E | | 21 |
| **Construction** | Rate at Which Service is Taxed | | | | | | |
| Gross Income of Construction Contractors | E | E | 6 | E | E | | 12 |
| Carpentry, painting, plumbing and similar trades. | E | E | 6 | E | E | | 13 |
| Construction service (grading, excavating, etc.) | E | E | 6 | E | E | | 12 |
| Water well drilling | E | E | 6 | E | E | | 10 |
| **Transportation Services** | Rate at Which Service is Taxed | | | | | | |
| Income from intrastate transportation of persons | E | E | E | E | E | | 11 |
| Local transit (intra-city) buses | E | E | E | E | E | | 5 |
| Income from taxi operations | E | E | E | E | E | | 8 |
| Intrastate courier service | E | E | E | E | E | | 7 |
| Interstate air courier (billed in-state) | E | E | E | E | E | | 1 |
| **Storage** | Rate at Which Service is Taxed | | | | | | |
| Automotive storage | E | E | E | E | E | | 19 |
| Food storage | E | E | E | E | E | | 10 |
| Fur storage | E | E | E | E | E | | 16 |
| Household goods storage | E | E | 6 | E | E | | 13 |
| Mini -storage | E | E | 6 | E | E | | 14 |
| Cold storage | E | E | E | E | E | | 13 |
| Marina Service (docking, storage, cleaning, repair) | E | E | E | E | E | | 17 |
| Marine towing service (incl. tugboats) | E | E | E | E | E | | 8 |
| Travel agent services | E | E | E | E | E | | 4 |
| Packing and crating | E | E | E | E | E | | 10 |
| **Utility Service - Industrial Use** | Rate at Which Service is Taxed | | | | | | |
| Intrastate telephone & telegraph | 7 | 5 | 6 | 5 | 6 | 7 | 43 |
| Interstate telephone & telegraph | 7 | 5 | 6 | E | 6 | 7 | 27 |
| Cellular telephone services | 7 | 5 | 6 | 5 | 6 | 7 | 43 |
| Electricity | 7 | 5 | 6 | 5 | 6 | | 36 |
| Water | 7 | E | E | 5 | E | | 18 |
| Natural gas | 7 | 5 | 6 | 5 | 6 | | 37 |
| Other fuel (including heating oil) | 7 | 5 | 6 | 5 | 6 | | 38 |
| Sewer and refuse, industrial | E | E | 6 | E | E | | 15 |
| **Utility Service - Residential Use** | Rate at Which Service is Taxed | | | | | | |
| Intrastate telephone & telegraph | 7 | 5 | 6 | 5 | 6 | 7 | 41 |
| Interstate telephone & telegraph | 7 | 5 | 6 | E | 6 | 7 | 27 |
| Cellular telephone services | 7 | 5 | 6 | 5 | 6 | 7 | 44 |
| Electricity | E | E | E | 5 | E | | 22 |
| Water | E | E | E | E | E | | 12 |
| Natural gas | E | E | E | E | E | | 22 |
| Other fuel (including heating oil) | E | E | E | E | E | | 23 |
| Sewer and refuse, residential | E | E | E | E | E | | 11 |
| **Finance, Insurance and Real Estate** | Rate at Which Service is Taxed | | | | | | |
| Service charges of banking institutions | E | E | E | E | E | | 3 |
| Insurance services | E | E | E | E | E | | 6 |
| Investment counseling | E | E | E | E | E | | 6 |
| Loan broker fees | E | E | E | E | E | | 3 |
| Property sales agents (real estate or personal) | E | E | E | E | E | | 5 |
| Real estate management fees (rental agents) | E | E | E | E | E | | 5 |
| Real estate title abstract services | E | E | E | E | E | | 5 |
| Tickertape reporting (financial reporting) | E | E | E | E | E | | 8 |

| Category of Service | RI* | MA | CT | ME | VT | NH* | Total States with Tax |
|---|---|---|---|---|---|---|---|
| General Sales Tax Rate | 7% | 5% | 6% | 5% | 6% | 0% | |
| **Personal Services** | Rate at Which Service is Taxed | | | | | | |
| Barber shops and beauty parlors | E | E | E | E | E | | 7 |
| Carpet and upholstery cleaning | E | E | 6 | E | E | | 19 |
| Dating services | E | E | 6 | E | E | | 8 |
| Debt counseling | E | E | 6 | E | E | | 7 |
| Diaper service | E | E | E | E | E | | 23 |
| Income from funeral services | E | E | E | E | E | | 13 |
| Fishing and hunting guide services | E | E | E | E | E | | 11 |
| Garment services (altering & repairing) | E | E | 6 | E | E | | 20 |
| Gift and package wrapping service | E | E | E | E | 6 | | 21 |
| Health clubs, tanning parlors, reducing salons | E | E | 6 | E | 6 | | 22 |
| Laundry and dry cleaning services, coin-op | E | E | E | E | E | | 6 |
| Laundry and dry cleaning services, non-coin op | E | E | E | E | E | | 22 |
| Massage services | E | E | 6 | E | E | | 11 |
| 900 Number services | 7 | 5 | 6 | 5 | E | 7 | 29 |
| Personal instruction (dance, golf, tennis, etc.) | E | E | E | E | E | | 6 |
| Shoe repair | E | E | E | E | E | | 20 |
| Swimming pool cleaning & maintenance | E | E | 6 | E | E | | 17 |
| Tax return preparation | E | E | E | E | E | | 6 |
| Tuxedo rental | E | E | 6 | E | E | | 38 |
| Water softening and conditioning | E | E | E | E | E | | 13 |
| **Business Services** | Rate at Which Service is Taxed | | | | | | |
| Sales of advertising time or space: | | | | | | | |
| Billboards | E | E | E | E | E | | 4 |
| Radio & television, national advertising | E | E | E | E | E | | 2 |
| Radio & television, local advertising | E | E | E | E | E | | 4 |
| Newspaper | E | E | E | E | E | | 4 |
| Magazine | E | E | E | E | E | | 4 |
| Advertising agency fees (not ad placement) | E | E | 6 | 5 | E | | 11 |
| Armored car services | E | E | 6 | E | E | | 16 |
| Bail bond fees | E | E | E | E | E | | 4 |
| Check & debt collection | E | E | E | E | E | | 8 |
| Commercial art and graphic design. | 7 | E | 6 | 5 | 6 | | 23 |
| Commercial linen supply | E | E | E | E | E | | 33 |
| Credit information, credit bureaus | E | E | 6 | E | E | | 13 |
| Employment agencies | E | E | 6 | E | E | | 11 |
| Interior design and decorating | E | E | E | E | E | | 10 |
| Maintenance and janitorial services | E | E | 6 | E | E | | 19 |
| Lobbying and consulting | E | E | 6 | E | E | | 7 |
| Marketing | E | E | E | E | E | | 6 |
| Packing and crating | E | E | E | E | E | | 11 |
| Exterminating (includes termite services) | E | E | 6 | E | E | | 21 |
| Photocopying services | 7 | 5 | 6 | 5 | 6 | | 43 |
| Photo finishing | 7 | 5 | 6 | 5 | 6 | | 44 |
| Printing | 7 | 5 | 6 | 5 | 6 | | 45 |
| Private investigation (detective) services | E | E | 6 | E | E | | 15 |
| Process server fees | E | E | E | E | E | | 6 |
| Public relations, management consulting | E | E | 6 | E | E | | 7 |
| Secretarial and court reporting services | E | E | 6 | E | E | | 8 |
| Security services | E | E | 6 | E | E | | 18 |
| Sign construction and installation | 7 | 5 | 6 | 5 | 6 | | 31 |
| Telemarketing services on contract | E | E | E | E | E | | 6 |
| Telephone answering service | 7 | E | 6 | E | E | | 20 |
| Temporary help agencies | E | E | 6 | E | E | | 10 |
| Test laboratories (excluding medical) | E | E | E | E | E | | 8 |
| Tire recapping and repairing | E | E | 6 | E | E | | 28 |
| Window cleaning | E | E | 6 | E | E | | 19 |
| **Computer:** | Rate at Which Service is Taxed | | | | | | |
| Software - package or canned program | 7 | 5 | 6 | 5 | 6 | | 47 |
| Software - modifications to canned program | 7 | E | 6 | E | 6 | | 29 |
| Software - custom programs - material | 7 | E | 1 | E | 6 | | 24 |
| Software - custom programs - professional serv. | E | E | 1 | E | E | | 14 |
| Internet Service Providers-Dialup | E | E | E | E | E | 7 | 9 |
| Internet Service Providers-DSL or other broadband | E | E | E | E | E | 7 | 12 |
| Information services | E | E | 1 | E | E | | 13 |
| Data processing services | E | E | 1 | E | E | | 9 |
| Mainframe computer access and processing serv. | 7 | E | 1 | E | E | | 11 |

| Category of Service | RI* | MA | CT | ME | VT | NH* | Total States with Tax |
|---|---|---|---|---|---|---|---|
| | | | | | | | |
| **General Sales Tax Rate** | 7% | 5% | 6% | 5% | 6% | 0% | |
| **Computer Online Services:** | Rate at Which Service is Taxed | | | | | | |
| Online Data processing services ***New*** | E | E | 1 | E | E | | 7 |
| Software - Downloaded ***New*** | E | 5 | 1 | 5 | 6 | | 28 |
| Books - Downloaded ***New*** | E | E | 1 | 5 | E | | 15 |
| Music - Downloaded ***New*** | E | E | 1 | 5 | E | | 15 |
| Movies/Digital Video - Downloaded ***New*** | E | E | 1 | 5 | E | | 16 |
| Other Electronic Goods - Downloaded ***New*** | E | E | 1 | 5 | E | | 14 |
| **Automotive Services** | Rate at Which Service is Taxed | | | | | | |
| Automotive washing and waxing. | E | E | E | E | E | | 21 |
| Automotive road service and towing services | E | E | E | E | E | | 19 |
| Auto service. except repairs, incl. painting & lube | E | E | 6 | E | E | | 25 |
| Parking lots & garages | E | E | 6 | E | E | | 21 |
| Automotive rustproofing & undercoating. | E | E | 6 | E | E | | 25 |
| **Admissions & Amusements** | Rate at Which Service is Taxed | | | | | | |
| Pari-mutuel racing events. | T | E | 10 | E | 6 | | 29 |
| Amusement park admission & rides | E | E | 10 | E | 6 | | 36 |
| Billiard parlors | E | E | E | E | 6 | | 27 |
| Bowling alleys | E | E | E | E | 6 | | 27 |
| Cable TV services | 7 | E | 6 | 5 | 6 | | 26 |
| Direct Satellite TV | 7 | E | 6 | **5** | 6 | | 24 |
| Circuses and fairs -- admission and games | E | E | 10 | E | 6 | | 34 |
| Coin operated video games | E | E | E | E | E | | 17 |
| Admission to school and college sports events | E | E | 10 | E | E | | 22 |
| Membership fees in private clubs. | E | E | 10 | E | 6 | | 23 |
| Admission to cultural events | E | E | 10 | E | 6 | | 31 |
| Pinball and other mechanical amusements | E | E | E | E | E | | 19 |
| Admission to professional sports events | E | E | 10 | E | 6 | | 37 |
| Rental of films and tapes by theaters | E | E | E | E | E | | 8 |
| Rental of video tapes for home viewing | 7 | 5 | 6 | 5 | 6 | | 45 |
| **Professional Services** | Rate at Which Service is Taxed | | | | | | |
| Accounting and bookkeeping | E | E | E | E | E | | 5 |
| Architects | E | E | E | E | E | | 5 |
| Attorneys | E | E | E | E | E | | 5 |
| Dentists | E | E | E | E | E | | 4 |
| Engineers | E | E | E | E | E | | 5 |
| Land surveying | E | E | E | E | E | | 7 |
| Medical test laboratories | E | E | E | E | E | | 4 |
| Nursing services out-of-hospital | E | E | E | E | E | | 4 |
| Physicians | E | E | E | E | E | | 4 |
| **Leases and Rentals** | Rate at Which Service is Taxed | | | | | | |
| Personal property, short term (generally) | 7 | 5 | 6 | E | 6 | | 45 |
| Personal property, long term (generally) | 7 | 5 | 6 | E | 6 | | 45 |
| Bulldozers, draglines and const. mach., short term | 7 | 5 | 6 | E | 6 | | 45 |
| Bulldozers, draglines and const. mach., long term | 7 | 5 | 6 | E | 6 | | 45 |
| Rental of hand tools to licensed contractors. | 7 | 5 | 6 | E | 6 | | 45 |
| Short term automobile rental | 7 | 5 | 6 | 10 | 7 | 8 | 48 |
| Long term automobile lease | 7 | 5 | 6 | 5 | E | | 40 |
| Limousine service (with driver) | E | E | E | E | E | | 16 |
| Aircraft rental to individual pilots, short term | E | E | 6 | E | 6 | | 40 |
| Aircraft rental to individual pilots, long term | E | E | 6 | E | 6 | | 39 |
| Chartered flights (with pilot) | E | E | 6 | E | E | | 9 |
| Hotels, motels, lodging houses | 12 | 5.7 | 12 | 7 | 9 | 8 | 50 |
| Trailer parks - overnight | E | E | 6 | 7 | E | | 29 |

| Category of Service | RI* | MA | CT | ME | VT | NH* | Total States with Tax |
|---|---|---|---|---|---|---|---|
| | | | | | | | |
| **General Sales Tax Rate** | 7% | 5% | 6% | 5% | 6% | 0% | |
| **Fabrication, Installation and Repair Services** | Rate at Which Service is Taxed | | | | | | |
| Custom fabrication labor | 7 | 5 | 6 | 5 | 6 | | 38 |
| Repair material, generally | 7 | 5 | 6 | 5 | 6 | | 47 |
| Repair labor, generally | E | E | 6 | E | E | | 24 |
| Labor charges on repair of aircraft | E | E | E | E | E | | 16 |
| Labor charges - repairs to interstate vessels | E | E | E | E | E | | 11 |
| Labor charges - repairs to intrastate vessels | E | E | E | E | E | | 20 |
| Labor - repairs to commercial fishing vessels | E | E | E | E | E | | 15 |
| Labor charges on repairs to railroad rolling stock | E | E | 6 | E | E | | 11 |
| Labor charges on repairs to motor vehicles | E | E | 6 | E | E | | 21 |
| Labor on radio/TV repairs; other electronic equip. | E | E | 6 | E | E | | 24 |
| Labor charges - repairs other tangible property | E | E | 6 | E | E | | 24 |
| Labor - repairs or remodeling of real property | E | E | 6 | E | E | | 15 |
| Labor charges on repairs delivered under warranty | E | E | E | E | E | | 5 |
| Service contracts sold at the time of sale of TPP. | E | E | 6 | E | E | | 32 |
| Installation charges by persons selling property | E | E | E | E | E | | 23 |
| Installation charges - other than seller of goods | E | E | E | E | E | | 18 |
| Custom processing (on customer's property) | 7 | E | 6 | 5 | E | | 26 |
| Custom meat slaughtering, cutting and wrapping | E | E | E | E | E | | 14 |
| Taxidermy | 7 | 5 | E | 5 | 6 | | 26 |
| Welding labor (fabrication and repair) | E | E | 6 | 5 | E | | 31 |
| **OTHER TAXED SERVICES** | Rate at Which Service is Taxed | | | | | | |
| Do you impose sales tax on other services not listed? | 7 | No | | Yes | No | 8 | 14 |

* State did not respond, 2004 data reported

*Source: 2007 FTA Survey*

# Appendix I

**Rhode Island Division of Taxation**
***Report to the General Assembly on***
***Combined Reporting of Corporate Income Tax***

*STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS*

# DEPARTMENT OF REVENUE
# DIVISION OF TAXATION

**Report to the General Assembly on Combined Reporting of Corporate Income Tax**

**Overview:**

House Bill 6300, Section 12, passed in the 2007 General Assembly required the Division of Taxation, with the assistance of the Office of Revenue Analysis, to prepare and submit to the General Assembly by December 1, 2008, a report concerning the policy and fiscal ramifications of changing the corporate tax and other business income taxes to a combined method of reporting.

**Current Law:**

The business corporation tax was first imposed in 1947 by G.L. 1938, Ch. 37. Before 1947, the corporate tax was more in the nature of a property tax on intangibles than an income tax. The tax is on the net income of corporations incorporated or doing business in the state. Net income is defined as the corporation's net income as determined under federal law plus:

(1) any interest not included in federal income,
(2) any specific exemptions,
(3) effective July 1, 2007, for a captive REIT, the amount of the dividends paid deduction allowed under the Internal Revenue Code for the taxable year,
(4) any Rhode Island business corporation tax, and
(5) applicable to tax years beginning on or after January 1, 2008, any deductions required to be added back to net income under R.I. Gen. Laws §44-11-11(f)[103], which include otherwise deductible interest expenses and costs and intangible expenses and costs directly or indirectly paid, accrued, or incurred to, one or more related members;

and minus:

[103] 44-11-11(f) For purposes of computing its net income under this section, a corporation shall add back otherwise deductible interest expenses and costs and intangible expenses and costs directly or indirectly paid, accrued or incurred to, or in connection directly or indirectly with one or more direct or indirect transactions with, one or more related members.

(1) interest on any U.S. or otherwise exempt obligations and
(2) the federal net operating loss deduction

Rhode Island requires corporations to file tax reports on a separate company basis. Corporations that are part of an affiliated group for Federal purposes are required to file "separate company" Rhode Island returns even though their income may have been reported to the Federal Government in a consolidated return of affiliated corporations. Thus, the taxable income of the corporation is computed on a stand-alone separate company basis even though the corporation participates in a consolidated filing for Federal income tax purposes.

An affiliated group of corporations may elect to file a consolidated return for the taxable year provided that each member corporation:

(A) is not a Foreign Sales Corporation (FSC), Domestic International Sales Corporation (DISC), a Subchapter S corporation, or is not a corporation, and

(B) is subject to taxation under chapter 44-11 of the Rhode Island General Laws, and

(C) has the same fiscal period, and

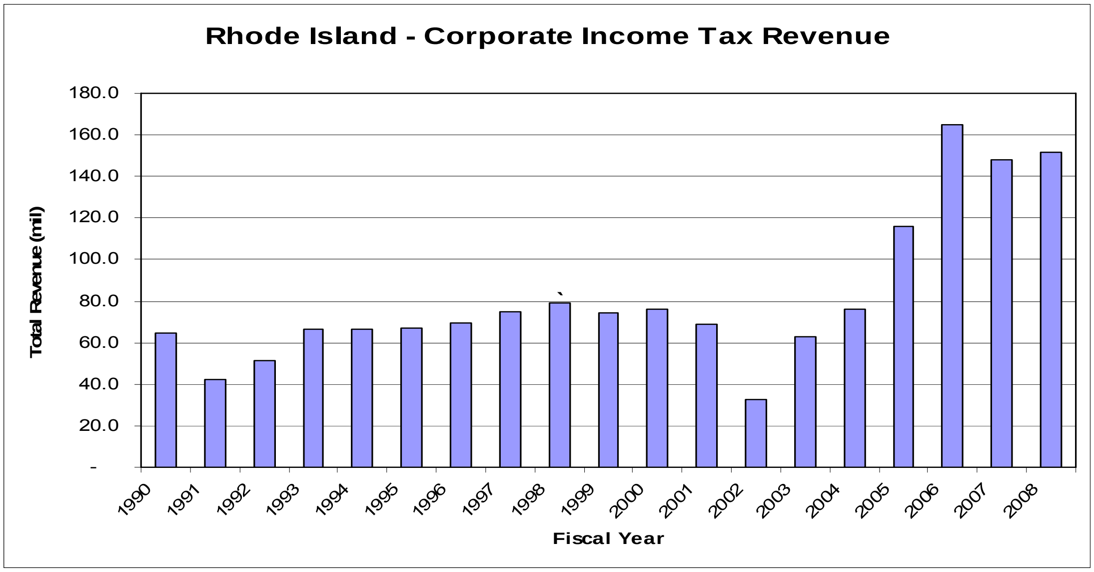
(D) was affiliated at any time during the taxable year, and

(E) consents to such filing and gives written notice thereof to the Tax Administrator no later than the 15th day of the third month following the close of the fiscal year, and joins in the filing of such consolidated return.

**Revenue:**

For fiscal year 2008 business corporation taxes accounted for 4.4% of Rhode Island's general fund revenue. During fiscal year 2008 the business corporation tax accounted for $151.4 million in revenue. A total of 44,250 businesses filed the business corporation tax, 41,986 (94.8%) paid only the minimum tax of $500. Figure 1 illustrates the revenue derived from business corporation tax since 1990:

Figure 1: Corporate Income Tax Revenue Fiscal Years 1990 - 2008




The November 2008 Revenue Estimating Conference estimated that fiscal year 2009 business corporation taxes will generate approximately $108.0 million.

**History of Combined Reporting:**

As far back as 1924 the United States Supreme Court has ruled that unitary (also known as combined) reporting is an appropriate way to tax corporations (*Bass, Ratcliff & Gretton Ltd v. State Tax Commission*, 266 U.S. 271). In *Edison California Stores v. McColgan*, 30 Cal. 2d. 472, 183 Pac. 2d 16 (1947) the court held that if the operation of the portion of the business done within the state is dependent upon or contributes to the operation of the business without the state, the operations are unitary. The court ratified the use of the combined report concept by extending the logic that required divisions to account as a single business to a commonly controlled multi-corporate group.

Currently 22 states have combined reporting requirements (see Figure 2). In 2004, Vermont became the first state in more than 20 years to adopt combined reporting (effective in tax year 2006).

Figure 2: State with Combined Reporting Requirements

| State | Comments |
|---|---|
| Alaska | |
| Arizona | |
| California | First state to adopt combined reporting in 1937 |
| Colorado | |
| Hawaii | |
| Idaho | |
| Illinois | |
| Kansas | |
| Maine | |
| Massachusetts | Effective for tax years beginning on or after January 1, 2009 |
| Michigan | Effective for tax years beginning on or after January 1, 2008 |
| Minnesota | |
| Mississippi | |
| Montana | |
| Nebraska | |
| New Hampshire | |
| New York | Effective for tax years beginning on or after January 1, 2007 |
| North Dakota | |
| Texas | |
| Utah | |
| Vermont | Adopted combined reporting in 2004 effective for tax years beginning on or after January 1, 2006 |
| West Virginia | |

**Overview of Combined Reporting:**

Generally speaking, combined reporting requires a related group of businesses which have a flow of value among them to combine their income for tax purposes. The combined net income of the group is apportioned by measuring the activity of the group in a taxing jurisdiction based upon the combined apportionment factors of the group.

The goal of combined reporting is to accurately calculate the total net income of a related group by eliminating the distorting effects of transactions within the group. With combined reporting, corporations cannot structure transactions, such as transferring royalty and dividend income and interest expenses, between affiliates in various states to shift income and therefore avoid tax. As a result, this reduces corporate income tax planning based on shifting income to commonly owned corporate low tax or no tax states that are beyond the income tax reach of Rhode Island. It can also benefit businesses by recognizing the losses of money-losing members of the group.

In combined reporting, the unitary group is treated as a single entity. The combined reporting method may only be used where an affiliated group of corporations' activities constitute a unitary business. A unitary business is one in which there is a high degree of interrelationship and interdependence among the activities of the company or related companies.

Provided below are four examples to outline the affects of combined reporting.

---

**Example #1: Single Corporation Operating in Rhode Island**

| ABC, Inc.<br>$10.0 million net taxable income | | | |
|---|---|---|---|
| Apportionment Schedule | | | |
| | In Rhode Island | Total | Apportionment Factor |
| Sales | $ 5,000,000 | $ 5,000,000 | 100% |
| Property | 5,000,000 | 5,000,000 | 100% |
| Wages | 5,000,000 | 5,000,000 | 100% |
| | | Apportionment Formula | 300/3 |
| | | Apportionment Percentage | 100% |

**Background:** ABC, Inc is a retail company 100% located in Rhode Island.

**Tax Liability:**

Tax Liability = $900,000

| | |
|---|---|
| Taxable Income | 10,000,000 |
| Apportionment Percentage | 100.00% |
| Rhode Island Tax Income | 10,000,000 |
| Rhode Island Tax Rate | 9.0% |
| Rhode Island Tax Liability | 900,000 |

**Results:** ABC, Inc would be required to pay $900,000 in Rhode Island corporate income tax.

**Note:** Since ABC, Inc is a single entity corporation; the tax liability of the corporation would remain the same if combined reporting was required in Rhode Island.

**Example #2: Multi-State Corporate family with Retail Operations in Rhode Island**

| **Parent**<br>ABC Holding Company, Inc.<br>$2.0 million net taxable income | | | |
|---|---|---|---|
| | In Rhode Island | Total | Apportionment Factor |
| Sales | $ 0 | $ 2,000,000 | 0% |
| Property | 0 | 500,000 | 0% |
| Wages | 0 | 500,000 | 0% |
| | | Apportionment Formula | 0/3 |
| | | Apportionment Percentage | 0% |

| **Sub A**<br>ABC, Inc.<br>$5.0 million net taxable income | | | |
|---|---|---|---|
| | In Rhode Island | Total | Apportionment Factor |
| Sales | $ 5,000,000 | $ 5,000,000 | 100% |
| Property | 5,000,000 | 5,000,000 | 100% |
| Wages | 5,000,000 | 5,000,000 | 100% |
| | | Apportionment Formula | 300/3 |
| | | Apportionment Percentage | 100% |

| **Sub B**<br>ABC Headquarters, Inc.<br>$3.0 million net taxable income | | | |
|---|---|---|---|
| | In Rhode Island | Total | Apportionment Factor |
| Sales | $ 0 | $ 3,000,000 | 0% |
| Property | 0 | 500,000 | 0% |
| Wages | 0 | 500,000 | 0% |
| | | Apportionment Formula | 0/3 |
| | | Apportionment Percentage | 0% |

**Background:**

Parent: ABC Holding Company, Inc. is a Delaware holding company that manages the corporation's patents. 100% of the income comes from fees charged to Sub A, ABC, Inc, for use of those patents. ABC Holding Company, Inc does not have any nexus in Rhode Island.

Sub A: ABC, Inc is a retail company 100% located in Rhode Island.

Sub B: ABC Headquarters, Inc, is a Nevada corporation that acts as the corporate headquarters. 100% of the income comes from fees charged to Sub A, ABC, Inc, for consulting fees. ABC Headquarters, Inc, does not have any nexus in Rhode Island. ABC Headquarters, Inc recognized positive net income this year of $3.0 million.

**Tax Liability under current law:**

Parent: ABC Holding Company, Inc. – Tax Liability = $0

Sub A: ABC, Inc.

Tax Liability = $630,000

| | |
|---|---|
| Taxable Income | 5,000,000 |
| Intangible Add-Back[104] | 2,000,000 |
| Net Taxable Income | 7,000,000 |
| Apportionment Percentage | 100.00% |
| Rhode Island Tax Income | 7,000,000 |
| Rhode Island Tax Rate | 9.0% |
| Rhode Island Tax Liability | 630,000 |

Sub B: ABC Headquarters, Inc. – Tax Liability = $0

**Results:** By creating two separate corporations outside of Rhode Island to manage the intangible assets and perform the headquarter functions, ABC, Inc. was able to lower their corporate income tax liability in Rhode Island by $270,000 (30%). It is important to note that, in this example, the General Assembly's action in the 2007 session to require the add back of costs associated with intangibles charges increased state tax collections by $180,000 relative to the taxes that would have been collected prior to the enactment of this provision.

[104] R.I.G.L. 44-11-11(f) requires a corporation in computing net taxable income to add back otherwise deductible interest expenses and costs and intangible expenses and costs directly or indirectly paid, accrued or incurred to, or in connection directly or indirectly with one or more direct or indirect transactions with, one or more related members.

**Example #3: Multi-State Corporate family with Retail Operations in Rhode Island with Combined Reporting Requirement.**

| **Parent**<br>ABC Holding Company, Inc.<br>$2.0 million net taxable income | | | |
|---|---|---|---|
| | In Rhode Island | Total | Apportionment Factor |
| Sales | $ 0 | $ 2,000,000 | 0% |
| Property | 0 | 500,000 | 0% |
| Wages | 0 | 500,000 | 0% |
| | | Apportionment Formula | 0/3 |
| | | Apportionment Percentage | 0% |

| **Sub A**<br>ABC, Inc.<br>$5.0 million net taxable income | | | |
|---|---|---|---|
| | In Rhode Island | Total | Apportionment Factor |
| Sales | $ 5,000,000 | $ 5,000,000 | 100% |
| Property | 5,000,000 | 5,000,000 | 100% |
| Wages | 5,000,000 | 5,000,000 | 100% |
| | | Apportionment Formula | 300/3 |
| | | Apportionment Percentage | 100% |

| **Sub B**<br>ABC Headquarters, Inc.<br>$3.0 million net taxable income | | | |
|---|---|---|---|
| | In Rhode Island | Total | Apportionment Factor |
| Sales | $ 0 | $ 3,000,000 | 0% |
| Property | 0 | 500,000 | 0% |
| Wages | 0 | 500,000 | 0% |
| | | Apportionment Formula | 0/3 |
| | | Apportionment Percentage | 0% |

**Background:**

Parent: ABC Holding Company, Inc. is a Delaware holding company that manages the corporation's patents. 100% of the income comes from fees charged to Sub A, ABC, Inc, for use of those patents. ABC Holding Company, Inc does not have any nexus in Rhode Island.

Sub A: ABC, Inc is a retail company 100% located in Rhode Island.

Sub B: ABC Headquarters, Inc, is a Nevada corporation that acts as the corporate headquarters. 100% of the income comes from fees charged to Sub A, ABC, Inc, for consulting fees. ABC Headquarters, Inc, does not have any nexus in Rhode Island. ABC Headquarters, Inc recognized positive net income this year of $3.0 million.

**Tax Liability under current law with Combined Reporting Requirement:** ABC, Inc would be required to file a combined report with ABC Holding Company, Inc and ABC Headquarters, Inc in Rhode Island. Under the combined reporting requirements, income and expenses are required to be combined and the apportionment percentage is calculated based on all corporations filing combined.

Tax Liability = $649,980

| | In Rhode Island | Total | Apportionment Factor |
|---|---|---|---|
| Sales | 5,000,000 | 10,000,000 | 50% |
| Property | 5,000,000 | 6,000,000 | 83.33% |
| Wages | 5,000,000 | 6,000,000 | 83.33% |
| Apportionment Formula | | | 216.66/3 |
| Apportionment Percentage | | | 72.22% |

| | |
|---|---|
| Taxable Income | 10,000,000 |
| Apportionment Percentage | 72.22% |
| Rhode Island Tax Income | 7,222,000 |
| Rhode Island Tax Rate | 9.0% |
| Rhode Island Tax Liability | 649,980 |

**Results:** By requiring combined reporting ABC, Inc.'s tax liability in Rhode Island is not affected by the intercompany transactions. ABC Inc. would actually be required to pay $19,980 (3.2%) more in corporate income tax under a combined reporting requirement than under current law even with the costs of intangibles add-back provision.

**Example #4: Multi-State Corporate family with Retail Operations in Rhode Island with Combined Reporting Requirement.**

| **Parent**<br>ABC Holding Company, Inc.<br>$2.0 million net taxable income | | | |
|---|---|---|---|
| | In Rhode Island | Total | Apportionment Factor |
| Sales | $ 0 | $ 2,000,000 | 0% |
| Property | 0 | 500,000 | 0% |
| Wages | 0 | 500,000 | 0% |
| | | Apportionment Formula | 0/3 |
| | | Apportionment Percentage | 0% |

| **Sub A**<br>ABC, Inc.<br>$5.0 million net taxable income | | | |
|---|---|---|---|
| | In Rhode Island | Total | Apportionment Factor |
| Sales | $ 5,000,000 | $ 5,000,000 | 100% |
| Property | 5,000,000 | 5,000,000 | 100% |
| Wages | 5,000,000 | 5,000,000 | 100% |
| | | Apportionment Formula | 300/3 |
| | | Apportionment Percentage | 100% |

| **Sub B**<br>ABC Headquarters, Inc.<br>$(5.0) million net taxable loss | | | |
|---|---|---|---|
| | In Rhode Island | Total | Apportionment Factor |
| Sales | $ 0 | $ 3,000,000 | 0% |
| Property | 0 | 500,000 | 0% |
| Wages | 0 | 500,000 | 0% |
| | | Apportionment Formula | 0/3 |
| | | Apportionment Percentage | 0% |

**Background:**

Parent: ABC Holding Company, Inc. is a Delaware holding company that manages the corporation's patents. 100% of the income comes from fees charged to Sub A, ABC, Inc, for use of those patents. ABC Holding Company, Inc does not have any nexus in Rhode Island.

Sub A: ABC, Inc is a retail company 100% located in Rhode Island.

Sub B: ABC Headquarters, Inc, is a Nevada corporation that acts as the corporate headquarters. 100% of the income comes from fees charged to Sub A, ABC, Inc, for consulting fees. ABC Headquarters, Inc, does not have any nexus in Rhode Island. ABC Headquarters, Inc recognized a large loss this year due to the sale of a long-term asset ABC Headquarters, Inc's taxable loss for this tax year was $5 million.

**Tax Liability under current law with Combined Reporting Requirement:** ABC, Inc would be required to file a combined report with ABC Holding Company, Inc and ABC Headquarters, Inc in Rhode Island. Under the combined reporting requirements, income and expenses are required to be combined and the apportionment percentage is calculated based on all corporations filing combined.

Tax Liability = $129,996

| | In Rhode Island | Everywhere | Apportionment Factor |
|---|---|---|---|
| Sales | 5,000,000 | 10,000,000 | 50% |
| Property | 5,000,000 | 6,000,000 | 83.33% |
| Wages | 5,000,000 | 6,000,000 | 83.33% |
| Apportionment Formula | | | 216.66/3 |
| Apportionment Percentage | | | 72.22% |

| | |
|---|---|
| Taxable Income | 2,000,000 |
| Apportionment Percentage | 72.22% |
| Rhode Island Tax Income | 1,444,400 |
| Rhode Island Tax Rate | 9.0% |
| Rhode Island Tax Liability | 129,996 |

**Results:** By requiring combined reporting ABC, Inc.'s tax liability would be greatly reduced in Rhode Island due to the losses experienced by ABC Headquarters, Inc. ABC Inc. would be required to pay $500,004 less, –79.4%, in corporate income tax under a combined reporting requirement.

**Pros and Cons of Combined Reporting:**

**Pros:**

- Minimizes Tax Avoidance Planning – By requiring corporations and their subsidiaries to report all their profits together can minimize their ability to utilize tax planning or tax avoidance strategies. In a combined reporting state, all of the income and expenses of a company and its subsidiaries would be added together, so that passive investment companies and other tax avoidance loopholes would have no impact at all on the company's taxable income.
- Levels the playing field – Tax planning strategies are typically used by large multistate corporations who have the resources to design and implement these strategies. Small businesses, which do not have the opportunities or resources to engage in interstate income shifting.
- Better measurement of income within state – Requiring corporations and their subsidiaries to report using the combined reporting method better reflects the income activity of a combined group of corporations in a given state. Combined reporting limits the ability of corporations to shift income to lower tax states or those without a corporate income tax (such as Delaware and Nevada).
- Determines tax based on business activity in the state and not by the business's organizational structure. With reorganization corporations can change the tax situation in a given state. Under current law, Rhode Island treats taxpayers very differently depending on how they are organized. Combined reporting would combine operations of related companies into one profit and loss statement, therefore resolving the taxation issues with a multi-state corporate organization.

**Cons:**

- Business Climate Perception – Opponents of combined reporting argue against combined reporting have suggested that adopting combined reporting may have a negative impact on a state's business climate. Their claim is that many out-of-state companies may not locate into a combined reporting state because of the added tax burden to comply with the corporate tax laws.
- Administrative Burden for State and Taxpayers – Many practitioners and corporations feel that combined reporting places an undue burden on multistate corporations. The cost to administer a combined reporting structure is also increases due to the high number of audits necessary to determine if a multi-state corporation is required to file combined or separate.
- Potential Revenue Loss in First Few Years – There is a strong belief that more complex audits and appeals and increased litigation can be expected as a result of the unitary determination in states adopting combined reporting. This increased litigation could potentially lead to decreased revenue in the first few years of implementing combined reporting. The belief is that companies that would recognize a lower tax liability using combined reporting would willingly file and pay early. But the companies who would recognize a tax increase due to combined reporting would litigate and delay their tax payments, therefore creating a decline in the revenue from corporate income tax.

**Revenue Estimates:**

Assumptions & Methodology:

The Division of Taxation elected to use the State of New Hampshire to assist in analyzing the impact of combined reporting. The State of New Hampshire has been a combined reporting state for several decades. Given the history with combined reporting and the fact that New Hampshire is a New England state in close proximity with Rhode Island, the Division of Taxation felt New Hampshire would provide the most relevant data.

The Division of Taxation matched the top 200 corporate income tax filers in Rhode Island with New Hampshire's corporate tax filings to determine which entities filed combined in New Hampshire. New Hampshire reported that only 35 of the top 200 companies filing in Rhode Island filed a combined corporate income tax return. To expand the population, the Division of Taxation also identified 30 of the largest companies (based on gross receipts within Rhode Island) to create a sample population of 65 companies. The sample population consists of a diverse group of entities:

- 14 retail companies
- 18 financial/management services companies
- 14 manufacturing companies
- 8 wholesale distribution companies
- 11 other companies including those in the oil/gas, pharmaceutical, transportation and research and development industries

Using tax year 2006 returns, the Division of Taxation recalculated the corporate income tax using a combined method for the sample population. The sample population tax liability under the current Rhode Island corporate tax structure was $5.9 million. Under a combined reporting system where the rate and the apportionment percentage remained the same, the sample population's tax liability would be $14.4. Based on the analysis, 9.0% of the corporations saw a tax decrease, 27.5% of the corporations saw a tax increase and the remaining 63.5% of the corporations saw no change in their tax liability.

Although this sample population seems relatively small compared to the entire universe of companies that file under Rhode Island's business corporations tax, the Division of Taxation believes that this sample represents the majority of companies that would be affected by combined reporting. Many of the mid-size and small business entities filing business corporation tax would not be affected by combined reporting since they are single entity organizations.

A major portion of the tax increase could potentially be related to the add-back of intangible expenses. The 2007 General Assembly amended the business corporation tax law to require corporations to add-back otherwise deductible interest expenses and costs of intangible expenses accrued through transactions with related companies. The add-back provisions, which have been enacted, can expect to reduce the additional revenue recognized from implementing combined reporting. The Division of Taxation also estimates that the increase for the sample population would not be reflective on the remainder of the universe of business corporation tax filers.

Given the results of the analysis and the above assumptions, the Division of Taxation estimates that combined reporting would generate an additional 5% to 8% of business corporation tax revenue in the State of Rhode Island.

**Recommendations:**

- The Governor's Tax Policy Work Group is scheduled to issue a report which will address combined reporting for corporations. This report and the final report of the Tax Policy Work Group should collectively be taken into consideration by the General Assembly.
- If the General Assembly wishes to adopt combined reporting requirements in Rhode Island, it is recommended that the model statue issued by the Multi-State Tax Commission be used as a starting point (see Appendix A).
- If the General Assembly wishes to adopt combined reporting requirements in Rhode Island, it is recommended that the effective date of combined reporting be January 1, 2010 to allow the Division of Taxation the ability to perform outreach to inform taxpayers and practitioners of the changes.
- If the General Assembly wishes to adopt combined reporting, it is recommended a review of the Rhode Island Passive Investment Companies statue (RIGL §44-11-1(2)(vii)) be undertaken prior to the effective date of combined reporting to outline any adverse affects.

**Appendix A: Multi-State Tax Commission's Model Statue**

**Multistate Tax Commission**
**Proposed Model Statute for Combined Reporting**
*As approved by the Multistate Tax Commission August 17, 2006*

**Section 1. Definitions.**

**A.** "Person" means any individual, firm, partnership, general partner of a partnership, limited liability company, registered limited liability partnership, foreign limited liability partnership, association, corporation (whether or not the corporation is, or would be if doing business in this state, subject to [state income tax act]), company, syndicate, estate, trust, business trust, trustee, trustee in bankruptcy, receiver, executor, administrator, assignee or organization of any kind.

**B.** "Taxpayer" means any person subject to the tax imposed by [State Corporate income tax act].

**C.** "Corporation" means any corporation as defined by the laws of this state or organization of any kind treated as a corporation for tax purposes under the laws of this state, wherever located, which if it were doing business in this state would be a "taxpayer." The business conducted by a partnership which is directly or indirectly held by a corporation shall be considered the business of the corporation to the extent of the corporation's distributive share of the partnership income, inclusive of guaranteed payments to the extent prescribed by regulation.

**D.** "Partnership" means a general or limited partnership, or organization of any kind treated as a partnership for tax purposes under the laws of this state.

**E.** "Internal Revenue Code" means Title 26 of the United States Code of [date] [and amendments thereto] without regard to application of federal treaties unless expressly made applicable to states of the United States.

**F.** "Unitary business" means [a single economic enterprise that is made up either of separate parts of a single business entity or of a commonly controlled group of business entities that are sufficiently interdependent, integrated and interrelated through their activities so as to provide a synergy and mutual benefit that produces a sharing or exchange of value among them and a significant flow of value to the separate parts.] Drafter's note: This portion of the definition is drafted to follow MTC Reg. IV(b), defining a "unitary business." A state that does not wish to define unitary business in this manner should consider alternative language. In addition, this MTC Regulation defining unitary business includes a requirement of common ownership or control. A state which treats ownership or control requirements separately from the unitary business requirement will need to make additional amendments to the statutory language. Any business conducted by a partnership shall be treated as conducted by its partners, whether directly held or indirectly held through a series of partnerships, to the extent of the partner's distributive share of the partnership's income, regardless of the percentage of the partner's ownership interest or its distributive or any other share of partnership income. A business conducted directly or indirectly by one corporation is unitary with that portion of a business conducted by another corporation through its direct or indirect interest in a partnership if the conditions of the first sentence of this section 1.F. are satisfied, to wit: there is a synergy, and exchange and flow of value between the two parts of the business and the two corporations are members of the same commonly controlled group.

**G.** “Combined group” means the group of all persons whose income and apportionment factors are required to be taken into account pursuant to Section 2.A. or 2.B. in determining the taxpayer’s share of the net business income or loss apportionable to this State.

**H.** “United States” means the 50 states of the United States, the District of Columbia, and United State’s territories and possessions.

**I.** “Tax haven” means a jurisdiction that, during the tax year in question:

**i.** is identified by the Organization for Economic Co-operation and Development (OECD) as a tax haven or as having a harmful preferential tax regime, or
**ii.** exhibits the following characteristics established by the OECD in its 1998 report entitled Harmful Tax Competition: An Emerging Global Issue as indicative of a tax haven or as a jurisdiction having a harmful preferential tax regime, regardless of whether it is listed by the OECD as an un-cooperative tax haven:

**(a)** has no or nominal effective tax on the relevant income; and
**(b) (1)** has laws or practices that prevent effective exchange of information for tax purposes with other governments on taxpayers benefiting from the tax regime;
**(2)** has tax regime which lacks transparency. A tax regime lacks transparency if the details of legislative, legal or administrative provisions are not open and apparent or are not consistently applied among similarly situated taxpayers, or if the information needed by tax authorities to determine a taxpayer’s correct tax liability, such as accounting records and underlying documentation, is not adequately available;
**(3)** facilitates the establishment of foreign-owned entities without the need for a local substantive presence or prohibits these entities from having any commercial impact on the local economy;
**(4)** explicitly or implicitly excludes the jurisdiction’s resident taxpayers from taking advantage of the tax regime’s benefits or prohibits enterprises that benefit from the regime from operating in the jurisdiction’s domestic market; or
**(5)** has created a tax regime which is favorable for tax avoidance, based upon an overall assessment of relevant factors, including whether the jurisdiction has a significant untaxed offshore financial/other services sector relative to its overall economy.

**Section 2. Combined reporting required, when; discretionary under certain circumstances.**

**A. Combined reporting required, when.** A taxpayer engaged in a unitary business with one or more other corporations shall file a combined report which includes the income, determined under Section 3.C. of this act, and apportionment factors, determined under [provisions on apportionment factors and Section 3.B. of this act], of all corporations that are members of the unitary business, and such other information as required by the Director.

**B. Combined reporting at Director's discretion, when.** The Director may, by regulation, require the combined report include the income and associated apportionment factors of any persons that are not included pursuant to Section 2.A., but that are members of a unitary business, in order to reflect proper apportionment of income of entire unitary businesses. Authority to require combination by regulation under this Section 2.B. includes authority to require combination of persons that are not, or would not be if doing business in this state, subject to the [State income tax Act].
In addition, if the Director determines that the reported income or loss of a taxpayer engaged in a unitary business with any person not included pursuant to Section 2.A. represents an avoidance or evasion of tax by such taxpayer, the Director may, on a case by case basis, require all or any part of the income and associated apportionment factors of such person be included in the taxpayer's combined report.
With respect to inclusion of associated apportionment factors pursuant to Section 2.B., the Director may require the exclusion of any one or more of the factors, the inclusion of one or more additional factors which will fairly represent the taxpayer's business activity in this State, or the employment of any other method to effectuate a proper reflection of the total amount of income subject to apportionment and an equitable allocation and apportionment of the taxpayer's income.

**Section 3. Determination of taxable income or loss using combined report.**

The use of a combined report does not disregard the separate identities of the taxpayer members of the combined group. Each taxpayer member is responsible for tax based on its taxable income or loss apportioned or allocated to this state, which shall include, in addition to other types of income, the taxpayer member's apportioned share of business income of the combined group, where business income of the combined group is calculated as a summation of the individual net business incomes of all members of the combined group. A member's net business income is determined by removing all but business income, expense and loss from that member's total income, as provided in detail below.

**A. Components of income subject to tax in this state; application of tax credits and post apportionment deductions.**

> **i.** Each taxpayer member is responsible for tax based on its taxable income or loss apportioned or allocated to this state, which shall include:

**(a)** its share of any business income apportionable to this State of each of the combined groups of which it is a member, determined under Section 3.B.,

**(b)** its share of any business income apportionable to this State of a distinct business activity conducted within and without the state wholly by the taxpayer member, determined under [provisions for apportionment of business income],

**(c)** its income from a business conducted wholly by the taxpayer member entirely within the state,

**(d)** its income sourced to this state from the sale or exchange of capital or assets, and from involuntary conversions, as determined under Section 3.C.ii.(g), below,

**(e)** its nonbusiness income or loss allocable to this State, determined under [provisions for allocation of non-business income],

**(f)** its income or loss allocated or apportioned in an earlier year, required to be taken into account as state source income during the income year, other than a net operating loss, and

**(g)** its net operating loss carryover or carryback. If the taxable income computed pursuant to Section 3 results in a loss for a taxpayer member of the combined group, that taxpayer member has a [state] net operating loss (NOL), subject to the net operating loss limitations, carryforward and carryback provisions of [provisions on NOLs]. Such NOL is applied as a deduction in a prior or subsequent year only if that taxpayer has [State] source positive net income, whether or not the taxpayer is or was a member of a combined reporting group in the prior or subsequent year.

**ii.** Except where otherwise provided, no tax credit or post-apportionment deduction earned by one member of the group, but not fully used by or allowed to that member, may be used in whole or in part by another member of the group or applied in whole or in part against the total income of the combined group; and a post-apportionment deduction carried over into a subsequent year as to the member that incurred it, and available as a deduction to that member in a subsequent year, will be considered in the computation of the income of that member in the subsequent year, regardless of the composition of that income as apportioned, allocated or wholly within this state.

**B. Determination of taxpayer's share of the business income of a combined group apportionable to this State.**

The taxpayer's share of the business income apportionable to this State of each combined group of which it is a member shall be the product of:

**i.** the business income of the combined group, determined under Section 3.C., and

**ii.** the taxpayer member's apportionment percentage, determined under [provisions on apportionment factors], including in the [property, payroll and sales factor]numerators the taxpayer's [property, payroll and sales, respectively,] associated with the combined group's unitary business in this state, and including in the denominator the [property, payroll and sales] of all members of the combined group, including the taxpayer, which property, payroll and sales are associated with the combined group's unitary business wherever located. The [property, payroll, and sales] of a partnership shall be included in the determination of the partner's apportionment percentage in proportion to a ratio the numerator of which is the amount of the partner's distributive share of partnership's unitary income included in the income of the combined group in accordance with Section 3.C.ii.(c). and the denominator of which is the amount of the partnership's total unitary income.

**C. Determination of the business income of the combined group.**

The business income of a combined group is determined as follows:

**i.** From the total income of the combined group, determined under Section 3.C.ii., subtract any income, and add any expense or loss, other than the business income, expense or loss of the combined group.

**ii.** Except as otherwise provided, the total income of the combined group is the sum of the income of each member of the combined group determined under federal income tax laws, as adjusted for state purposes, as if the member were not consolidated for federal purposes. The income of each member of the combined group shall be determined as follows:

**(a)** For any member incorporated in the United States, or included in a consolidated federal corporate income tax return, the income to be included in the total income of the combined group shall be the taxable income for the corporation after making appropriate adjustments under [state tax code provisions for adjustments to taxable income].

**(b) (1)** For any member not included in Section 3.C.ii.(a), the income to be included in the total income of the combined group shall be determined as follows:

**(A)** A profit and loss statement shall be prepared for each foreign branch or corporation in the currency in which the books of account of the branch or corporation are regularly maintained.

**(B)** Adjustments shall be made to the profit and loss statement to conform it to the accounting principles generally accepted in the United States for the preparation of such statements except as modified by this regulation.

**(C)** Adjustments shall be made to the profit and loss statement to conform it to the tax accounting standards required by the [state tax code]

**(D)** Except as otherwise provided by regulation, the profit and loss statement of each member of the combined group, and the apportionment factors related thereto, whether United States or foreign, shall be translated into the currency in which the parent company maintains its books and records.

**(E)** Income apportioned to this state shall be expressed in United States dollars.

**(2)** In lieu of the procedures set forth in Section 3.C.ii.(b)(1), above, and subject to the determination of the Director that it reasonably approximates income as determined under [the State tax code], any member not included in Section 3.C.ii.(a) may determine its income on the basis of the consolidated profit and loss statement which includes the member and which is prepared for filing with the Securities and Exchange Commission by related corporations. If the member is not required to file with the Securities and Exchange Commission, the Director may allow the use of the consolidated profit and loss statement prepared for reporting to shareholders and subject to review by an independent auditor. If above statements do not reasonably approximate income as determined under [the State tax code] the Director may accept those statements with appropriate adjustments to approximate that income.

**(c)** If a unitary business includes income from a partnership, the income to be included in the total income of the combined group shall be the member of the combined group's direct and indirect distributive share of the partnership's unitary business income.

**(d)** All dividends paid by one to another of the members of the combined group shall, to the extent those dividends are paid out of the earnings and profits of the unitary business included in the combined report, in the current or an earlier year, be eliminated from the income of the recipient. This provision shall not apply to dividends received from members of the unitary business which are not a part of the combined group.

**(e)** Except as otherwise provided by regulation, business income from an intercompany transaction between members of the same combined group shall be deferred in a manner similar to 26 CFR 1.1502-13. Upon the occurrence of any of the following events, deferred business income resulting from an intercompany transaction between members of a combined group shall be restored to the income of the seller, and shall be apportioned as business income earned immediately before the event:

**(1)** the object of a deferred intercompany transaction is

**(A)** re-sold by the buyer to an entity that is not a member of the combined group,

**(B)** re-sold by the buyer to an entity that is a member of the combined group for use outside the unitary business in which the buyer and seller are engaged, or

**(C)** converted by the buyer to a use outside the unitary business in which the buyer and seller are engaged, or

**(2)** the buyer and seller are no longer members of the same combined group, regardless of whether the members remain unitary.

**(f)** A charitable expense incurred by a member of a combined group shall, to the extent allowable as a deduction pursuant to Internal Revenue Code Section 170, be subtracted first from the business income of the combined group (subject to the income limitations of that section applied to the entire business income of the group), and any remaining amount shall then be treated as a nonbusiness expense allocable to the member that incurred the expense (subject to the income limitations of that section applied to the nonbusiness income of that specific member). Any charitable deduction disallowed under the foregoing rule, but allowed as a carryover deduction in a subsequent year, shall be treated as originally incurred in the subsequent year by the same member, and the rules of this section shall apply in the subsequent year in determining the allowable deduction in that year.

**(g)** Gain or loss from the sale or exchange of capital assets, property described by Internal Revenue Code Section 1231(a)(3), and property subject to an involuntary conversion, shall be removed from the total separate net income of each member of a combined group and shall be apportioned and allocated as follows.

> **(1)** For each class of gain or loss (short term capital, long term capital, Internal Revenue Code Section 1231, and involuntary conversions) all members' business gain and loss for the class shall be combined (without netting between such classes), and each class of net business gain or loss separately apportioned to each member using the member's apportionment percentage determined under Section 3.B., above.
>
> **(2)** Each taxpayer member shall then net its apportioned business gain or loss for all classes, including any such apportioned business gain and loss from other combined groups, against the taxpayer member's nonbusiness gain and loss for all classes allocated to this State, using the rules of Internal Revenue Code Sections 1231 and 1222, without regard to any of the taxpayer member's gains or losses from the sale or exchange of capital assets, Section 1231 property, and involuntary conversions which are nonbusiness items allocated to another state.
>
> **(3)** Any resulting state source income (or loss, if the loss is not subject to the limitations of Internal Revenue Code Section 1211) of a taxpayer member produced by the application of the preceding subsections shall then be applied to all other state source income or loss of that member.
>
> **(4)** Any resulting state source loss of a member that is subject to the limitations of Section 1211 shall be carried forward [or carried back] by that member, and shall be treated as state source short-term capital loss incurred by that member for the year for which the carryover [or carryback] applies.

**(h)** Any expense of one member of the unitary group which is directly or indirectly attributable to the nonbusiness or exempt income of another member of the unitary group shall be allocated to that other member as corresponding nonbusiness or exempt expense, as appropriate.

**<u>Section 4. Designation of surety.</u>**

As a filing convenience, and without changing the respective liability of the group members, members of a combined reporting group may annually elect to designate one taxpayer member of the combined group to file a single return in the form and manner prescribed by the department, in lieu of filing their own respective returns, provided that the taxpayer designated to file the single return consents to act as surety with respect to the tax liability of all other taxpayers properly included in the combined report, and agrees to act as agent on behalf of those taxpayers for the year of the election for tax matters relating to the combined report for that year. If for any reason the surety is unwilling or unable to perform its responsibilities, tax liability may be assessed against the taxpayer members.

## Section 5. Water's-edge election; initiation and withdrawal.

**A. Water's-edge election.**
Taxpayer members of a unitary group that meet the requirements of Section 5.B. may elect to determine each of their apportioned shares of the net business income or loss of the combined group pursuant to a water's-edge election. Under such election, taxpayer members shall take into account all or a portion of the income and apportionment factors of only the following members otherwise included in the combined group pursuant to Section 2, as described below:

> **i.** the entire income and apportionment factors of any member incorporated in the United States or formed under the laws of any state, the District of Columbia, or any territory or possession of the United States;
>
> **ii.** the entire income and apportionment factors of any member, regardless of the place incorporated or formed, if the average of its property, payroll, and sales factors within the United States is 20 percent or more;
>
> **iii.** the entire income and apportionment factors of any member which is a domestic international sales corporations as described in Internal Revenue Code Sections 991 to 994, inclusive; a foreign sales corporation as described in Internal Revenue Code Sections 921 to 927, inclusive; or any member which is an export trade corporation, as described in Internal Revenue Code Sections 970 to 971, inclusive;
>
> **iv.** any member not described in [Section 5.A.i.] to [Section 5.A.iii.], inclusive, shall include the portion of its income derived from or attributable to sources within the United States, as determined under the Internal Revenue Code without regard to federal treaties, and its apportionment factors related thereto;
>
> **v.** any member that is a "controlled foreign corporation," as defined in Internal Revenue Code Section 957, to the extent of the income of that member that is defined in Section 952 of Subpart F of the Internal Revenue Code ("Subpart F income") not excluding lower-tier subsidiaries' distributions of such income which were previously taxed, determined without regard to federal treaties, and the apportionment factors related to that income; any item of income received by a controlled foreign corporation shall be excluded if such income was subject to an effective rate of income tax imposed by a foreign country greater than 90 percent of the maximum rate of tax specified in Internal Revenue Code Section 11;
>
> **vi.** any member that earns more than 20 percent of its income, directly or indirectly, from intangible property or service related activities that are deductible against the business income of other members of the combined group, to the extent of that income and the apportionment factors related thereto; and
>
> **vii.** the entire income and apportionment factors of any member that is doing business in a tax haven, where "doing business in a tax haven" is defined as being

engaged in activity sufficient for that tax haven jurisdiction to impose a tax under United States constitutional standards. If the member's business activity within a tax haven is entirely outside the scope of the laws, provisions and practices that cause the jurisdiction to meet the criteria established in Section 1.I., the activity of the member shall be treated as not having been conducted in a tax haven.

**B. Initiation and withdrawal of election**

**i.** A water's-edge election is effective only if made on a timely-filed, original return for a tax year by every member of the unitary business subject to tax under [state income tax code]. The Director shall develop rules and regulations governing the impact, if any, on the scope or application of a water's-edge election, including termination or deemed election, resulting from a change in the composition of the unitary group, the combined group, the taxpayer members, and any other similar change.

**ii.** Such election shall constitute consent to the reasonable production of documents and taking of depositions in accordance with [state statute on discovery].

**iii**. In the discretion of the Director, a water's-edge election may be disregarded in part or in whole, and the income and apportionment factors of any member of the taxpayer's unitary group may be included in the combined report without regard to the provisions of this section, if any member of the unitary group fails to comply with any provision of [this act] or if a person otherwise not included in the water's-edge combined group was availed of with a substantial objective of avoiding state income tax.

**iv.** A water's-edge election is binding for and applicable to the tax year it is made and all tax years thereafter for a period of 10 years. It may be withdrawn or reinstituted after withdrawal, prior to the expiration of the 10 year period, only upon written request for reasonable cause based on extraordinary hardship due to unforeseen changes in state tax statutes, law, or policy, and only with the written permission of the Director. If the Director grants a withdrawal of election, he or she shall impose reasonable conditions as necessary to prevent the evasion of tax or to clearly reflect income for the election period prior to or after the withdrawal. Upon the expiration of the 10 year period, a taxpayer may withdraw from the water's edge election. Such withdrawal must be made in writing within one year of the expiration of the election, and is binding for a period of 10 years, subject to the same conditions as applied to the original election. If no withdrawal is properly made, the water's edge election shall be in place for an additional 10 year period, subject to the same conditions as applied to the original election.

# Appendix J

## Detailed Information
## Municipal Assessed Values and Tax Levy

**FY 2009 Tax Rates By Class of Property**

**Rhode Island Valuation Data Tax Roll Year 2008**

**(Assessed 12/31/07)**

| Municipality | Reval Year | Residential | Homestead Exemption | Owner * Occupied | Commercial Industrial | Personal Property | Motor Vehicle | Inv |
|---|---|---|---|---|---|---|---|---|
| BARRINGTON | 2005 | 14.45 | | 14.45 | 14.45 | 14.45 | 42.00 | - |
| BRISTOL | 2007 | 10.35 | | 10.35 | 10.35 | 10.35 | 17.35 | - |
| BURRILLVILLE | 2006 | 11.85 | | 11.60 | 11.85 | 11.85 | 40.00 | - |
| CENTRAL FALLS | 2006 | 10.54 | $45,000 | 9.05 | 27.77 | 57.64 | 48.65 | - |
| CHARLESTOWN | 2007 | 7.16 | | 7.16 | 7.16 | 7.16 | 13.08 | - |
| COVENTRY | 2007 | 15.46 | | 15.46 | 18.63 | 15.46 | 18.75 | - |
| CRANSTON | 2005 | 15.34 | | 15.34 | 23.01 | 23.01 | 42.44 | - |
| CUMBERLAND | 2007 | 12.38 | | 12.38 | 12.38 | 24.76 | 19.87 | 1.99 |
| EAST GREENWICH | 2005 | 14.00 | | 14.00 | 14.00 | 14.00 | 22.88 | - |
| EAST PROVIDENCE | 2006 | 14.91 | 15% | 12.67 | 19.01 | 44.74 | 37.10 | - |
| EXETER | 2005 | 12.33 | | 12.33 | 12.33 | 12.33 | 32.59 | - |
| FOSTER | 2005 | 13.52 | | 13.52 | 13.52 | 18.60 | 36.95 | - |
| GLOCESTER | 2007 | 17.03 | | 17.03 | 19.37 | 33.92 | 24.37 | - |
| HOPKINTON | 2005 | 14.50 | | 14.50 | 14.50 | 14.50 | 21.18 | - |
| JAMESTOWN | 2006 | 8.11 | | 8.11 | 8.11 | 8.11 | 14.42 | - |
| JOHNSTON | 2006 | 18.91 | 20% | 15.13 | 18.91 | 56.00 | 41.46 | - |
| LINCOLN | 2006 | 16.88 | 35% | 10.97 | 21.12 | 28.07 | 30.66 | - |
| LITTLE COMPTON | 2006 | 4.62 | | 4.62 | 4.62 | 9.24 | 13.90 | - |
| MIDDLETOWN | 2005 | 11.38 | | 11.38 | 15.14 | 11.38 | 16.05 | - |
| NARRAGANSETT | 2005 | 7.25 | | 7.25 | 10.87 | 10.87 | 16.46 | - |
| NEW SHOREHAM | 2006 | 3.30 | | 2.64 | 2.64 | 3.30 | 9.75 | - |
| NEWPORT | 2005 | 8.67 | | 8.67 | 12.93 | 12.93 | 23.45 | - |
| NORTH KINGSTOWN | 2006 | 13.83 | | 13.83 | 13.83 | 13.83 | 22.04 | - |
| NORTH PROVIDENCE | 2007 | 16.75 | 20% | 13.40 | 22.70 | 60.85 | 41.95 | - |
| NORTH SMITHFIELD | 2006 | 13.24 | | 13.24 | 16.72 | 41.00 | 37.62 | - |
| PAWTUCKET | 2005 | 12.39 | | 12.39 | 20.88 | 52.09 | 53.30 | - |
| PORTSMOUTH | 2007 | 10.84 | | 10.84 | 10.84 | 10.84 | 22.50 | - |
| PROVIDENCE | 2006 | 23.70 | 50% | 11.85 | 28.00 | 52.50 | 76.78 | - |
| RICHMOND | 2007 | 14.31 | | 14.31 | 14.31 | 14.31 | 22.64 | - |
| SCITUATE | 2006 | 22.40 | | 11.20 | 15.12 | 33.59 | 30.20 | - |
| SMITHFIELD | 2006 | 13.68 | | 13.68 | 13.68 | 50.13 | 39.00 | - |
| SOUTH KINGSTOWN | 2006 | 11.97 | | 11.97 | 11.97 | 11.97 | 18.71 | - |
| TIVERTON | 2005 | 11.26 | | 11.26 | 11.26 | 11.26 | 19.14 | - |
| WARREN | 2006 | 13.10 | | 13.10 | 13.10 | 13.10 | 26.00 | - |
| WARWICK | 2006 | 13.41 | | 13.41 | 20.12 | 26.82 | 34.60 | - |
| WEST GREENWICH | 2007 | 17.63 | 27% | 12.87 | 17.63 | 26.46 | 19.02 | - |
| WEST WARWICK | 2006 | 15.92 | | 15.92 | Note 2 | 31.71 | 28.47 | - |
| WESTERLY | 2006 | 8.87 | | 8.87 | 8.87 | 8.87 | 29.67 | - |
| WOONSOCKET | 2005 | 13.23 | 25% | 9.92 | 32.16 | 46.58 | 46.58 | - |

Represents tax rate per thousand of assessed value.

* Rates adjusted for homestead exemptions and assessment ratios (see Note 1). Central Falls is an estimate based upon the average value of residential property.

1) New Shoreham & Scituate's Real Property is assessed at 80% & 50% of Fair Market Value, respectively, at the time of revaluation/update. Real Property in all other municipalities is assessed at 100% at the time of revaluation/update.
2) Real property taxed at four different rates: $15.92 (all state codes except as specified); $20.53 (code 03); $21.46 (codes 04, 05, 06, 07, 12, 24, 14, 98, 10, 15); $19.60 (codes 40, 50, 30, 02)

## Statewide Net Assessed Value as of Dec. 31, 2007

| Municipality | Residential | Commercial/ Industrial | Tangible | Motor Vehicles | Municipal Total |
|---|---|---|---|---|---|
| Barrington | $3,050,178,953 | $103,695,200 | $31,807,095 | $84,994,399 | $3,270,675,647 |
| Bristol | 2,769,141,970 | 309,448,818 | 43,194,250 | 83,832,720 | 3,205,617,758 |
| Burrillville | 1,427,392,708 | 106,569,000 | 42,919,069 | 58,140,041 | 1,635,020,818 |
| Central Falls | 651,224,432 | 87,926,445 | 13,813,922 | 15,615,048 | 768,579,847 |
| Charlestown | 2,571,464,269 | 87,735,400 | 23,484,121 | 38,318,030 | 2,721,001,820 |
| Coventry | 3,170,910,005 | 424,559,538 | 115,201,916 | 147,009,605 | 3,857,681,064 |
| Cranston | 6,625,384,490 | 1,461,573,717 | 268,587,906 | 275,835,337 | 8,631,381,450 |
| Cumberland | 3,283,574,480 | 359,246,012 | 116,669,435 | 152,873,530 | 3,912,363,457 |
| East Greenwich | 2,241,625,248 | 378,279,510 | 60,688,733 | 89,514,879 | 2,770,108,370 |
| East Providence | 3,429,701,800 | 1,196,674,821 | 214,512,680 | 139,356,048 | 4,980,245,349 |
| Exeter | 772,989,345 | 78,328,700 | 12,963,930 | 31,667,549 | 895,949,524 |
| Foster | 625,377,097 | 64,022,600 | 8,036,223 | 21,397,738 | 718,833,658 |
| Glocester | 972,357,574 | 65,090,700 | 18,618,060 | 44,719,995 | 1,100,786,329 |
| Hopkinton | 925,598,850 | 81,711,900 | 20,206,920 | 35,536,550 | 1,063,054,220 |
| Jamestown | 2,022,966,070 | 67,390,088 | 11,446,324 | 35,861,695 | 2,137,664,177 |
| Johnston | 2,597,376,884 | 535,523,050 | 95,805,316 | 122,806,470 | 3,351,511,720 |
| Lincoln | 2,288,491,503 | 677,328,050 | 195,072,056 | 102,576,342 | 3,263,467,951 |
| Little Compton | 1,908,286,937 | 50,497,800 | 8,176,254 | 21,609,493 | 1,988,570,484 |
| Middletown | 2,331,707,380 | 643,332,680 | 94,437,767 | 70,779,700 | 3,140,257,527 |
| Narragansett | 4,860,577,122 | 282,965,500 | 41,066,600 | 87,976,788 | 5,272,586,010 |
| New Shoreham | 1,888,240,255 | 183,248,880 | 3,983,579 | 8,580,698 | 2,084,053,412 |
| Newport | 4,654,578,145 | 1,201,925,122 | 88,003,497 | 81,521,483 | 6,026,028,247 |
| North Kingstown | 3,653,756,495 | 546,803,200 | 99,656,000 | 140,397,300 | 4,440,612,995 |
| North Providence | 2,488,703,100 | 453,232,735 | 63,603,897 | 110,073,147 | 3,115,612,879 |
| North Smithfield | 1,242,641,092 | 211,995,152 | 49,867,500 | 57,315,032 | 1,561,818,776 |
| Pawtucket | 3,809,514,127 | 1,036,739,043 | 114,885,224 | 128,731,440 | 5,089,869,834 |
| Portsmouth | 3,226,594,224 | 312,957,500 | 64,406,197 | 57,517,007 | 3,661,474,928 |
| Providence | 9,451,698,728 | 3,923,248,090 | 605,601,388 | 251,384,363 | 14,231,932,569 |
| Richmond | 823,309,940 | 78,619,610 | 19,308,660 | 29,587,483 | 950,825,693 |
| Scituate | 695,929,930 | 213,222,350 | 23,216,950 | 53,075,722 | 985,444,952 |
| Smithfield | 2,086,253,299 | 633,134,380 | 85,812,960 | 97,594,426 | 2,902,795,065 |
| South Kingstown | 4,364,711,447 | 539,696,269 | 229,036,432 | 122,061,342 | 5,255,505,490 |
| Tiverton | 2,432,832,133 | 193,696,090 | 32,383,144 | 67,555,131 | 2,726,466,498 |
| Warren | 1,156,863,704 | 223,493,450 | 32,106,235 | 38,665,627 | 1,451,129,016 |
| Warwick | 7,988,057,400 | 3,188,296,100 | 464,479,800 | 404,853,505 | 12,045,686,805 |
| Westerly | 5,546,407,705 | 684,532,130 | 96,273,051 | 94,676,351 | 6,421,889,237 |
| West Greenwich | 623,728,120 | 276,667,000 | 52,905,505 | 32,928,695 | 986,229,320 |
| West Warwick | 2,035,135,140 | 512,874,290 | 82,280,330 | 97,765,256 | 2,728,055,016 |
| Woonsocket | 2,049,976,971 | 345,095,159 | 84,604,634 | 86,001,858 | 2,565,678,622 |
| Statewide Total | $108,745,259,072 | $21,821,376,079 | $3,729,123,560 | $3,620,707,823 | $137,916,466,534 |
| Percent of Total | 78.85% | 15.82% | 2.70% | 2.63% | 100.00% |

| | | |
|---|---|---|
| **Residential** | **108,745,259,072** | **78.85%** |
| **Comm. / Indust. / Tangible** | **25,550,499,639** | **18.53%** |
| **Motor Vehicles** | **3,620,707,823** | **2.63%** |
| **Statewide Total Assessment** | **$137,916,466,534** | **100.00%** |

## Statewide Tax Levy as of Dec. 31, 2007

| Municipality | Residential | Commercial/ Industrial | Tangible | Motor Vehicles | Municipal Total |
|---|---|---|---|---|---|
| Barrington | $44,075,086 | $1,498,396 | $459,612 | $3,569,765 | $49,602,859 |
| Bristol | 28,288,884 | 3,202,795 | 447,865 | 1,487,198 | 33,426,742 |
| Burrillville | 16,914,506 | 1,262,835 | 508,560 | 2,325,272 | 21,011,173 |
| Central Falls | 6,499,901 | 2,441,721 | 796,298 | 757,459 | 10,495,379 |
| Charlestown | 18,411,735 | 628,185 | 168,247 | 500,758 | 19,708,925 |
| Coventry | 46,659,667 | 7,909,807 | 1,781,022 | 2,756,369 | 59,106,865 |
| Cranston | 101,633,398 | 33,630,811 | 6,180,208 | 11,706,457 | 153,150,874 |
| Cumberland | 40,650,687 | 4,447,466 | 2,437,215 | 3,036,155 | 50,571,523 |
| East Greenwich | 31,382,267 | 5,296,400 | 849,642 | 2,047,410 | 39,575,719 |
| East Providence | 44,567,063 | 22,748,792 | 9,597,339 | 5,169,108 | 82,082,302 |
| Exeter | 9,516,802 | 964,257 | 159,867 | 1,031,822 | 11,672,748 |
| Foster | 8,073,902 | 865,586 | 149,507 | 790,536 | 9,879,531 |
| Glocester | 16,559,354 | 1,260,807 | 631,584 | 1,089,590 | 19,541,335 |
| Hopkinton | 13,421,164 | 1,184,823 | 292,976 | 752,318 | 15,651,281 |
| Jamestown | 16,406,255 | 546,534 | 92,830 | 517,126 | 17,562,745 |
| Johnston | 41,208,491 | 10,126,741 | 5,365,112 | 5,090,894 | 61,791,238 |
| Lincoln | 26,341,821 | 14,305,179 | 5,475,673 | 3,144,395 | 49,267,068 |
| Little Compton | 8,816,111 | 233,479 | 75,549 | 300,338 | 9,425,477 |
| Middletown | 26,495,287 | 9,678,806 | 1,175,495 | 1,136,014 | 38,485,602 |
| Narragansett | 35,239,211 | 3,075,835 | 446,394 | 1,448,098 | 40,209,538 |
| New Shoreham | 6,231,198 | 604,721 | 13,338 | 83,631 | 6,932,888 |
| Newport | 40,355,194 | 15,540,882 | 1,137,969 | 1,911,662 | 58,945,707 |
| North Kingstown | 50,529,940 | 7,563,806 | 1,378,243 | 3,093,165 | 62,565,154 |
| North Providence | 34,525,710 | 10,288,392 | 3,870,319 | 4,618,905 | 53,303,326 |
| North Smithfield | 16,445,109 | 3,544,559 | 2,044,568 | 2,155,892 | 24,190,128 |
| Pawtucket | 47,200,154 | 21,647,143 | 5,982,829 | 6,861,401 | 81,691,527 |
| Portsmouth | 34,990,389 | 3,378,376 | 698,394 | 1,293,955 | 40,361,114 |
| Providence | 126,320,027 | 109,849,157 | 31,808,063 | 19,301,932 | 287,279,179 |
| Richmond | 11,781,571 | 1,125,047 | 276,307 | 669,460 | 13,852,385 |
| Scituate | 14,630,732 | 6,446,351 | 779,901 | 1,602,601 | 23,459,585 |
| Smithfield | 27,295,469 | 8,661,278 | 4,301,804 | 3,805,599 | 44,064,150 |
| South Kingstown | 52,242,106 | 6,459,733 | 2,741,383 | 2,283,770 | 63,726,992 |
| Tiverton | 27,393,724 | 2,181,018 | 364,634 | 1,290,988 | 31,230,364 |
| Warren | 15,154,909 | 2,927,764 | 420,574 | 1,004,944 | 19,508,191 |
| Warwick | 105,379,974 | 64,148,344 | 12,457,255 | 14,004,133 | 195,989,706 |
| Westerly | 49,194,534 | 6,074,013 | 854,447 | 2,808,929 | 58,931,923 |
| West Greenwich | 9,188,519 | 4,877,639 | 1,399,886 | 626,220 | 16,092,264 |
| West Warwick | 33,119,054 | 10,884,478 | 2,609,480 | 2,782,474 | 49,395,486 |
| Woonsocket | 23,083,073 | 11,098,260 | 3,940,884 | 4,005,967 | 42,128,184 |
| Statewide Total | $1,306,222,977 | $422,610,217 | $114,171,273 | $122,862,710 | $1,965,867,177 |
| Percent of Total | 66.45% | 21.50% | 5.81% | 6.25% | 100.00% |

| | | |
|---|---|---|
| **Residential** | **1,306,222,977** | **66.45%** |
| **Comm. / Indust. / Tangible** | **536,781,490** | **27.31%** |
| **Motor Vehicles** | **122,862,710** | **6.25%** |
| **Statewide Total Levy** | **$1,965,867,177** | **100.00%** |

# Appendix K

## Detailed Descriptions
## Consumer and Business Intermediate Purchases
## Expanded Rhode Island Sales Tax Base

# Descriptions for Consumer Purchases

**Nonprescription Drugs:**

Self-explanatory

**Newspapers:**

Self-explanatory

**Moving and Storage:**

Self-explanatory

**Rug and Furniture Cleaning:**

Self-explanatory

**Electrical Repair:**

Self-explanatory

**Reupholstery and Furniture Repair:**

Self-explanatory

**Household Operation Services:**

Services to buildings and dwellings (part)
- Other services to building and dwellings
- Exterminating and pest control services

Investigation and security services
- Security guard and patrol services
- Locksmiths
- Security systems services

Other support services
- Water softening and conditioning services

Household goods repair and maintenance (part)
- Other repair & related services (part)

Business support services
- Telephone answering services

Specialized design services
- Interior design services

General and consumer goods rental except video tapes and discs
- Consumer electronic, appliance, and furniture rental
- Party supply rental

Other consumer goods rental and leasing (except automotive)

**<u>Motor Vehicle Repair</u>:**

Self-explanatory

**<u>Other Motor Vehicle Services</u>:**

Colleges, universities, and junior colleges
Parking fees at higher education establishments
Car washes
Car washes
Other personal services
Parking lots and structures
Promoters of performing arts and sports and agents for public figures
Parking at performing arts, sports, and similar events
Spectator sports
Parking at pro & semi-pro sports
Promoters of performing arts and sports and agents for public figures
Parking at performing arts, sports, and similar events

**<u>Legitimate theaters and opera, and entertainments of nonprofit institutions (except athletics)</u>:**

Travel arrangement and reservation services
Ticket services
Colleges, universities, and junior colleges
Theatrical presentations at higher education establishments
Performing arts companies
Entertainment services provided by theater companies and dinner theaters
Entertainment services provided by dance companies
Entertainment services provided by other performing arts companies (except circuses)
Entertainment services provided by musical groups and artists
Independent artists, writers, and performers
Independent artists, writers, and performers
Promoters of performing arts and sports and agents for public figures
Promoters of performing arts, sports, and similar events
Theatrical services

**<u>Spectator Sports</u>:**

Self-explanatory

**<u>Radio and Television Repair</u>:**

Self-explanatory

**Clubs and Fraternal Organizations:**

Fitness and recreational sports centers
    Fitness and recreational sports centers
Other amusement, gambling, and recreation industries
    Golf courses and country clubs
Civic, social, professional and similar organizations
    Civic, social, and other similar organizations

**Sightseeing:**

Self-explanatory

**Private Flying:**

Self-explanatory

**Bowling and Billiards:**

Self-explanatory

**Other Commercial Participant Amusements (part):**

Other amusement, gambling, and recreation industries
    Amusement devices & rides
    Dance studios and halls
    Miniature golf
    Skiing facilities
    Marinas, including boat storage
    Golf courses and country clubs, including equipment rental
    Amusement & theme parks
Fitness and recreational sports centers
    Recreational equipment rental at fitness and recreational sports centers
    Ice skating rinks
    Roller skating rinks
    Fitness and recreational sports centers
General and consumer goods rental except video tapes and discs (part)
    Recreational goods and equipment rental

**Pets and pets services excluding veterinarians**

Self explanatory

**Veterinarians:**

Self explanatory

**<u>Photo Studios</u>:**

Self explanatory

**<u>Sporting and Recreational Camp</u>:**

Self explanatory

**<u>Commercial Amusements, except Internet Service Providers</u>:**

Used and secondhand goods
- Used stamps & coins

Civic, social, professional and similar organizations
- Professional and business organizations

Museums, historical sites, zoos, and parks
- Museums and art galleries
- Nature parks and reserves
- Historical sites
- Botanical or zoological gardens

Other amusement, gambling, and recreation industries
- Other recreation and amusements
- Amusement arcades and machines

Performing arts companies
- Circuses

Promoters of performing arts and sports and agents for public figures
- Theatrical services
- Promoters of performing arts, sports, and similar events

Other accommodations (part)
- Recreational vehicle parks & campgrounds

Hunting and trapping
- Games preserves

Machinery and equipment rental and leasing
- Computers and computer peripheral equipment rental and leasing

Radio and television broadcasting
- Public radio and television

Fitness and recreational sports centers
- Recreational sports centers

General and consumer goods rental except video tapes and discs (part)
- Consumer electronic rental
- Party supply rental

Other educational services (part)
- Dance schools or studios
- Sports and recreation instruction camps

Hotels and motels, including casino hotels
    Amusements at hotels, motels, and casino hotels
Electronic equipment repair and maintenance
    Consumer electronics repair and maintenance
Other educational services (part)
    Sports and recreation instruction

**Dry Cleaning:**

Self explanatory

**Laundry and Garment Repair:**

Self explanatory

**Beauty Shops:**

Self explanatory

**Barber Shops:**

Self explanatory

**Miscellaneous Personal Services:**

General and consumer goods rental except video tapes and discs
    Formal wear and costume rental
Household goods repair and maintenance (part)
    Repair services
Personal care services
    Other personal care services
    Diet and weight reducing centers
Other personal services
    Other personal services

**Employment Agency Fees:**

Self explanatory

**Money Orders:**

Self explanatory

**Classified Ads:**

Self explanatory

**<u>Tax Return Preparation Services</u>:**

Self explanatory

**<u>Motion Picture Theaters</u>:**

Self explanatory

# Industry Descriptions for Business Intermediate Purchases

**<u>Nonresidential Maintenance and Repair</u>: NAICS Code 237**

**237 Heavy and Civil Engineering Construction**
The Heavy and Civil Engineering Construction subsector comprises establishments whose primary activity is the construction of entire engineering projects (e.g., highways and dams), and specialty trade contractors, whose primary activity is the production of a specific component for such projects. Specialty trade contractors in Heavy and Civil Engineering Construction generally are performing activities that are specific to heavy and civil engineering construction projects and are not normally performed on buildings. The work performed may include new work, additions, alterations, or maintenance and repairs. Specialty trade activities are classified in this subsector if the skills and equipment present are specific to heavy or civil engineering construction projects. For example, specialized equipment is needed to paint lines on highways. This equipment is not normally used in building applications so the activity is classified in this subsector. Traffic signal installation, while specific to highways, uses much of the same skills and equipment that are needed for electrical work in building projects and is therefore classified in Subsector
238, Specialty Trade Contractors. Construction projects involving water resources (e.g., dredging and land drainage) and projects involving open space improvement (e.g., parks and trails) are included in this subsector. Establishments whose primary activity is the subdivision of land into individual building lots usually perform various additional site-improvement activities (e.g., road building and utility line installation) and are included in this subsector. Establishments in this subsector are classified based on the types of structures that they construct. This classification reflects variations in the requirements of the underlying production processes.

Included in this subsector are the following:

**2371 Utility System Construction**
This industry group comprises establishments primarily engaged in the construction of distribution lines and related buildings and structures for utilities (i.e., water, sewer, petroleum, gas, power, and communication). All structures (including buildings) that are integral parts of utility systems (e.g., storage tanks, pumping stations, power plants, and refineries) are included in this industry group.

**2372 Land Subdivision**
This industry comprises establishments primarily engaged in servicing land and subdividing real property into lots, for subsequent sale to builders. Servicing of land may include excavation work for the installation of roads and utility lines. The extent of work may vary from project to project. Land subdivision precedes building activity and the subsequent building is often residential, but may also be commercial tracts and industrial parks. These establishments may do all the work themselves or subcontract the work to others. Establishments that perform only the legal subdivision of land are not included in this industry.

**2373 Highway, Street, and Bridge Construction**
This industry comprises establishments primarily engaged in the construction of highways (including elevated), streets, roads, airport runways, public sidewalks, or bridges. The work performed may include new work, reconstruction, rehabilitation, and repairs. Specialty trade contractors are included in this group if they are engaged in activities primarily related to highway, street, and bridge construction (e.g., installing guardrails on highways).

**2379 Other Heavy and Civil Engineering Construction**
This industry comprises establishments primarily engaged in heavy and engineering construction projects (excluding highway, street, bridge, and distribution line construction). The work performed may include new work, reconstruction, rehabilitation, and repairs. Specialty trade contractors are included in this group if they are engaged in activities primarily related to engineering construction projects (excluding highway, street, bridge, distribution line, oil and gas structure, and utilities building and structure construction). Construction projects involving water resources (e.g., dredging and land drainage), development of marine facilities, and projects involving open space improvement (e.g., parks and trails) are included in this industry.

**<u>Residential Maintenance and Repair</u>: NAICS Code 238**

The Specialty Trade Contractors subsector comprises establishments whose primary activity is performing specific activities (e.g., pouring concrete, site preparation, plumbing, painting, and electrical work) involved in building construction or other activities that are similar for all types of construction, but that are not responsible for the entire project. The work performed may include new work, additions, alterations, maintenance, and repairs. The production work performed by establishments in this subsector is usually subcontracted from establishments of the general contractor type or operative builders, but especially in remodeling and repair construction, work also may be done directly for the owner of the property. Specialty trade contractors usually perform most of their work at the construction site, although they may have shops where they perform prefabrication and other work. Establishments primarily engaged in preparing sites for new construction are also included in this subsector. There are substantial differences in types of equipment, work force skills, and other inputs required by specialty trade contractors. Establishments in this subsector are classified based on the underlying production function for the specialty trade in which they specialize. Throughout the Specialty Trade Contractors subsector, establishments commonly provide both the parts and labor required to complete work. For example, electrical contractors supply the current-carrying and noncurrent-carrying wiring devices that are required to install a circuit. Plumbing, Heating, and Air-Conditioning contractors also supply the parts required to complete a contract. Establishments that specialize in activities primarily related to heavy and civil engineering construction that are not normally performed on buildings, such as the painting of lines on highways are classified in Subsector 237, Heavy and Civil Engineering Construction.

Included in this subsector are the following:

**2381 Foundation, Structure, and Building Exterior Contractors**
This industry group comprises establishments primarily engaged in the specialty trades needed to complete the basic structure (i.e., foundation, frame, and shell) of buildings. The work performed may include new work, additions, alterations, maintenance, and repairs.

**2382 Building Equipment Contractors**
This industry group comprises establishments primarily engaged in installing or servicing equipment that forms part of a building mechanical system (e.g., electricity, water, heating, and cooling). The work performed may include new work, additions, alterations, maintenance, and repairs. Contractors installing specialized building equipment, such as elevators, escalators, service station equipment, and central vacuum cleaning systems are also included.

**2383 Building Finishing Contractors**
This industry group comprises establishments primarily engaged in the specialty trades needed to finish buildings. The work performed may include new work, additions, alterations, maintenance, and repairs.

**2389 Other Specialty Trade Contractors**
This industry comprises establishments primarily engaged in building finishing trade work (except drywall, plaster, and insulation work; painting and wall covering work; flooring work; tile and terrazzo work; and finish carpentry work). The work performed may include new work, additions, alterations, maintenance, and repairs.

**<u>Truck Transportation</u>: NAICS Code 484**

Industries in the Truck Transportation subsector provide over-the-road transportation of cargo using motor vehicles, such as trucks and tractor trailers. The subsector is subdivided into general freight trucking and specialized freight trucking. This distinction reflects differences in equipment used, type of load carried, scheduling, terminal, and other networking services. General freight transportation establishments handle a wide variety of general commodities, generally palletized, and transported in a container or van trailer. Specialized freight transportation is the transportation of cargo that, because of size, weight, shape, or other inherent characteristics require specialized equipment for transportation. Each of these industry groups is further subdivided based on distance traveled. Local trucking establishments primarily carry goods within a single metropolitan area and its adjacent nonurban areas. Long distance trucking establishments carry goods between metropolitan areas. The Specialized Freight Trucking industry group includes a separate industry for Used Household and Office Goods Moving. The household and office goods movers are separated because of the substantial network of establishments that has developed to deal with local and long-distance moving and the associated storage. In this area, the same establishment provides both local and long-distance services, while other specialized freight establishments generally limit their services to either local or long-distance hauling.

Included in this subsector are the following:

**4841 General Freight Trucking**
This industry group comprises establishments primarily engaged in providing general freight trucking. General freight establishments handle a wide variety of commodities, generally palletized, and transported in a container or van trailer. The establishments of this industry group provide a combination of the following network activities: local pickup, local sorting and terminal operations, line-haul, destination sorting and terminal operations, and local delivery.

**4842 Specialized Freight Trucking**
This industry group comprises establishments primarily engaged in providing local or long-distance specialized freight trucking. The establishments of this industry are primarily engaged in the transportation of freight which, because of size, weight, shape, or other inherent characteristics, requires specialized equipment, such as flatbeds, tankers, or refrigerated trailers. This industry includes the transportation of used household, institutional, and commercial furniture and equipment.

**<u>Transit and Ground Passenger Transportation</u>: NAICS Code 485**

Industries in the Transit and Ground Passenger Transportation subsector include a variety of passenger transportation activities, such as urban transit systems; chartered bus, school bus, and interurban bus transportation; and taxis. These activities are distinguished based primarily on such production process factors as vehicle types, routes, and schedules. In this subsector, the principal splits identify scheduled transportation as separate from nonscheduled transportation. The scheduled transportation industry groups are Urban Transit Systems, Interurban and Rural Bus Transportation, and School and Employee Bus Transportation. The nonscheduled industry groups are the Charter Bus Industry and Taxi and Limousine Service. The Other Transit and Ground Passenger Transportation industry group includes both scheduled and nonscheduled transportation. Scenic and sightseeing ground transportation services are not included in this subsector but are included in Subsector 487, Scenic and Sightseeing Transportation. Sightseeing does not usually involve place-toplace transportation; the passenger's trip starts and ends at the same location.

Included in this subsector are the following:

**4851 Urban Transit Systems**
This industry comprises establishments primarily engaged in operating local and suburban passenger transit systems over regular routes and on regular schedules within a metropolitan area and its adjacent nonurban areas. Such transportation systems involve the use of one or more modes of transport including light rail, commuter rail, subways, and streetcars, as well as buses and other motor vehicles.

**4852 Interurban and Rural Bus Transportation**
This industry comprises establishments primarily engaged in providing bus passenger transportation over regular routes and on regular schedules, principally outside a single metropolitan area and its adjacent nonurban areas.

**4853 Taxi and Limousine Service**
This industry comprises establishments primarily engaged in providing passenger transportation by automobile or van, not operated over regular routes and on regular schedules. Establishments of taxicab owner/operators, taxicab fleet operators, or taxicab organizations are included in this industry. This industry also includes establishments primarily engaged in providing an array of specialty and luxury passenger transportation services via limousine or luxury sedans generally on a reserved basis. These establishments do not operate over regular routes and on regular schedules.

**4854 School and Employee Bus Transportation**
This industry comprises establishments primarily engaged in providing buses and other motor vehicles to transport pupils to and from school or employees to and from work.

**4855 Charter Bus Industry**
This industry comprises establishments primarily engaged in providing buses for charter. These establishments provide bus services to meet customers' road transportation needs and generally do not operate over fixed routes and on regular schedules.

**4859 Other Transit and Ground Passenger Transportation**
This industry comprises establishments primarily engaged in providing other transit and ground passenger transportation (except urban transit systems, interurban and rural bus transportation, taxi services, school and employee bus transportation, charter bus services, and limousine services (except shuttle services)). Shuttle services (except employee bus) and special needs transportation services are included in this industry. Shuttle services establishments generally travel within a metropolitan area and its adjacent nonurban areas on regular routes, on regular schedules and provide services between hotels, airports, or other destination points. Special Needs Transportation establishments provide passenger transportation to the infirm, elderly, or handicapped. These establishments may use specially equipped vehicles to provide passenger transportation.

**Scenic and Sightseeing Transportation: NAICS Codes 487**

Industries in the Scenic and Sightseeing Transportation subsector utilize transportation equipment to provide recreation and entertainment. These activities have a production process distinct from passenger transportation carried out for the purpose of other types of for-hire transportation. This process does not emphasize efficient transportation; in fact, such activities often use obsolete vehicles, such as steam trains, to provide some extra ambience. The activity is local in nature, usually involving a same-day return to the point of departure. The Scenic and Sightseeing Transportation subsector is separated into three industries based on the mode: land, water, and other. Activities that are recreational in nature and involve participation by the customer, such as white-water rafting, are generally excluded from this subsector, unless they impose an impact on part of the transportation system. Charter boat fishing, for example, is included in the Scenic and Sightseeing Transportation, Water industry.

Included in this subsector are the following:

**4871 Scenic and Sightseeing Transportation, Land**
This industry comprises establishments primarily engaged in providing scenic and sightseeing transportation on land, such as sightseeing buses and trolleys, steam train excursions, and horse-drawn sightseeing rides. The services provided are usually local and involve same-day return to place of origin.

**4872 Scenic and Sightseeing Transportation, Water**
This industry comprises establishments primarily engaged in providing scenic and sightseeing transportation on water. The services provided are usually local and involve same-day return to place of origin.

**4879 Scenic and Sightseeing Transportation, Other**
This industry comprises establishments primarily engaged in providing scenic and sightseeing transportation (except on land and water). The services provided are usually local and involve same-day return to place of departure.

**Support Activities for Transportation: NAICS Codes 488**

Industries in the Support Activities for Transportation subsector provide services which support transportation. These services may be provided to transportation carrier establishments or to the general public. This subsector includes a wide array of establishments, including air traffic control services, marine cargo handling, and motor vehicle towing. The Support Activities for Transportation subsector includes services to transportation but is separated by type of mode serviced. The Support Activities for Rail Transportation industry includes services to the rail industry (e.g., railroad switching and terminal establishments). Ship repair and maintenance not done in a shipyard are included in Other Support Activities for Water Transportation. An example would be floating drydock services in a harbor. Excluded from this subsector are establishments primarily engaged in providing factory conversion and overhaul of transportation equipment, which are classified in Subsector 336, Transportation Equipment Manufacturing. Also, establishments primarily engaged in providing rental and leasing of transportation equipment without operator are classified in Subsector 532, Rental and Leasing Services.

Included in this subsector are the following:

**4881 Support Activities for Air Transportation**
This industry group comprises establishments primarily engaged in providing services to the air transportation industry. These services include airport operation, servicing, repairing (except factory conversion and overhaul of aircraft), maintaining and storing aircraft, and ferrying aircraft.

**4882 Support Activities for Rail Transportation**
This industry comprises establishments primarily engaged in providing specialized services for railroad transportation including servicing, routine repairing (except factory conversion, overhaul or rebuilding of rolling stock), and maintaining rail cars; loading and unloading rail cars; and operating independent terminals.

**4883 Support Activities for Water Transportation**
Port and Harbor Operations comprises establishments primarily engaged in operating ports, harbors (including docking and pier facilities), or canals. Marine Cargo Handling comprises establishments primarily engaged in providing stevedoring and other marine cargo handling services (except warehousing). Navigational Services to Shipping comprises establishments primarily engaged in providing navigational services to shipping. Marine salvage establishments are included in this industry. Other Support Activities for Water Transportation comprises establishments primarily engaged in providing services to water transportation (except port and harbor operations; marine cargo handling services; and navigational services to shipping).

**4883 Support Activities for Road Transportation**
Motor Vehicle Towing comprises establishments primarily engaged in towing light or heavy motor vehicles, both local and long distance. These establishments may provide incidental services, such as storage and emergency road repair services. Other Support Activities for Road Transportation comprises establishments primarily engaged in providing services (except motor vehicle towing) to road network users.

**4885 Freight Transportation Arrangement**
This industry comprises establishments primarily engaged in arranging transportation of freight between shippers and carriers. These establishments are usually known as freight forwarders, marine shipping agents, or customs brokers and offer a combination of services spanning transportation modes.

**4889 Other Support Activities for Transportation**
This industry comprises establishments primarily engaged in providing support activities to transportation (except for air transportation; rail transportation; water transportation; road transportation; and freight transportation arrangement).

**<u>Couriers and Messengers</u>: NAICS Code 492**

Industries in the Couriers and Messengers subsector provide intercity and/or local delivery of parcels and documents (including express delivery services) without operating under a universal service obligation. These articles can be described as those that may be handled by one person without using special equipment. This allows the collection, pick-up, and delivery operations to be done with limited labor costs and minimal equipment. Sorting and transportation activities, where necessary, are generally mechanized. The restriction to small parcels partly distinguishes these establishments from those in the transportation industries. The complete network of courier services establishments also distinguishes these transportation services from local messenger and delivery establishments in this subsector. This includes the establishments that perform intercity transportation as well as establishments that, under contract to them, perform local pick-up and delivery. Messengers, which usually deliver within a metropolitan or single urban area, may use bicycle, foot, small truck, or van.

Included in this subsector are the following:

**4921 Couriers and Express Delivery Services**
This industry comprises establishments primarily engaged in providing air, surface, or combined mode courier and express delivery services of parcels, but not operating under a universal service obligation. These parcels can include goods and documents, but the express delivery services are not part of the normal mail service. These services are generally between metropolitan areas or urban centers, but the establishments of this industry form a network that includes local pick-up and delivery to serve their customers' needs.

**4922 Local Messengers and Local Delivery**
This industry comprises establishments primarily engaged in providing local messenger and delivery services of small items within a single metropolitan area or within an urban center. These establishments generally provide point-to-point pickup and delivery and do not operate as part of an intercity courier network.

**<u>Warehousing and Storage</u>: NAICS Code 493**

Industries in the Warehousing and Storage subsector are primarily engaged in operating warehousing and storage facilities for general merchandise, refrigerated goods, and other warehouse products. These establishments provide facilities to store goods. They do not sell the goods they handle. These establishments take responsibility for storing the goods and keeping them secure. They may also provide a range of services, often referred to as logistics services, related to the distribution of goods. Logistics services can include labeling, breaking bulk, inventory control and management, light assembly, order entry and fulfillment, packaging, pick and pack, price marking and ticketing, and transportation arrangement. However, establishments in this industry group always provide warehousing or storage services in addition to any logistic services. Furthermore, the warehousing or storage of goods must be more than incidental to the performance of services, such as price marking. Bonded warehousing and storage services and warehouses located in free trade zones are included in the industries of this subsector.

Included in this subsector are the following:

**4931 Warehousing and Storage**
This industry comprises establishments primarily engaged in operating merchandise warehousing and storage facilities. These establishments generally handle goods in containers, such as boxes, barrels, and/or drums, using equipment, such as forklifts, pallets, and racks. They are not specialized in handling bulk products of any particular type, size, or quantity of goods or products.

**<u>Data Processing, Hosting, and Related Services</u>: NAICS Code 5182**

This industry comprises establishments primarily engaged in providing infrastructure for hosting or data processing services. These establishments may provide specialized hosting activities, such as web hosting, streaming services or application hosting; provide application service provisioning; or may provide general time-share mainframe facilities to clients. Data processing establishments provide complete processing and specialized reports from data supplied by clients or provide automated data processing and data entry services.

**<u>Facilities Support Services</u>: NAICS Code 5612**

This industry comprises establishments primarily engaged in providing operating staff to perform a combination of support services within a client's facilities. Establishments in this industry typically provide a combination of services, such as janitorial, maintenance, trash disposal, guard and security, mail routing, reception, laundry, and related services to support operations within facilities. These establishments provide operating staff to carry out these support activities; but are not involved with or responsible for the core business or activities of the client. Establishments providing facilities (except computer and/or data processing) operation support services and establishments providing private jail services or operating correctional facilities (i.e., jails) on a contract or fee basis are included in this industry.

**<u>Business Support Services</u>: NAICS Code 5614**

This industry group comprises establishments engaged in performing activities that are ongoing routine business support functions that businesses and organizations traditionally do for themselves.

Included in this subsector are the following:

**56141 Document Preparation Services**
This industry comprises establishments primarily engaged in one or more of the following: (1) letter or resume writing; (2) document editing or proofreading; (3) typing, word processing, or desktop publishing; and (4) stenography (except court reporting or stenotype recording), transcription, and other secretarial services.

**56142 Telephone Call Centers**
This industry comprises (1) establishments primarily engaged in answering telephone calls and relaying messages to clients and (2) establishments primarily engaged in providing telemarketing services on a contract or fee basis for others, such as promoting clients' products or services by telephone; taking orders for clients by telephone; and soliciting contributions or providing information for clients by telephone. Telemarketing establishments never own the product or provide the service that they are representing and generally can originate and/or receive calls for others.

**56143 Business Service Centers**
This industry comprises (1) establishments primarily engaged in providing mailbox rental and other postal and mailing services (except direct mail advertising); (2) establishments, generally known as copy centers or shops, primarily engaged in providing photocopying, duplicating, blueprinting, and other document copying services without also providing printing services (i.e., offset printing, quick printing, digital printing, prepress services); and (3) establishments that provide a range of office support services (except printing services), such as mailing services, document copying services, facsimile services, word processing services, on-site PC rental services, and office product sales.

**56144 Collection Agencies**
This industry comprises establishments primarily engaged in collecting payments for claims and remitting payments collected to their clients.

**56145 Credit Bureaus**
This industry comprises establishments primarily engaged in compiling information, such as credit and employment histories on individuals and credit histories on businesses, and providing the information to financial institutions, retailers, and others who have a need to evaluate the creditworthiness of these persons and businesses.

**56149 Other Business Support Services**
This industry comprises establishments primarily engaged in providing business support services (except secretarial and other document preparation services; telephone answering or telemarketing services; private mail services or document copying services conducted as separate activities or in conjunction with other office support services; monetary debt collection services; and credit reporting services).

**Services to Buildings and Dwellings: NAICS Code 5617**

This industry group includes establishments classified in the following industries

**56171 Exterminating and Pest Control Services**
This industry comprises establishments primarily engaged in exterminating and controlling birds, mosquitoes, rodents, termites, and other insects and pests (except

for crop production and forestry production). Establishments providing fumigation services are included in this industry.

**56172 Janitorial Services**
This industry comprises establishments primarily engaged in cleaning building interiors, interiors of transportation equipment (e.g., aircraft, rail cars, ships), and/or windows.

**56173 Landscaping Services**
This industry comprises (1) establishments primarily engaged in providing landscape care and maintenance services and/or installing trees, shrubs, plants, lawns, or gardens and (2) establishments primarily engaged in providing these services along with the design of landscape plans and/or the construction (i.e., installation) of walkways, retaining walls, decks, fences, ponds, and similar structures.

**56174 Carpet and Upholstery Cleaning Services**
This industry comprises establishments primarily engaged in cleaning and dyeing used rugs, carpets, and upholstery.

**56179 Other Services to Buildings and Dwellings**
This industry comprises establishments primarily engaged in providing services to buildings and dwellings (except exterminating and pest control; janitorial; landscaping care and maintenance; and carpet and upholstery cleaning).

**<u>Employment Services</u>: NAICS Code 5613**

This industry group includes establishments classified in the following industries

**56131 Employment Placement Agencies and Executive Search Services**
This industry comprises establishments primarily engaged in one of the following: 1) listing employment vacancies and referring or placing applicants for employment; or 2) providing executive search, recruitment, and placement services.

**56132 Temporary Help Services**
This industry comprises establishments primarily engaged in supplying workers to clients' businesses for limited periods of time to supplement the working force of the client. The individuals provided are employees of the temporary help service establishment. However, these establishments do not provide direct supervision of their employees at the clients' work sites.

**56133 Professional Employer Organizations**
This industry comprises establishments primarily engaged in providing human resources and human resource management services to client businesses. Establishments in this industry operate in a co-employment relationship with client businesses or organizations and are specialized in performing a wide range of human resource and personnel management duties, such as payroll, payroll tax, benefits

administration, workers' compensation, unemployment, and human resource administration. Professional employer organizations (PEOs) are responsible for payroll, including withholding and remitting employment-related taxes, for some or all of the employees of their clients, and also serve as the employer of those employees for benefits and related purposes.

**<u>Travel Arrangement and Reservation Services</u>: NAICS Code 5615**

This industry group includes establishments classified in the following industries

**56151 Travel Agencies**
This industry comprises establishments primarily engaged in acting as agents in selling travel, tour, and accommodation services to the general public and commercial clients.

**56152 Tour Operators**
This industry comprises establishments primarily engaged in arranging and assembling tours. The tours are sold through travel agencies or tour operators. Travel or wholesale tour operators are included in this industry.

**56159 Other Travel Arrangement and Reservation Services**
This industry comprises establishments (except travel agencies and tour operators) primarily engaged in providing travel arrangement and reservation services.

**<u>Waste Management and Remediation Services</u>: NAICS Code 562**

Industries in the Waste Management and Remediation Services subsector group establishments engaged in the collection, treatment, and disposal of waste materials. This includes establishments engaged in local hauling of waste materials; operating materials recovery facilities (i.e., those that sort recyclable materials from the trash stream); providing remediation services (i.e., those that provide for the cleanup of contaminated buildings, mine sites, soil, or ground water); and providing septic pumping and other miscellaneous waste management services. There are three industry groups within the subsector that separate these activities into waste collection, waste treatment and disposal, and remediation and other waste management. Excluded from this subsector are establishments primarily engaged in collecting, treating, and disposing waste through sewer systems or sewage treatment facilities that are classified in Industry 22132, Sewage Treatment Facilities and establishments primarily engaged in long-distance hauling of waste materials that are classified in Industry 48423, Specialized Freight (except Used Goods) Trucking, Long-Distance. Also, there are some activities that appear to be related to waste management, but that are not included in this subsector. For example, establishments primarily engaged in providing waste management consulting services are classified in Industry 54162, Environmental Consulting Services.

Included in this subsector are the following:

**5621 Waste Collection**
This industry comprises establishments primarily engaged in (1) collecting and/or hauling hazardous waste, nonhazardous waste, and/or recyclable materials within a local area and/or (2) operating hazardous or nonhazardous waste transfer stations. Hazardous waste collection establishments may be responsible for the identification, treatment, packaging, and labeling of waste for the purposes of transport.

**5622 Waste Treatment and Disposal**
This industry comprises establishments primarily engaged in (1) operating waste treatment or disposal facilities (except sewer systems or sewage treatment facilities) or (2) the combined activity of collecting and/or hauling of waste materials within a local area and operating waste treatment or disposal facilities. Waste combustors or incinerators (including those that may produce byproducts, such as electricity), solid waste landfills, and compost dumps are included in this industry.

**5629 Remediation and Other Waste Management Services**
This industry group comprises establishments primarily engaged in remediation and other waste management services (except waste collection, waste treatment and disposal, and waste management consulting services).

**<u>Car Washes</u>: NAICS Code 811192**

This U.S. industry comprises establishments primarily engaged in cleaning, washing, and/or waxing automotive vehicles, such as passenger cars, trucks, and vans, and trailers.

# Appendix L

## Division of Taxation
### *Tax Credit and Incentive Report*

## Office of Revenue Analysis
### *A Macro Analysis of the Return on Investment of the Rhode Island Motion Picture Production Tax Credits*

*STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS*

# DEPARTMENT OF REVENUE

## Division of Taxation

### TAX CREDIT AND INCENTIVE REPORT

Senate Bill 2661 Sub A (Tax Incentive Disclosure and Accountability Act) and House Bill 7953 Sub A (The Development Subsidy Job Goals Accountability Act) requires the Division of Taxation to annually report the names, address and amount of tax credits received during the previous fiscal year. RIGL also requires all taxpayers receiving any of the credits listed below to report any bonds, grants, loans, loan guarantees, matching funds or tax credits received during the previous state fiscal year from the state governmental entity, state agency or public agency as defined in RIGL 37-2-7.

Section of RIGL 37-2-7 defines a governmental entity as "any department, commission, council, board, bureau, committee, institution, legislative body, agency, or government corporation of the executive, legislative, or judicial branches of state, federal, and/or local governments."

List of Tax Incentive Credits:

- Rhode Island Economic Development Corporation Project Status (RIGL 42-64-10);
- Incentive for Innovation and Growth (RIGL 44-63-3);
- Jobs Development Act (RIGL 42-64.5);
- Distressed Areas Economic Revitalization Act – Enterprise Zones (RIGL 42-64.3);
- Mill Building and Economic Revitalization Act (RIGL 42-64.9); and
- Motion Picture Production Tax Credit (RIGL 44-31.2).

The attached report summarized the amounts of tax credits and bonds, grants, loans, loan guarantees, matching funds or tax credits received by entities during Fiscal Year 2008 (July 1, 2007 through June 30, 2008).

This report merely summarizes the amount of tax credit received along with other incentives received for each project entity during Fiscal Year 2008. This report is not intended to provide an analysis as to the effectiveness of this or any other tax credit or incentive.

David M. Sullivan
Tax Administrator

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Department of Revenue
DIVISION OF TAXATION
One Capitol Hill
Providence, RI 02908-5800

Annual Tax Credit Disclosure Report – Fiscal Year Ending June 30, 2008

- Rhode Island Economic Development Corporation Project Status – RIGL 42-64-10

AAA Southern New England
110 Royal Little Drive
Providence, RI 02904
$28,002.30

Brewery Arcade Inc
149 Colonial Road
Manchester, CT 06040
$28,611.61

Bullard Abrasives Inc
PO Box 861
Lincoln, RI 02865
$20,860.67

Chapel Associates, LLC
Rumford, RI 02916
$610,504.70

Cox Communications Inc
9 JP Murphy Highway
West Warwick, RI 02893
$157,411.02

CVS Pharmacy, Inc.
939 Route 146, Bldg. 600
Clifton Park, NY 12065
$3,337,396.53
$13,877,240.00 Jobs Development
$17,010.00 Daycare Credit
$16,013.00 Enterprise Zone
$141,772.00 Job Training Credit

Factory Mutual Insurance Co.
1301 Atwood Avenue
Johnston, RI 02919
$350,000.00

FMR Corp & Subs
82 Devonshire Street
Boston, MA 02109
$9,963,026.00
$86,818.00 Jobs Development Act*

*Total amount for FMR Corp. and subs

GTech Corporation
10 Memorial Boulevard
Providence, RI 02903
$251,165.05

Hexagon Metrology Inc
250 Circuit Drive
North Kingstown, RI 02852
$312,087.29

Island Hotel Group
10 North Main Street
Fall River, MA 02722
$271,368.08

Perot Systems Corporation
2300 West Plano Parkway
Plano, TX 75075
$516,336.24

UTGR Inc.
1600 Louisquisset Pike
Lincoln, RI 02865
$2,406,594.57

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Department of Revenue
DIVISION OF TAXATION
One Capitol Hill
Providence, RI 02908-5800

Annual Tax Credit Disclosure Report – Fiscal Year Ending June 30, 2008

- Incentives for Innovation and Growth – RIGL 44-63-3

Lighthouse Computer Service Inc
6 Blackstone Valley Place, Suite 205
Lincoln, RI 02865
$100,000.00

Ocean State Solutions, LLC
70-115 Frenchtown Road
North Kingstown, RI 02852
$5,000.00

Providence Health Solutions, LLC
150 Chestnut Street – 5th Floor
Providence, RI 02906
$100,000.00

Public Display, Inc
150 Chestnut Street – 8th Floor
Providence, RI 02903
$100,000.00

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Department of Revenue
DIVISION OF TAXATION
One Capitol Hill
Providence, RI 02908-5800

Annual Tax Credit Disclosure Report – Fiscal Year Ending June 30, 2008

- Jobs Development Act – RIGL 42-64.5

AAA Southern New England &
Subsidiaries
110 Royal Little Drive
Providence, RI 02904
$169,057.00

AAA Southern New England Bank
110 Royal Little Drive
Providence, RI 02904
$516.00

Bank of America, NA
401 N Tryon Street
Charlotte, NC 28255
$1,742,621.00

CVS Pharmacy, Inc.
939 Route 146, Bldg. 600
Clifton Park, NY 12065
$13,877,240.00*
$17,010.00 Daycare Credit
$16,013.00 Enterprise Zone
$141,772.00 Job Training Credit
$3,337,396.53 Sales and Use Tax

*Total includes $4,723,563.00 from
Pharmacare Management Services, Inc.

Electric Boat Corporation
75 Eastern Point Road
Groton, CT 06340
$275,372.00

Fleet Growth Resources II, Inc.
50 Kennedy Plaza
Providence, RI 02903
$5,249.00

Fleet Growth Resources IV, Inc.
401 N Tryon Street
Charlotte, NC 28255
$14,083.00

Fleet Venture Resources, Inc.
401 N Tryon Street
Charlotte, NC 28255
$36,057.00

FMR Corp & Subs
82 Devonshire Street
Boston, MA 02109
$86,818.00
$9,963,026.00 Project Status

Onefed Leasing Corporation
One Financial Plaza
Providence, RI 02903
$38,812.00

Rite-Solutions, Inc.
110 W. Broad Street – 1st floor
Pawcatuck, CT 06379
$2,492.00

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Department of Revenue
DIVISION OF TAXATION
One Capitol Hill
Providence, RI 02908-5800

Annual Tax Credit Disclosure Report – Fiscal Year Ending June 30, 2008

- Distressed Areas Economic Revitalization Act – Enterprise Zones – RIGL 42-64.3

141 Westminster Corporation
383 Smithfield Avenue
Pawtucket, RI 02860
$17,500.00

57 Associates
76 Dorrance Street
Providence, RI 02903
$2,500.00

69 Empire Corporation
383 Smithfield Avenue
Pawtucket, RI 02860
$17,500.00

78 Dorrance Corporation
383 Smithfield Avenue
Pawtucket, RI 02860
$7,786.45

A&T Auto Sales, LLC
195 James P. Murphy Highway
West Warwick, RI 02893
$2,500.00

A Safer Start, LLC
117 Woodbine Street
Cranston, RI 02910
$2,103.00

Admiral Douglas CVS, Inc.
939 Route 146, Bldg. 600
Clifton Park, NY 12065
$3,053.00

Advertising Ventures Inc.
dba (add)ventures
117 Chapman Street
Providence, RI 02905
$2,500.00

Al Jac's Inc.
33 Hemlock Street
Providence, RI 02908
$222.00

All Island Landscape, Inc
2829 East Main Road
Portsmouth, RI 02871
$5,751.00

Allied Fire Protection, Inc.
108 Pond Street
West Warwick, RI 02893
$10,000.00

Allied Fire Protection Inspection
Services, Inc.
108 Pond Street
West Warwick, RI 02893
$7,427.00

Atlantic Furniture Co., Inc
120 Manton Avenue
Providence, RI 02909
$2,500.00

Auto Valet Inc
36-38 Pleasant Valley Parkway
Providence, RI 02908
$10,975.00

BA Metal Dynamics, Inc.
1655 Elmwood Avenue
Cranston, RI 02910
$39,934.00

Belcour Corp
99 Front Street
Woonsocket, RI 20895
$7,500.00

Beneficial Energy Products, Inc.
450 West Avenue
Pawtucket, RI 02860
$2,500.00

Bio Process Technologies
207 Highpoint Avenue
Portsmouth, RI 02871
$2,500.00

Bristol Metal Co, Inc
58 Broad Common Road
Bristol, RI 02809
$20,000.00

C.B. Utility Co., Inc.
99 Tupelo Street
Bristol, RI 02809
$36,772.00

Cabinet Gallery Ltd.
P.O. Box 336
Woonsocket, RI 02895
$5,000.00

The Car Store, Inc.
One Colfax Street
Pawtucket, RI 02860
$7,500.00

Clear Carbon and Components, Inc.
47 Gooding Avenue
Bristol, RI 02809
$5,000.00

Coastal Medical, Inc –
East Providence
10 Davol Square, Suite 400
Providence, RI 02903
$5,000.00

Coastal Medical, Inc – Providence 2
10 Davol Square, Suite 400
Providence, RI 02903
$5,000.00

Convex Technologies, Inc.
30 Martin Street – Suite 2C1
Cumberland, RI 02864
$31,551.00

Cornerstone Administrative Services LLC
1350 Division Road
West Warwick, RI 02893
$17,500.00

Crown Management Company
383 Smithfield Avenue
Pawtucket, RI 02860
$2,500.00

Robert Mastin, LLC
796 Aquidneck Avenue
Middletown, RI 02842
$5,355.39

D & B Machining, Inc.
53 John Street
Cumberland, RI 02864
$17,500.00

Daniel S Sledd
83 Rumstick Road
Barrington, RI 02806
$25,337.00

DeWolf Chemical, Inc.
400 Massasoit Ave. – Suite 106
East Providence, RI 02914
$2,500.00

Dimeo Construction Company
75 Chapman Street
Providence, RI 02905
$47,500.00

Edwards & Assoc., Inc.
dba Renova Lighting Systems, Inc.
300 High Point Avenue
Portsmouth, RI 02871
$4,308.00

Engineered Components Corporation
145 Carolina Avenue
Providence, RI 02905
$28,041.53

Equity National Title & Closing Services, Inc
401 Wampanoag Trail – Suite 300
East Providence, RI 02915
$141,448.00

FedEx Ground Packaging System, Inc.
1000 FedEx Drive
Moontownship, PA 15108
$90,000.00
$225,000.00 Property Tax

Ferrucci Russo PC
55 Pine Street
Providence, RI 02903
$2,500.00

Fielding Mfg – Zinc Diecasting, Inc.
780 Wellington Avenue
Cranston, RI 02910
$14,059.00

Foreign Source Ltd.
20 Fifth Avenue
Cranston, RI 02910
$7,500.00

GMT Composites, Inc.
48 Ballou Boulevard
Bristol, RI 02809
$10,000.00

George Patton Associates, Inc.
55 Broad Common Road
Bristol, RI 02809
$113,052.00

Gold International Machinery, Inc.
PO Box 998
Pawtucket, RI 02862
$10,000.00

Goluses & Company, LLP
310 Reservoir Avenue
Providence, RI 02907
$12,500.00

Grinnell Cabinet Makers, Inc.
169 Mill Street
Cranston, RI 02905
$19,382.00

Intown Parking
1 Fulton Street
Providence, RI 02903
$2,500.00

The Island Child Care Center, Inc.
PO Box 359
Portsmouth, RI 02871
$5,719.00

Jade Engineered Plastics, Inc.
121 Broad Common Road
Bristol, RI 02809
$22,956.00

Jamestown Distributors
17 Peckham Drive
Bristol, RI 02809
$14,602.54

Janitech Industrial Cleaning Co., Inc.
106 High Street
Cumberland, RI 02864
$4,997.00

Kirks Folly, Inc.
PO Box 2188
Providence, RI 02905
$12,500.00

Lincoln Capital Corporation
40 Westminster Street, Suite 202
Providence, RI 02903
$2,000.00

Lincoln Energy Mechanical Services, Inc.
195 James P. Murphy Highway
West Warwick, RI 02893
$10,000.00

M & G Trucking and Transportation Inc
1 San Antonio Way
Pawtucket, RI 02860
$10,000.00

Maverick Properties, LLC
57 Longshore Road
Portsmouth, RI 02871
$3,393.90

Medical Knitted Structures, Inc.
358 Lowden Street
Pawtucket, RI 02860
$7,500.00

Mereco Technologies Group, Inc and Subsidiary
1505 Main Street
West Warwick, RI 02893-2992
$5,572.00

Monarch Industries
99 Main Street
Warren, RI 02885
$28,300.00

Monarch Metal Finishing Co.
189 Georgia Avenue
Providence, RI 02905
$5,000.00

Murdock Webbing Co, Inc
27 Foundry Street
Central Falls, RI 02863
$60,000.00

New England Pest Control Co.
161 O'Connell Street
Providence, RI 02905
$12,500.00

Ocean State Book Binding, Inc.
225 Dupont Drive
Providence, RI 02907
$12,500.00

PP&C Dry Cleaners
2 Cox Court
Bristol, RI 02809
$22,850.00

Paolino Management LLC
76 Dorrance Street
Providence, RI 02903
$2,500.00

Paramount Restaurant Supply
101 Main Street
Warren, RI 02885
$19,786.00

Parsons Capital Management, Inc.
10 Weybosset Street – Suite 106
Providence, RI 02903
$5,000.00

Pawtucket Plaza CVS, Inc.
939 Route 146, Bldg. 600
Clifton Park, NY 12065
$6,760.00

Pierce Packaging Products Inc.
PO Box 7322
Cumberland, RI 02804
$5,000.00

Pirate Cove Marina, Inc.
109 Point Road
Portsmouth, RI 02871
$12,500.00

Province Mortgage Associates Inc.
10 Davol Square – Suite 205
Providence, RI 02903
$5,000.00

Raytheon Company
1847 West Main Road
Portsmouth, RI 02871
$5,100.00

Right There Courier LLC
203 Concord Street
Pawtucket, RI 02860
$7,500.00

Shechtman Halperin Savage LLP
1080 Main Street
Pawtucket, RI 02860
$53,456.50

Smart Management Inc.
66 Pavilion Avenue
Providence, RI 02905
$7,500.00

Spectrum Coatings Labs, Inc.
217 Chapman Street
Providence, RI 02905
$2,500.00

Stephen J. Dennis, PLC
127 Dorrance Street
3rd Floor, Suite 7A
Providence, RI 02903
$7,500.00

Teknicote Inc
2 Titus Street
Cumberland, RI 02809
$34,174.70

Texcel, Inc
18 Meeting Street
Cumberland, RI 02864
$10,000.00

Tiffany and Company
15 Sylvan Way
Parsippany, NJ 07054
$120,000.00

Tiverton CVS, Inc.
939 Route 146, Bldg. 600
Clifton Park, NY 12065
$5,426.00

Tri-Mark Plastics Corp.
66 Tupelo Street
Bristol, RI 02809
$15,529.00

Umicore USA Inc
Dba Umicore Indium Products
50 Sims Avenue
Providence, RI 02909
$18,923.00

Waterline Group Holdings, Inc.
225 Alexander Road
Portsmouth, RI 02871
$53,473.38

Waterrower, Inc.
560 Metacom Avenue
Warren, RI 02885
$32,465.00

Weingeroff Enterprises, Inc.
One Weingeroff Boulevard
Cranston, RI 02910
$40,000.00

West Warwick Providence CVS, Inc.
939 Route 146, Bldg. 600
Clifton Park, NY 12065
$774.00

West Warwick Welding, Inc.
970 Main Street
West Warwick, RI 02893
$6,540.00

William Collins Company
444 Central Street
Central Falls, RI 02863
$4,794.00

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Department of Revenue
DIVISION OF TAXATION
One Capitol Hill
Providence, RI 02908-5800

Annual Tax Credit Disclosure Report – Fiscal Year Ending June 30, 2008

- Mill Building and Economic Revitalization Act – RIGL 42-64.9

For the fiscal year ending June 30, 2008, there were no entities receiving a benefit under this chapter.

This chapter shall terminate effective August 8, 2009

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Department of Revenue
DIVISION OF TAXATION
One Capitol Hill
Providence, RI 02908-5800

Annual Tax Credit Disclosure Report – Fiscal Year Ending June 30, 2008

- Motion Picture Production Tax Credits – RIGL 44-31.2

Bridesmaid Productions, LLC
10900 Wilshire Blvd., 10th Floor
Los Angeles, CA 90024
$4,144,901.00

Two Prong Lesson LLC
147 Harrison Avenue
Newport, RI 02840
$152,470.00

Brotherhood Productions, Inc.
c/o Showtime Networks, Inc.
10880 Wilshire Boulevard, Suite 1600
Los Angeles, CA 90024
$5,484,600.00

Hachiko Productions, LLC
c/o Inferno Distribution LLC
1888 Century Park East, Suite 1180
Los Angeles, CA 90067
$3,006,463.00

*STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS*

**DEPARTMENT OF REVENUE**

**Office of Revenue Analysis**

## DISCUSSION PAPER

# A Macro Analysis of the Return on Investment of the Rhode Island Motion Picture Production Tax Credits

This discussion paper is a staff analysis of the Rhode Island motion picture production tax credits. The analysis is based on one method that can be used to evaluate the economic and fiscal impacts of a specific tax credit. The methodology employed is by no means the only way, nor perhaps even the best way, to evaluate the economic and fiscal impacts of a specific tax credit.

The discussion paper is being presented to the Governor's Strategic Tax Study Group as an example of one way to assess the costs and benefits of tax credits. As such, it should be viewed as a "work in progress" and a starting point for discussions regarding the return on investments from State tax credits. It is not intended to provide the DOR's position on the pros and cons of the motion picture production tax credits.

With regard to the motion picture production tax credits, the Strategic Tax Study Group will consider this macro analysis as well other studies, a review of the impact of recently enacted legislation that caps this credit, and new regulations issued jointly by DOR and the Rhode Island Film and Television Office.

## I. <u>Introduction</u>

This report presents a macro level analysis of the direct "return on investment" that the State of Rhode Island receives from the motion picture production tax credits that were introduced in 2005 (see Rhode Island General Laws 44-31.2). This report adopts a unique approach in estimating the impact of movie production tax credits on the state's fiscal condition. Rather than trying to determine the multiplier effects of the movie production activity that results from the introduction of movie production tax credits, this report estimates the general revenues collected directly from such activity and then goes on to calculate the implicit multipliers necessary for the state to breakeven on its issuance of movie production tax credits.

This report is only one part of what will be a two part analysis. The second part of the analysis will be at a micro level, examining the actual film tax credit documentation submitted to the Rhode Island Film & TV Office. Based on the information contained in those applications, the Office of Revenue Analysis will breakdown the specific taxes paid by category (i.e., income, sales and use, etc.) and provide a dynamic forecast of the economic impacts of the motion picture production tax credits. The micro level analysis is a time consuming process that requires a fully functional data warehouse and the utilization of a regional input-output economic model. Neither of these infrastructure requirements is fully operational at this time.

The report is organized as follows. The first section is a summary of this report's findings. The second section describes the current status of Rhode Island's motion picture tax incentive program. The third section is a brief review of the reports that have been done previously for Rhode Island and those recently issued by the Connecticut Department of Economic and Community Development (February 2008) and the Massachusetts Department of Revenue (March 2008). The fourth section discusses the methodology used in this report. The fifth and sixth sections contain the details of the analysis based on the methodologies described in section four. The sixth section offers conclusions regarding the report's findings. The final section provides some policy options.

## II. <u>Summary of the Report's Findings</u>

This report analyzes the direct economic impact of the motion picture production activity that has been induced by the state's passage of the motion picture production tax credit legislation in 2005. The report is a macro level analysis of the estimated "return on investment" that the state has received as a result of this program. In addition, breakeven multipliers are calculated for the program.

The report employs two similar methods when determining the direct economic impact of the motion picture production tax credits. The first method uses Rhode Island Gross Domestic Product (GDP) as its starting point. The second method uses Rhode Island Personal Income (PI) as its reference point.

Under the RI GDP method, this report finds that:

- For every dollar invested in motion picture production tax credits, the State earns back $0.28 from direct economic impacts;
- The direct return on investment for the State from the motion picture production tax credits is – 72.0 percent;
- The gross multiplier needed for the State to breakeven on its issuance of motion picture production tax credits is 3.57, meaning that every dollar spent by a motion picture production company must yield $3.57 in direct and indirect expenditures for the state to earn back the value of the tax credits issued; and
- The net multiplier needed for the State to breakeven on its issuance of motion picture production tax credits is 2.57, meaning that every dollar spent by a motion picture production company must yield $2.57 in indirect expenditures for the state to earn back the value of the tax credits issued.

Under the RI PI method, this report finds that:

- For every dollar invested in motion picture production tax credits, the State earns back $0.32 from direct economic impacts;
- The direct return on investment for the State from the motion picture production tax credits is – 68.0 percent;
- The gross multiplier needed for the State to breakeven on its issuance of motion picture production tax credits is 3.13, meaning that every dollar spent by a motion picture production company must yield $3.13 in direct and indirect personal income for the state to earn back the value of the tax credits issued; and
- The net multiplier needed for the State to breakeven on its issuance of motion picture production tax credits is 2.12, meaning that every dollar spent by a motion picture production company must yield $2.12 in indirect personal income for the state to earn back the value of the tax credits issued.

## III. Current Status of the Rhode Island Motion Picture Production Tax Credit Program

According to the RI Film & TV Office, 29 motion picture productions have been certified as eligible for Rhode Island motion picture production tax credits for the 2005 – 2008 period. The total estimated Rhode Island production costs associated with these 29 projects is $225,868,839 and the estimated motion picture production tax credits for these same projects is $55,704,471. Of these 29 projects, 16 projects have submitted certified final production costs to the RI Film & TV Office and been issued a final tax credit certificate. These 16 projects had final eligible production costs of $142,226,312 and qualified for motion picture production tax credits of $35,556,578. These projects were filmed and completed in the years 2005, 2006, and 2007 and consisted of 10 film projects, four television productions, and two commercials.

In order to avoid distortions in the data, this report focuses on the economic impact and the "return on investment" from the 16 completed projects that have been issued a final tax credit certificate. The remaining 13 projects have not yet submitted final certified production costs to the RI Film & TV Office.

## IV. A Brief Review of Other Reports on Movie Production Tax Incentives

### *A. Earlier Analyses of the Impact of Motion Picture Production on Rhode Island's Economy*

The earliest known analysis of the economic impact of motion picture production in the State of Rhode Island is Timothy J. Tyrell's *The Economic Impacts of Film Production in 1997 on the State of Rhode Island.* Tyrell's study includes seven film projects that were conducted at least in part in Rhode Island during 1997. These projects include four major motion pictures such as *Meet Joe Black*, and *Something About Mary* and three smaller films such as *Tax Day*. According to the Rhode Island Film Office (the precursor to the

RI Film & TV Office), these seven films had estimated Rhode Island production costs of $16,480,000.

Tyrell used this estimate of the direct film production expenditures to estimates the meals, entertainment, shopping, and other expenditures of film production employees and the same expenditures for the friends and family of film production employees. The sum of these three components yields total direct expenditures due to film production activity of $22,248,000. Tyrell then assumes a multiplier of 1.5 to estimate indirect expenditures of $11,124,000 that result from the film production activity's direct expenditures. Thus, in Tyrell's study "total economic expenditure impacts" from these seven 1997 films were $33,372,000.

Based on this estimate, Tyrell derives three types of "state fiscal impacts" (state income taxes, accommodations taxes, and sales and use taxes). For state income taxes, he estimates increased payments of $93,936; for accommodations taxes, he estimates increased collections of $108,150; and for sales and use taxes, he estimates increased remittances of $645,439. The total of all three state fiscal impacts was estimated to be $847,525 or 2.5 percent of total economic expenditure impacts and 3.8 percent of total direct film production expenditures. It should be noted that Tyrell's study likely underestimates the total "state fiscal impacts" of the estimated "total economic expenditure impacts" as it excludes other sources of revenue that may benefit from these expenditures.

More recently, both the State of Connecticut and the Commonwealth of Massachusetts issued reports on their own state's film tax credit programs. Interestingly, both of these states implemented their own film tax credit programs after the State of Rhode Island had established its motion picture production tax credit.

### *B. Connecticut's Analysis of the Economic Impact of Motion Picture Production*

Connecticut's analysis of its film tax credit program was conducted by the Connecticut Department of Economic and Community Development (DECD). The study, titled *The Economic and Fiscal Impacts of Connecticut's Film Tax Credit,* covers the period July 1, 2006 through September 30, 2007 during which time "[T]here were thirty film productions in process…incurring $282 million in expenditures in Connecticut that will claim $86 million in credits over the next year or so." Of these 30 film productions, 13 had filed for Connecticut's Film Tax Credit. These 13 productions consisted of five feature films, five television productions, and three commercials or infomercials.

The Connecticut DECD focuses on determining the direct and indirect economic impacts of film production in Connecticut. The 13 film productions noted above had total Connecticut production expenditures of $57.9 million of which $55.1 million was eligible for Connecticut's film tax credit program. These qualified expenditures resulted in tax credits of $16.5 million. The $2.8 million of unqualified production expenditures are part of the direct economic impact of film production in Connecticut. The $55.1 million of qualified production expenditures, however, may overstate the direct economic impact of film production in Connecticut to the extent that they include the salaries and fringe benefits of "big-budget film earners", most of whom likely spend their earnings outside of Connecticut. Removing these expenditures and other expenditures that are not likely to be spent directly in the state, yields final direct expenditure impacts of $43.0 million.

The Connecticut DECD translates the $45.8 million of direct film production expenditures into 70 economic sectors using the North American Industry Classification System. These economic sectors are components of the Connecticut Economic Model that was developed by Regional Economic Models, Inc. (REMI). The output from the REMI model indicates that indirect economic impacts of Connecticut film production activity is $20.7 million in new real gross state product (the value of all goods and services produced in Connecticut in a given year adjusted for inflation). Thus, the "total economic expenditures impact" of Connecticut's film tax credit program is $66.5 million yielding a direct expenditures multiplier of 1.45, very close to that assumed by Tyrell.

The Connecticut DECD concludes that "[F]or every dollar spent on the tax credit, the state receives $0.08 back in additional revenue." The report goes on to state that "[T]he state will not receive enough additional revenue from increased economic activity to pay for the estimated $16.5 million in tax credits applied for in 2007. From a fiscal perspective, this program cannot pay for itself in one year."

*C. Massachusetts' Analysis of the Economic Impact of Motion Picture Production*

Massachusetts' analysis of its film industry tax incentive program was conducted by the Massachusetts Department of Revenue (MA DOR). This study differs from Connecticut's in that it focuses only on the direct expenditure impacts of film production activity in Massachusetts. Massachusetts' study, titled *A Report on The Massachusetts Film Industry Tax Incentives,* covers the years 2006, 2007, and 2008 based on film credit and sales tax exemption applications processed through February 22, 2008. During this period, 47 projects completed production and applied for film tax credits. Another 41 productions filed sales tax exemption applications but have not yet filed film tax credit applications. Thus, for the period included in the report, 88 productions were considered. These 88 productions had estimated Massachusetts total production costs of $544.9 million and qualified for an estimated $135.7 million of film tax credits and $2.4 million of sales tax exemptions ($138.1 million in total).

Massachusetts' film tax credit application requires the applicant to provide data on the actual amount of payroll and other production spending. Massachusetts' sales tax exemption application requires the applicant to estimate the payroll and other production expenses. Based on the payroll information culled from these applications, and moving the payroll costs of "those employees who receive salaries greater than $1.0 million" from other production expenses to payroll expenses, MA DOR estimates that "the Commonwealth could collect as much as $18.6 million in new income taxes from motion picture productions that have already claimed or will be eligible for film production tax credits" in the 2006 – 2008 period. This $18.6 million is 3.4 percent of the total direct film production expenditures.

It should be noted that MA DOR acknowledges that "[A]dditional tax revenue will be generated by ancillary economic activity associated with film production in Massachusetts, and by 'multiplier' effects entailed by this related economic activity." In contrast to Connecticut's DECD, however, MA DOR acknowledges that "any estimate of the net economic and tax revenue impact of tax incentives needs to takes into account the reduction in state government spending that occurs as a result of decreased tax revenue available for state programs." Due to data limitations, MA DOR states that it "is not currently in a position to estimate the net economic and tax impact of the film industry tax incentives."

*D. The National Governors Association Issue Brief on Film*

In July 2008, the National Governors Association's Center for Best Practices, with support from the National Endowment for the Arts and the National Assembly of State Arts Agencies, released an issue brief titled *Promoting Film and Media to Enhance State Economic Development.* This issue brief provides a compendium of the various actions that states have undertaken to increase the amount of film and media activity as a means of achieving economic development objectives.

The issue brief indicates that states are using several policies and programs to attract the film and TV productions, including:

- Offering financial incentives such as tax credits on in-state expenditures;
- Supporting the development of a state workforce with industry skills through university programs and other training programs;
- Marketing the state's production advantages through web sites and other publicity materials;
- Helping facilitate the production process through production guides and/or scouting programs; and
- Cultivating local film activity through the encouragement of local filmmaking and the support of film festivals.

The issue brief concludes that "[F]ilm and media arts can play a key role in state economic development. As economic impact studies continue to demonstrate the ability of the film industry to create high-paying jobs, stimulate tourism, engage the community, and boost out-of-state spending, many states have recognized the value of investing in this growing industry."

This investment is perhaps best personified by the state of Connecticut. Current Connecticut Governor M. Jodi Rell, notes that "[N]ot only does Connecticut provide tax, labor and lodging incentives for film projects, but we also have created a film workforce training program.."

## V. Methodology

This report employs two related methods for ascertaining the direct "return on investment" from the Rhode Island motion picture production tax credit program. The first method, similar to that used in Connecticut's study, uses Rhode Island Gross Domestic Product (GDP) as its focus. A state's gross domestic product is the sum of value added from all industries in a state. Much of the discussion of the impact that the motion picture production tax credits have revolves around the new economic activity that results when a movie production takes place in Rhode Island. The gross costs associated with this movie production can be thought of as adding to Rhode Island GDP. This linkage forms the basis for the GDP method. It is important to note, however, that this method implicitly assumes that all eligible motion picture production costs are spent on in-state suppliers. To the extent that these costs include payments to out-of state vendors, the GDP method will overstate the economic benefit of the motion picture production tax credits.

The second method uses Rhode Island Personal Income (PI) as its central tenet. A state's personal income is the income that is received by, or on behalf of, persons who live in the state. Thus, a state's personal income will include income received by Rhode Island residents that was earned out-of-state but exclude earnings retained by businesses. Most measures of tax burden use personal income as its base. For example, the Rhode Island Public Expenditure Council's *How Rhode Island Taxes Compare — Measuring Tax Burdens 2006* measures RI's state and local tax burden as both a percentage of personal income and as an amount per $1,000 of personal income. The common usage of personal income in measuring tax burdens is the basis for the PI method.

Traditionally, the return on investment (ROI) is measured as the difference between the gain from investment and the cost of investment divided by the cost of investment. That is,

$$\text{ROI} = (\text{Gain from Investment} - \text{Cost of Investment}) / \text{Cost of Investment}$$

The analysis in this report focuses on the "gain from investment" to the State of Rhode Island from the use of the motion picture production tax credits. The State's gain from investment is measured as the total general revenues received by the State that can be directly attributed to the production of films and television programs that qualified for motion picture production tax credits. The focus here is on the State's gain from investment. This measure of the gain from investment does not capture any incremental revenues that local governments may receive as a result of an eligible motion picture production taking place in their municipality. This approach to measuring the gain from investment is justified by the fact that the "cost of investment", the motion picture production tax credits, are borne directly by the State.

It is important to note that the gain from investment in this context considers only the gain that is realized during the time that an eligible motion picture project is in production in Rhode Island. This approach is consistent with the report issued by the Connecticut Department of Economic and Community Development. In that report it was noted that the effects from film productions "quickly dissipate after the productions complete their work and leave the state."

As noted in section II, 16 motion picture projects that completed production in 2005, 2006 or 2007 have submitted certified final production costs and have been issued motion picture production tax credit certificates. These 16 projects had certified final Rhode Island production costs of $142.2 million. It is important to note that these expenditures may not have been paid solely to in-state factors of production. In this analysis, ORA will treat these expenditures as if all such expenditures were paid to Rhode Island based suppliers.

The $142.2 million of certified final production costs have resulted in the awarding of $35,556,578 in motion picture production tax credits by the Rhode Island Film & TV Office. The $35.6 million of movie production tax credits represents the cost of investment to the state of having these projects filmed in the state. According to the Rhode Island Department of Revenue, as of May 2, 2008, $27,242,351, or 76.6 percent, of these issued motion picture production tax credits had been used by eligible Rhode Island taxpayers to offset Rhode Island tax liabilities.

## VI. Analysis: GDP Method

According to the U.S. Department of Commerce's Bureau of Economic Analysis (BEA), RI current dollar GDP in 2005 was $43.625 billion and in 2006 it was $45.660 billion (data for 2007 is not yet available). Thus, for the years 2005 and 2006, total RI GDP was $89.285 billion. The State of Rhode Island Budget Office reports that for FY 2005 audited total general revenues were $3.005 billion, for FY 2006 audited total general revenues were $3.140 billion and for FY 2007 preliminary general revenues were $3.231 billion. These three fiscal years cover the period from July 1, 2004 through June 30, 2007. Converting fiscal year values to calendar year values, estimated total general revenues for CY 2005 were $3.073 billion and for CY 2006 estimated total general revenues were $3.186 billion. Thus, for 2005 and 2006, total general revenues collected by the state are estimated to be $6.259 billion. The ratio of this two year sum of total general revenues to the sum of RI GDP for 2005 and 2006 is 0.0701, meaning that 7.01 percent of RI GDP is captured by the state in the form of general revenue.

Since state GDP data for 2007 is not available, this analysis will focus on motion picture productions that were completed in 2005 or 2006, have filed certified final production costs with the RI Film & TV Office, and have been issued motion picture production tax credit certificates by the RI Film & TV Office. There were 12 motion picture productions that met these criteria. These 12 productions had certified final production costs of $120,422,993. The $120.4 million of motion picture production costs qualified for $30,105,478 of motion picture production tax credits. **The $30.1 million of motion picture production tax credits issued is the cost of investment to the State of the motion picture production tax credit program.**

It is important to understand how encompassing the ratio of state general revenues to state GDP is. State general revenues not only include taxes, such as the personal income tax and the sales and use tax, but also licenses and fees, fines and penalties, lottery transfers to the general fund, and other miscellaneous general revenues. Some of the items included in general revenues consist of revenue sources that will have minimal or no connection to the direct production costs associated with a motion picture project. Other items in general revenues will have a direct connection to the direct production costs associated with a motion picture project. As a result, the ratio of state general revenues to state GDP is a proxy that can be utilized to capture all of the direct impacts of motion picture production activity in RI — the impacts that are the focus of this report.

Application of the percentage RI GDP that is captured by the state in the form of general revenues, 7.01 percent, to the $120.4 million of eligible motion picture production gross costs generates an estimated $8.44 million of total general revenues to the State of Rhode Island. Thus, **the $8.44 million represents the gain from investment to the State from the motion picture production tax credit program.**

The direct return on investment from the motion picture production tax credit program based on the GDP method calculates to be −71.97 percent. **Put another way, on average, every dollar invested by the State in the form of a motion picture production tax credit has returned $0.28 to the state.** It is important to note that, although this calculation attempts to captures all direct returns to the State from the motion picture production tax credit program, the calculation does not account for any local tax and fee revenues or any state non-general revenues that result from the film and TV production activity.

Despite this limitation, it is possible, however, to infer the multiplier needed for the state to breakeven on its investment of tax dollars in motion picture productions. Recall that the each dollar of RI GDP results in $0.0701 of total general revenues. Based on this, the estimated level of RI GDP necessary to generate $30,105,748 of total general revenues is $429,468,588 (i.e., $30,105,748/0.0701). Given direct motion picture production expenditures of $120.4 million and the estimated level of RI GDP necessary to generate the $30.1 million of motion picture production tax credits that are generated by that direct expenditure, **the gross multiplier needed to break-even on the issuance of motion picture production tax credits is 3.57** (i.e., $429,468,588/$120,422,993).

In addition to not directly capturing any local tax and fee revenues or any state non-general revenues, the estimate above also does not capture the revenue impact of any indirect economic activity that results after the film or TV production has concluded. This indirect economic activity consists of spending by vendors that have supplied goods and services to the motion picture production. This spending consists of vendor purchases of inputs (i.e., labor and capital) as well as the spending that the owners of these inputs make on goods and services.

It is difficult to measure this indirect economic activity but it is possible to determine what the indirect economic activity multiplier needs to be for the state to breakeven on its investment of tax dollars in motion picture productions**.** Note that, through direct effects, it is estimated that the state has already captured $8.44 million of the initial $30.1 million of tax credits invested. This leaves $21,663,933 of tax credits that would need to be recovered through the general revenues generated by indirect activities associated with the motion picture productions in order for the State to breakeven on its investment.

Applying the technique used above, the estimated level of RI GDP necessary to generate $21.7 million of total general revenues is $309,044,123 (i.e., $21,663,993/0.0701). Given direct motion picture production expenditures of $120.4 million and the estimated level of RI GDP necessary to generate the $21.7 million of motion picture production tax credits that have not been captured by the state through direct channels, **the net multiplier needed to achieve the point where the gain from investment equals the cost of investment based on indirect economic activity is 2.57** (i.e., $309,044,123/$120,422,993).

## VII. Analysis: PI Method

According to the BEA, Rhode Island Personal Income (PI) in current dollars was $38.388 billion in 2005, $39.835 billion in 2006, and $41.745 billion in 2007. Thus, for the years 2005 – 2007, total RI PI was $119.968 billion. As noted in Section V, for 2005 and 2006, total general revenues collected by the state are estimated to be $6.259 billion. In order to estimate general revenues collected in CY 2007 data for FY 2008 would be needed. Such data does not yet exist but the Governor's FY 2009 budget submission includes revised FY 2008 general revenues of $3.440 billion. Based on preliminary FY 2007 total general revenues and revised FY 2008 total general revenues, ORA estimates CY 2007 total general revenues to be $3.336 billion. Thus, for 2005 – 2007, total general revenues collected by the state are estimated to be $9.595 billion. The ratio of this three year sum of total general revenues to the sum of RI PI for 2005 – 2007 is 0.0800, meaning that 8.0 percent of RI PI is captured by the state in the form of general revenue.

This analysis assumes that the direct motion picture production expenditures translate dollar-for-dollar into wages and salaries and their supplements, proprietor's income adjusted for the value of inventories and the depreciation of capital equipment, rental income less depreciation, dividends, interest, and transfer payments received by individuals, less contributions for government social insurance. That is, under the PI approach, it is assumed that all expenditures pass through directly to income recipients and shareholders without any leakages into depreciation, corporate retained earnings, etc.

Given the fact that personal income data exists for 2007, this analysis will use the 16 eligible motion picture productions with certified final production costs that were issued final motion picture production tax credit certificates in 2005, 2006, or 2007. As noted in Section II, these 16 productions had certified final production costs totaling $142,226,312. The $142.2 million of motion picture production costs qualified for $35,556,578 of motion picture production tax credits. **The $35.6 million of movie production tax credits issued is the cost of investment to the State of the motion picture production tax credit program.**

Application of the ratio of total general revenues to RI PI for 2005 – 2007 of 8.0 percent to the $142.2 million of eligible motion picture production gross costs generates an estimated $11,378,105 of total general revenues to the State of Rhode Island. It is important to remember that this figure includes all direct general revenues collected by the state from the 16 motion picture productions noted above. Thus, **the $11.4 million**

**represents the gain from investment to the State from the motion picture production tax credit program.**

The direct return on investment from the motion picture production tax credit program based on the PI method calculates to be −68.0 percent. **Put another way, every dollar invested by the State in the form of a motion picture production tax credit during 2005 – 2007 has returned an average of $0.32 to the state.** It is important to note that, although this calculation captures all direct returns to the State from the motion picture production tax credit program, the calculation does not account for any local tax and fee revenues or any state non-general revenues that result from the film and TV production activity. It is possible, however, to infer the multiplier needed for the state to breakeven on its investment of tax dollars in motion picture productions.

Recall that each dollar of RI PI results in $0.0800 of total general revenues. Thus, the estimated level of RI PI necessary to generate $35,556,578 of total general revenues is $444,457,225 (i.e., $35,556,578/0.0800). Given direct motion picture production expenditures of $142.2 million and the estimated level of RI PI necessary to generate the $35.6 million of motion picture production tax credits that are generated by that direct expenditure, **the gross multiplier needed to break-even on the issuance of motion picture production tax credits is 3.13** (i.e., $444,457,225/$142,226,312).

In addition to not directly capturing any local tax and fee revenues or any state non-general revenues, the estimate above also does not capture the revenue impact of any indirect economic activity that results after the film or TV production has concluded. This indirect economic activity consists of spending by vendors that have supplied goods and services to the motion picture production. This spending consists of vendor purchases of inputs (i.e., labor and capital) as well as the spending that the owners of these inputs make on goods and services.

It is difficult to measure this indirect economic activity but it is possible to determine what the indirect economic activity multiplier needs to be for the state to breakeven on its investment of tax dollars in motion picture productions**.** Note that, through direct effects, the state has already captured $11.4 million of the initial $35.6 million of tax credits invested. This leaves $24,178,473 of tax credits to be recovered through the general revenues generated by indirect activities associated with the motion picture productions.

Applying the technique used above, the estimated level of RI PI necessary to generate $24.2 million of total general revenues is $302,230,913 (i.e., $24,178,473/0.0800). Given direct motion picture production expenditures of $142.2 million and the estimated level of RI PI necessary to generate the $24.2 million of motion picture production tax credits that have not been captured by the state through direct channels, **the net multiplier needed to achieve the point where the gain from investment equals the cost of investment based on indirect economic activity is 2.12** (i.e., $302,230,913/$142,226,312).

# Appendix M

## Impacts of the Property Tax Proposals
## By Community

## *Restricted Tax Classification Analysis for Tangible Personal Property*

| Municipality | Residential Rate | Owner Occupied Residence | Actual Tangible Rate | Restricted Tangible Rate @ 100% | Tangible Levy | Restricted Tangible Levy | Gain (Loss) | Losers Only | Ten Year Phase In 10% |
|---|---|---|---|---|---|---|---|---|---|
| Barrington | $14.45 | $14.45 | $14.45 | $28.90 | $459,613 | $919,225 | $459,613 | $0 | $0 |
| Bristol | $10.35 | $10.35 | $10.35 | $20.70 | $447,060 | $894,121 | $447,060 | $0 | $0 |
| Burrillville | $11.85 | $11.85 | $11.85 | $23.70 | $508,591 | $1,017,182 | $508,591 | $0 | $0 |
| Central Falls | $10.54 | $8.18 | $57.64 | $16.36 | $796,234 | $225,996 | ($570,239) | ($570,239) | ($57,024) |
| Charlestown | $7.16 | $7.16 | $7.16 | $14.32 | $168,146 | $336,293 | $168,146 | $0 | $0 |
| Coventry | $15.46 | $15.46 | $15.46 | $30.92 | $1,781,022 | $3,562,043 | $1,781,022 | $0 | $0 |
| Cranston | $15.34 | $15.34 | $23.01 | $30.68 | $6,180,208 | $8,240,277 | $2,060,069 | $0 | $0 |
| Cumberland | $12.38 | $12.38 | $20.89 * | $24.76 | $2,437,215 | $2,888,735 | $451,520 | $0 | $0 |
| East Greenwich | $14.00 | $14.00 | $14.00 | $28.00 | $849,642 | $1,699,285 | $849,642 | $0 | $0 |
| East Providence | $14.91 | $12.25 | $44.74 | $24.50 | $9,597,297 | $5,254,917 | ($4,342,380) | ($4,342,380) | ($434,238) |
| Exeter | $12.33 | $12.33 | $12.33 | $24.66 | $159,845 | $319,691 | $159,845 | $0 | $0 |
| Foster | $13.52 | $13.52 | $18.60 | $27.04 | $149,474 | $217,299 | $67,826 | $0 | $0 |
| Glocester | $17.03 | $17.03 | $33.92 | $34.06 | $631,525 | $634,131 | $2,607 | $0 | $0 |
| Hopkinton | $14.50 | $14.50 | $14.50 | $29.00 | $293,000 | $586,001 | $293,000 | $0 | $0 |
| Jamestown | $8.11 | $8.11 | $8.11 | $16.22 | $92,830 | $185,659 | $92,830 | $0 | $0 |
| Johnston | $18.91 | $15.13 | $56.00 | $30.26 | $5,365,098 | $2,898,686 | ($2,466,412) | ($2,466,412) | ($246,641) |
| Lincoln | $16.88 | $10.97 | $28.07 | $21.94 | $5,475,673 | $4,280,661 | ($1,195,011) | ($1,195,011) | ($119,501) |
| Little Compton | $4.62 | $4.62 | $9.24 | $9.24 | $75,549 | $75,549 | $0 | $0 | $0 |
| Middletown | $11.38 | $11.38 | $11.53 * | $22.76 | $1,175,495 | $2,149,404 | $973,908 | $0 | $0 |
| Narragansett | $7.25 | $7.25 | $10.87 | $14.50 | $446,394 | $595,466 | $149,072 | $0 | $0 |
| New Shoreham | $3.30 | $3.30 | $3.30 | $6.60 | $13,146 | $26,292 | $13,146 | $0 | $0 |
| Newport | $8.67 | $8.67 | $12.93 | $17.34 | $1,137,885 | $1,525,981 | $388,095 | $0 | $0 |
| North Kingstown | $13.83 | $13.83 | $13.83 | $27.66 | $1,378,242 | $2,756,485 | $1,378,242 | $0 | $0 |
| North Providence | $16.75 | $13.40 | $60.85 | $26.80 | $3,870,297 | $1,704,584 | ($2,165,713) | ($2,165,713) | ($216,571) |
| North Smithfield | $13.24 | $13.24 | $41.00 | $26.48 | $2,044,568 | $1,320,491 | ($724,076) | ($724,076) | ($72,408) |
| Pawtucket | $12.39 | $12.39 | $52.09 | $24.78 | $5,984,371 | $2,846,856 | ($3,137,515) | ($3,137,515) | ($313,752) |
| Portsmouth | $10.84 | $10.84 | $10.84 | $21.68 | $698,163 | $1,396,326 | $698,163 | $0 | $0 |
| Providence | $23.70 | $11.85 | $52.50 | $23.70 | $31,794,073 | $14,352,753 | ($17,441,320) | ($17,441,320) | ($1,744,132) |
| Richmond | $14.31 | $14.31 | $14.31 | $28.62 | $276,307 | $552,614 | $276,307 | $0 | $0 |
| Scituate | $22.40 | $22.40 | $33.59 | $44.80 | $779,857 | $1,040,119 | $260,262 | $0 | $0 |
| Smithfield | $13.68 | $13.68 | $50.13 | $27.36 | $4,301,804 | $2,347,843 | ($1,953,961) | ($1,953,961) | ($195,396) |
| South Kingstown | $11.97 | $11.97 | $11.97 | $23.94 | $2,741,566 | $5,483,132 | $2,741,566 | $0 | $0 |
| Tiverton | $11.26 | $11.26 | $11.26 | $22.52 | $364,634 | $729,268 | $364,634 | $0 | $0 |
| Warren | $13.10 | $13.10 | $13.10 | $26.20 | $420,592 | $841,183 | $420,592 | $0 | $0 |
| Warwick | $13.41 | $13.41 | $26.82 | $26.82 | $12,457,348 | $12,457,348 | $0 | $0 | $0 |
| Westerly | $8.87 | $8.87 | $8.87 | $17.74 | $853,942 | $1,707,884 | $853,942 | $0 | $0 |
| West Greenwich | $17.63 | $15.34 | $26.46 | $30.68 | $1,399,880 | $1,622,940 | $223,060 | $0 | $0 |
| West Warwick | $15.92 | $15.92 | $31.71 | $31.84 | $2,609,109 | $2,619,806 | $10,696 | $0 | $0 |
| Woonsocket | $13.23 | $9.92 | $46.58 | $19.85 | $3,940,884 | $1,678,979 | ($2,261,905) | ($2,261,905) | ($226,190) |
| Total | | | | | $114,156,579 | $93,991,504 | ($20,165,075) | ($36,258,533) | ($3,625,853) |

* Blended Rate

Simulation Values and Rates as of 12/31/07 (FY 2009)

## *Restricted Tax Classification Analysis for Commercial Real Estate*

| Municipality | Residential Rate | Owner Occupied Residence | Actual Commercial Rate | Restricted Commercial Rate @ 50% | Commercial Levy | Restricted Commercial Levy | Gain (Loss) | Losers Only | Ten Year Phase in 10% |
|---|---|---|---|---|---|---|---|---|---|
| Barrington | $14.45 | $14.45 | $14.45 | $21.68 | $1,498,396 | $2,247,593 | $749,198 | $0 | $0 |
| Bristol | $10.35 | $10.35 | $10.35 | $15.53 | $3,202,795 | $4,804,193 | $1,601,398 | $0 | $0 |
| Burrillville | $11.85 | $11.85 | $11.85 | $17.78 | $1,262,843 | $1,894,264 | $631,421 | $0 | $0 |
| Central Falls | $10.54 | $8.18 | $27.77 | $12.27 | $2,441,717 | $1,078,857 | ($1,362,860) | ($1,362,860) | ($136,286) |
| Charlestown | $7.16 | $7.16 | $7.16 | $10.74 | $628,185 | $942,278 | $314,093 | $0 | $0 |
| Coventry | $15.46 | $15.46 | $18.63 | $23.19 | $7,909,544 | $9,845,536 | $1,935,991 | $0 | $0 |
| Cranston | $15.34 | $15.34 | $23.01 | $23.01 | $33,630,811 | $33,630,811 | $0 | $0 | $0 |
| Cumberland | $12.38 | $12.38 | $12.38 | $18.57 | $4,447,466 | $6,671,198 | $2,223,733 | $0 | $0 |
| East Greenwich | $14.00 | $14.00 | $14.00 | $21.00 | $5,295,913 | $7,943,870 | $2,647,957 | $0 | $0 |
| East Providence | $14.91 | $12.25 | $19.01 | $18.37 | $22,748,788 | $21,986,207 | ($762,581) | ($762,581) | ($76,258) |
| Exeter | $12.33 | $12.33 | $12.33 | $18.50 | $965,793 | $1,448,689 | $482,896 | $0 | $0 |
| Foster | $13.52 | $13.52 | $13.52 | $20.28 | $865,586 | $1,298,378 | $432,793 | $0 | $0 |
| Glocester | $17.03 | $17.03 | $19.37 | $25.55 | $1,260,807 | $1,662,742 | $401,935 | $0 | $0 |
| Hopkinton | $14.50 | $14.50 | $14.50 | $21.75 | $1,184,823 | $1,777,234 | $592,411 | $0 | $0 |
| Jamestown | $8.11 | $8.11 | $8.11 | $12.17 | $546,534 | $819,800 | $273,267 | $0 | $0 |
| Johnston | $18.91 | $15.13 | $18.91 | $22.69 | $10,126,741 | $12,152,089 | $2,025,348 | $0 | $0 |
| Lincoln | $16.88 | $10.97 | $21.12 | $16.46 | $14,305,168 | $11,147,465 | ($3,157,703) | ($3,157,703) | ($315,770) |
| Little Compton | $4.62 | $4.62 | $4.62 | $6.93 | $233,300 | $349,950 | $116,650 | $0 | $0 |
| Middletown | $11.38 | $11.38 | $15.14 | $17.07 | $9,740,057 | $10,981,689 | $1,241,632 | $0 | $0 |
| Narragansett | $7.25 | $7.25 | $10.87 | $10.88 | $3,075,835 | $3,077,250 | $1,415 | $0 | $0 |
| New Shoreham | $3.30 | $3.30 | $3.30 | $4.95 | $604,721 | $907,082 | $302,361 | $0 | $0 |
| Newport | $8.67 | $8.67 | $12.93 | $13.01 | $15,540,892 | $15,631,036 | $90,144 | $0 | $0 |
| North Kingstown | $13.83 | $13.83 | $13.83 | $20.75 | $7,562,288 | $11,343,432 | $3,781,144 | $0 | $0 |
| North Providence | $16.75 | $13.40 | $22.70 | $20.10 | $10,288,383 | $9,109,978 | ($1,178,405) | ($1,178,405) | ($117,841) |
| North Smithfield | $13.24 | $13.24 | $16.72 | $19.86 | $3,544,559 | $4,210,224 | $665,665 | $0 | $0 |
| Pawtucket | $12.39 | $12.39 | $20.88 | $18.59 | $21,647,111 | $19,267,795 | ($2,379,316) | ($2,379,316) | ($237,932) |
| Portsmouth | $10.84 | $10.84 | $10.84 | $16.26 | $3,392,459 | $5,088,689 | $1,696,230 | $0 | $0 |
| Providence | $23.70 | $11.85 | $28.00 | $17.78 | $109,850,947 | $69,735,735 | ($40,115,212) | ($40,115,212) | ($4,011,521) |
| Richmond | $14.31 | $14.31 | $14.31 | $21.47 | $1,125,047 | $1,687,570 | $562,523 | $0 | $0 |
| Scituate | $22.40 | $22.40 | $30.23 | $33.60 | $6,445,712 | $7,164,271 | $718,559 | $0 | $0 |
| Smithfield | $13.68 | $13.68 | $13.68 | $20.52 | $8,661,278 | $12,991,917 | $4,330,639 | $0 | $0 |
| South Kingstown | $11.97 | $11.97 | $11.97 | $17.96 | $6,460,164 | $9,690,247 | $3,230,082 | $0 | $0 |
| Tiverton | $11.26 | $11.26 | $11.26 | $16.89 | $2,181,018 | $3,271,527 | $1,090,509 | $0 | $0 |
| Warren | $13.10 | $13.10 | $13.10 | $19.65 | $2,927,764 | $4,391,646 | $1,463,882 | $0 | $0 |
| Warwick | $13.41 | $13.41 | $20.12 | $20.12 | $64,148,518 | $64,132,576 | ($15,941) | ($15,941) | ($1,594) |
| Westerly | $8.87 | $8.87 | $8.87 | $13.31 | $6,071,800 | $9,107,700 | $3,035,900 | $0 | $0 |
| West Greenwich | $17.63 | $15.34 | $17.63 | $23.01 | $4,877,639 | $6,365,319 | $1,487,680 | $0 | $0 |
| West Warwick | $15.92 | $15.92 | $21.22 * | $23.88 | $10,884,451 | $12,247,438 | $1,362,987 | $0 | $0 |
| Woonsocket | $13.23 | $9.92 | $32.16 | $14.88 | $11,098,260 | $5,136,310 | ($5,961,950) | ($5,961,950) | ($596,195) |
| Total | | | | | $422,684,113 | $407,240,587 | ($15,443,525) | ($54,933,969) | ($5,493,397) |

* Blended Rate

Simulation Values and Rates as of 12/31/07 (FY 2009)

## *Standardized Motor Vehicle Tax Rate*

| Municipality | Motor Vehicle Rate | Standard (MA) Rate @ $25 | MV Net Assessed Value | Current Motor Vehicle Levy | Standardized Motor Vehicle Levy | Gain (Loss) From Standardized Levy | (Loss) Only From Standardized Levy | Ten Year Phase Down 10% |
|---|---|---|---|---|---|---|---|---|
| Barrington | $42.00 | $25.00 | $84,994,399 | $3,569,765 | $2,124,860 | ($1,444,905) | ($1,444,905) | ($144,490) |
| Bristol | $17.35 | $25.00 | $83,832,720 | $1,454,498 | $2,095,818 | $641,320 | $0 | $0 |
| Burrillville | $40.00 | $25.00 | $58,140,041 | $2,325,602 | $1,453,501 | ($872,101) | ($872,101) | ($87,210) |
| Central Falls | $48.65 | $25.00 | $15,615,048 | $759,672 | $390,376 | ($369,296) | ($369,296) | ($36,930) |
| Charlestown | $13.08 | $25.00 | $38,318,030 | $501,200 | $957,951 | $456,751 | $0 | $0 |
| Coventry | $18.75 | $25.00 | $147,009,605 | $2,756,430 | $3,675,240 | $918,810 | $0 | $0 |
| Cranston | $42.44 | $25.00 | $275,835,337 | $11,706,452 | $6,895,883 | ($4,810,568) | ($4,810,568) | ($481,057) |
| Cumberland | $19.87 | $25.00 | $152,873,530 | $3,037,597 | $3,821,838 | $784,241 | $0 | $0 |
| East Greenwich | $22.88 | $25.00 | $89,514,879 | $2,048,100 | $2,237,872 | $189,772 | $0 | $0 |
| East Providence | $37.10 | $25.00 | $139,356,048 | $5,170,109 | $3,483,901 | ($1,686,208) | ($1,686,208) | ($168,621) |
| Exeter | $32.59 | $25.00 | $31,667,549 | $1,032,045 | $791,689 | ($240,357) | ($240,357) | ($24,036) |
| Foster | $36.95 | $25.00 | $21,397,738 | $790,646 | $534,943 | ($255,703) | ($255,703) | ($25,570) |
| Glocester | $24.37 | $25.00 | $44,719,995 | $1,089,826 | $1,118,000 | $28,174 | $0 | $0 |
| Hopkinton | $21.18 | $25.00 | $35,536,550 | $752,664 | $888,414 | $135,750 | $0 | $0 |
| Jamestown | $14.42 | $25.00 | $35,861,695 | $517,126 | $896,542 | $379,417 | $0 | $0 |
| Johnston | $41.46 | $25.00 | $122,806,470 | $5,091,556 | $3,070,162 | ($2,021,394) | ($2,021,394) | ($202,139) |
| Lincoln | $30.66 | $25.00 | $102,576,342 | $3,144,991 | $2,564,409 | ($580,582) | ($580,582) | ($58,058) |
| Little Compton | $13.90 | $25.00 | $21,609,493 | $300,372 | $540,237 | $239,865 | $0 | $0 |
| Middletown | $16.05 | $25.00 | $70,779,700 | $1,136,014 | $1,769,493 | $633,478 | $0 | $0 |
| Narragansett | $16.46 | $25.00 | $87,976,788 | $1,448,098 | $2,199,420 | $751,322 | $0 | $0 |
| New Shoreham | $9.75 | $25.00 | $8,580,698 | $83,662 | $214,517 | $130,856 | $0 | $0 |
| Newport | $23.45 | $25.00 | $81,521,483 | $1,911,679 | $2,038,037 | $126,358 | $0 | $0 |
| North Kingstown | $22.04 | $25.00 | $140,397,300 | $3,094,356 | $3,509,933 | $415,576 | $0 | $0 |
| North Providence | $41.95 | $25.00 | $110,073,147 | $4,617,569 | $2,751,829 | ($1,865,740) | ($1,865,740) | ($186,574) |
| North Smithfield | $37.62 | $25.00 | $57,315,032 | $2,156,192 | $1,432,876 | ($723,316) | ($723,316) | ($72,332) |
| Pawtucket | $53.30 | $25.00 | $128,731,440 | $6,861,386 | $3,218,286 | ($3,643,100) | ($3,643,100) | ($364,310) |
| Portsmouth | $22.50 | $25.00 | $57,517,007 | $1,294,133 | $1,437,925 | $143,793 | $0 | $0 |
| Providence | $76.78 | $25.00 | $251,384,363 | $19,301,291 | $6,284,609 | ($13,016,682) | ($13,016,682) | ($1,301,668) |
| Richmond | $22.64 | $25.00 | $29,587,483 | $669,861 | $739,687 | $69,826 | $0 | $0 |
| Scituate | $30.20 | $25.00 | $53,075,722 | $1,602,887 | $1,326,893 | ($275,994) | ($275,994) | ($27,599) |
| Smithfield | $39.00 | $25.00 | $97,594,426 | $3,806,183 | $2,439,861 | ($1,366,322) | ($1,366,322) | ($136,632) |
| South Kingstown | $18.71 | $25.00 | $122,061,342 | $2,283,768 | $3,051,534 | $767,766 | $0 | $0 |
| Tiverton | $19.14 | $25.00 | $67,555,131 | $1,293,005 | $1,688,878 | $395,873 | $0 | $0 |
| Warren | $26.00 | $25.00 | $38,665,627 | $1,005,306 | $966,641 | ($38,666) | ($38,666) | ($3,867) |
| Warwick | $34.60 | $25.00 | $404,853,505 | $14,007,931 | $10,121,338 | ($3,886,594) | ($3,886,594) | ($388,659) |
| Westerly | $19.02 | $25.00 | $94,676,351 | $1,800,744 | $2,366,909 | $566,165 | $0 | $0 |
| West Greenwich | $28.47 | $25.00 | $32,928,695 | $937,480 | $823,217 | ($114,263) | ($114,263) | ($11,426) |
| West Warwick | $29.67 | $25.00 | $97,765,256 | $2,900,695 | $2,444,131 | ($456,564) | ($456,564) | ($45,656) |
| Woonsocket | $46.58 | $25.00 | $86,001,858 | $4,005,967 | $2,150,046 | ($1,855,920) | ($1,855,920) | ($185,592) |
| Total | | | $3,620,707,823 | $122,266,857 | $90,517,696 | ($31,749,161) | ($39,524,273) | ($3,952,427) |

Simulation Values and Rates as of 12/31/07 (FY 2009)

## *2% Cap on Personal Exemptions*

| Municipality | Elderly | Veterans | Misc | Tangible | Freeze | Motor Vehicle | Total Exemptions | Tax Levy | % of Levy Exempt | Over at 2% | Ten Year Phase Down 10% |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Barrington | $442,759 | $185,538 | $12,803 | $0 | $0 | $4,620 | $645,720 | $49,602,859 | 1.30% | $0 | $0 |
| Bristol | $242,576 | $153,418 | $3,777 | $79 | $40,150 | $36,574 | $476,574 | $33,426,742 | 1.43% | $0 | $0 |
| Burrillville | $311,584 | $184,291 | $60,151 | $0 | $0 | $31,760 | $587,786 | $21,011,173 | 2.80% | $167,563 | $16,756 |
| Central Falls | $21,027 | $15,230 | $1,423 | $0 | $0 | $25,979 | $63,659 | $10,495,379 | 0.61% | $0 | $0 |
| Charlestown | $114,445 | $96,767 | $36,316 | $0 | $0 | $7,194 | $254,722 | $19,708,925 | 1.29% | $0 | $0 |
| Coventry | $30,518 | $125,442 | $8,534 | $20,979 | $2,361,629 | $2,063 | $2,549,165 | $59,106,865 | 4.31% | $1,367,028 | $136,703 |
| Cranston | $2,722,896 | $669,944 | $321,036 | $34,837 | $299,056 | $127,755 | $4,175,524 | $153,150,874 | 2.73% | $1,112,507 | $111,251 |
| Cumberland | $944,792 | $541,315 | $166,610 | $359 | $0 | $30,660 | $1,683,736 | $50,571,523 | 3.33% | $672,306 | $67,231 |
| East Greenwich | $755,762 | $60,704 | $61,363 | $10,329 | $0 | $161,007 | $1,049,165 | $39,575,719 | 2.65% | $257,651 | $25,765 |
| East Providence | $1,610,191 | $335,922 | $36,410 | $0 | $0 | $23,855 | $2,006,378 | $82,082,302 | 2.44% | $364,732 | $36,473 |
| Exeter | $77,790 | $20,036 | $32,539 | $0 | $15,701 | $8,669 | $154,735 | $11,672,748 | 1.33% | $0 | $0 |
| Foster | $162 | $1,879 | $108 | $0 | $381,222 | $961 | $384,332 | $9,879,531 | 3.89% | $186,741 | $18,674 |
| Glocester | $1,167,509 | $146,713 | $165,140 | $0 | $0 | $12,721 | $1,492,083 | $19,541,335 | 7.64% | $1,101,256 | $110,126 |
| Hopkinton | $144,826 | $41,180 | $13,471 | $0 | $0 | $7,265 | $206,742 | $15,651,281 | 1.32% | $0 | $0 |
| Jamestown | $27,444 | $14,273 | $45,611 | $0 | $0 | $6,778 | $94,106 | $17,562,745 | 0.54% | $0 | $0 |
| Johnston | $1,594,586 | $164,460 | $31,428 | $0 | $0 | $36,734 | $1,827,208 | $61,791,238 | 2.96% | $591,383 | $59,138 |
| Lincoln | $758,503 | $195,959 | $99,727 | $0 | $0 | $66,440 | $1,120,629 | $49,267,068 | 2.27% | $135,288 | $13,529 |
| Little Compton | $22,846 | $21,289 | $333 | $0 | $0 | $598 | $45,066 | $9,425,477 | 0.48% | $0 | $0 |
| Middletown | $364,831 | $310,583 | $13,224 | $44,814 | $0 | $24,861 | $758,313 | $38,485,602 | 1.97% | $0 | $0 |
| Narragansett | $217,948 | $53,773 | $827 | $0 | $0 | $2,436 | $274,984 | $40,209,538 | 0.68% | $0 | $0 |
| Newport | $95,734 | $191,061 | $189,916 | $98 | $0 | $38,153 | $514,962 | $58,945,707 | 0.87% | $0 | $0 |
| New Shoreham | $1,799 | $92,139 | $0 | $0 | $0 | $1,580 | $95,518 | $6,932,888 | 1.38% | $0 | $0 |
| North Kingstown | $650,522 | $265,107 | $33,482 | $5,283 | $0 | $28,542 | $982,936 | $62,565,154 | 1.57% | $0 | $0 |
| North Providence | $381,800 | $146,830 | $11,290 | $584 | $0 | $65,274 | $605,778 | $53,303,326 | 1.14% | $0 | $0 |
| North Smithfield | $332,721 | $29,035 | $34,014 | $0 | $7,747 | $3,536 | $407,053 | $24,190,128 | 1.68% | $0 | $0 |
| Pawtucket | $1,726,423 | $370,201 | $332,746 | $0 | $0 | $68,277 | $2,497,647 | $81,691,527 | 3.06% | $863,816 | $86,382 |
| Portsmouth | $318,273 | $313,449 | $872,251 | $16 | $0 | $4,253 | $1,508,242 | $40,361,114 | 3.74% | $701,020 | $70,102 |
| Providence | $2,010,234 | $360,193 | $118,595 | $0 | $0 | $41,231 | $2,530,253 | $287,279,179 | 0.88% | $0 | $0 |
| Richmond | $134,915 | $34,344 | $32,283 | $0 | $0 | $1,653 | $203,195 | $13,852,385 | 1.47% | $0 | $0 |
| Scituate | $851 | $5,598 | $4,232 | $0 | $948,150 | $3,201 | $962,032 | $23,459,585 | 4.10% | $492,840 | $49,284 |
| Smithfield | $4,460 | $24,092 | $16,829 | $0 | $1,243,991 | $27,495 | $1,316,867 | $44,064,150 | 2.99% | $435,584 | $43,558 |
| South Kingstown | $333,724 | $131,849 | $8,942 | $11,562 | $0 | $10,843 | $496,920 | $63,726,992 | 0.78% | $0 | $0 |
| Tiverton | $113,861 | $209,796 | $21,067 | $0 | $0 | $17,322 | $362,046 | $31,230,364 | 1.16% | $0 | $0 |
| Warren | $368,621 | $91,215 | $25,558 | $0 | $0 | $16,250 | $501,644 | $19,508,191 | 2.57% | $111,480 | $11,148 |
| Warwick | $733,259 | $126,362 | $22,207 | $311 | $388,379 | $474,359 | $1,744,877 | $195,989,706 | 0.89% | $0 | $0 |
| Westerly | $405,483 | $449,053 | $6,688 | $0 | $0 | $63,494 | $924,718 | $58,931,923 | 1.57% | $0 | $0 |
| West Greenwich | $0 | $7,546 | $846 | $0 | $291,439 | $1,864 | $301,695 | $16,092,264 | 1.87% | $0 | $0 |
| West Warwick | $318,591 | $243,146 | $15,602 | $0 | $115,216 | $8,171 | $700,726 | $49,395,486 | 1.42% | $0 | $0 |
| Woonsocket | $4,445 | $81,960 | $14,685 | $0 | $0 | $60,461 | $161,551 | $42,128,184 | 0.38% | $0 | $0 |
| Total | $19,508,711 | $6,511,692 | $2,872,064 | $129,251 | $6,092,680 | $1,554,889 | $36,669,287 | $1,965,867,177 | 1.87% | $8,561,195 | $856,120 |

Simulation Values and Rates as of 12/31/07 (FY 2009)

## *Summary of Tax Rate and Exemption Changes*

| Municipality | Commercial Change | Tangible Change | Motor Vehicle Change | Limit Exemptions | **Total Change** | Base Tax Levy | % of Base Levy |
|---|---|---|---|---|---|---|---|
| Barrington | $ - | $ - | $ (1,444,905) | $ - | **$ (1,444,905)** | $ 49,602,859 | -2.9% |
| Bristol | $ - | $ - | $ - | $ - | **$ -** | $ 33,426,742 | 0.0% |
| Burrillville | $ - | $ - | $ (872,101) | $ 167,563 | **$ (704,538)** | $ 21,011,173 | -3.4% |
| Central Falls | $ (1,362,860) | $ (570,239) | $ (369,296) | $ - | **$ (2,302,394)** | $ 10,495,379 | -21.9% |
| Charlestown | $ - | $ - | $ - | $ - | **$ -** | $ 19,708,925 | 0.0% |
| Coventry | $ - | $ - | $ - | $ 1,367,028 | **$ 1,367,028** | $ 59,106,865 | 2.3% |
| Cranston | $ - | $ - | $ (4,810,568) | $ 1,112,507 | **$ (3,698,061)** | $ 153,150,874 | -2.4% |
| Cumberland | $ - | $ - | $ - | $ 672,306 | **$ 672,306** | $ 50,571,523 | 1.3% |
| East Greenwich | $ - | $ - | $ - | $ 257,651 | **$ 257,651** | $ 39,575,719 | 0.7% |
| East Providence | $ (762,581) | $ (4,342,380) | $ (1,686,208) | $ 364,732 | **$ (6,426,437)** | $ 82,082,302 | -7.8% |
| Exeter | $ - | $ - | $ (240,357) | $ - | **$ (240,357)** | $ 11,672,748 | -2.1% |
| Foster | $ - | $ - | $ (255,703) | $ 186,741 | **$ (68,962)** | $ 9,879,531 | -0.7% |
| Glocester | $ - | $ - | $ - | $ 1,101,256 | **$ 1,101,256** | $ 19,541,335 | 5.6% |
| Hopkinton | $ - | $ - | $ - | $ - | **$ -** | $ 15,651,281 | 0.0% |
| Jamestown | $ - | $ - | $ - | $ - | **$ -** | $ 17,562,745 | 0.0% |
| Johnston | $ - | $ (2,466,412) | $ (2,021,394) | $ 591,383 | **$ (3,896,424)** | $ 61,791,238 | -6.3% |
| Lincoln | $ (3,157,703) | $ (1,195,011) | $ (580,582) | $ 135,288 | **$ (4,798,009)** | $ 49,267,068 | -9.7% |
| Little Compton | $ - | $ - | $ - | $ - | **$ -** | $ 9,425,477 | 0.0% |
| Middletown | $ - | $ - | $ - | $ - | **$ -** | $ 38,485,602 | 0.0% |
| Narragansett | $ - | $ - | $ - | $ - | **$ -** | $ 40,209,538 | 0.0% |
| New Shoreham | $ - | $ - | $ - | $ - | **$ -** | $ 6,932,888 | 0.0% |
| Newport | $ - | $ - | $ - | $ - | **$ -** | $ 58,945,707 | 0.0% |
| North Kingstown | $ - | $ - | $ - | $ - | **$ -** | $ 62,565,154 | 0.0% |
| North Providence | $ (1,178,405) | $ (2,165,713) | $ (1,865,740) | $ - | **$ (5,209,858)** | $ 53,303,326 | -9.8% |
| North Smithfield | $ - | $ (724,076) | $ (723,316) | $ - | **$ (1,447,392)** | $ 24,190,128 | -6.0% |
| Pawtucket | $ (2,379,316) | $ (3,137,515) | $ (3,643,100) | $ 863,816 | **$ (8,296,115)** | $ 81,691,527 | -10.2% |
| Portsmouth | $ - | $ - | $ - | $ 701,020 | **$ 701,020** | $ 40,361,114 | 1.7% |
| Providence | $ (40,115,212) | $ (17,441,320) | $ (13,016,682) | $ - | **$ (70,573,214)** | $ 287,279,179 | -24.6% |
| Richmond | $ - | $ - | $ - | $ - | **$ -** | $ 13,852,385 | 0.0% |
| Scituate | $ - | $ - | $ (275,994) | $ 492,840 | **$ 216,846** | $ 23,459,585 | 0.9% |
| Smithfield | $ - | $ (1,953,961) | $ (1,366,322) | $ 435,584 | **$ (2,884,699)** | $ 44,064,150 | -6.5% |
| South Kingstown | $ - | $ - | $ - | $ - | **$ -** | $ 63,726,992 | 0.0% |
| Tiverton | $ - | $ - | $ - | $ - | **$ -** | $ 31,230,364 | 0.0% |
| Warren | $ - | $ - | $ (38,666) | $ 111,480 | **$ 72,814** | $ 19,508,191 | 0.4% |
| Warwick | $ (15,941) | $ - | $ (3,886,594) | $ - | **$ (3,902,535)** | $ 195,989,706 | -2.0% |
| Westerly | $ - | $ - | $ - | $ - | **$ -** | $ 58,931,923 | 0.0% |
| West Greenwich | $ - | $ - | $ (114,263) | $ - | **$ (114,263)** | $ 16,092,264 | -0.7% |
| West Warwick | $ - | $ - | $ (456,564) | $ - | **$ (456,564)** | $ 49,395,486 | -0.9% |
| Woonsocket | $ (5,961,950) | $ (2,261,905) | $ (1,855,920) | $ - | **$ (10,079,775)** | $ 42,128,184 | -23.9% |
| Total | $ (54,933,969) | $ (36,258,533) | $ (39,524,273) | $ 8,561,195 | **$ (122,155,580)** | $ 1,965,867,177 | -6.2% |

Simulation Values and Rates as of 12/31/07 (FY 2009)

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