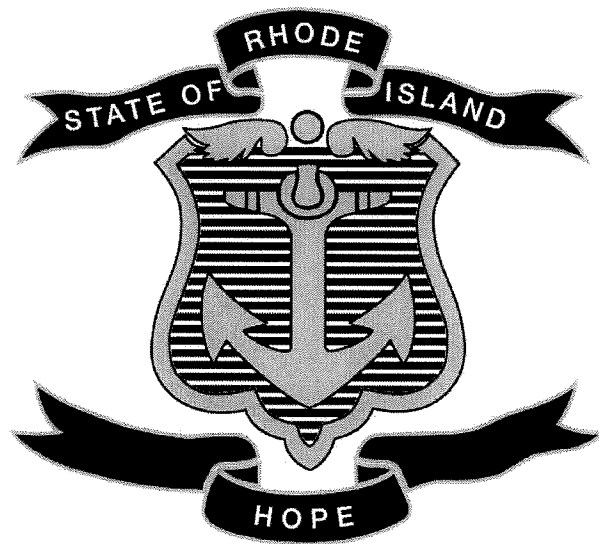


STATE OF RHODE ISLAND

Department of Administration
Division of Taxation



TAX EXPENDITURES REPORT

January, 2003

2003

TAX EXPENDITURES REPORT

Introduction and Summary

Overview:

This portion of the addenda to the Tax Expenditures Report for 2003 gives a capsule version of the comparative information for the five other New England states. Information and statistics presented here are in summary form only and the reader is invited to review items of interest in their fullest form in the other sections of this report.

The Charge:

In accordance with Title 44, Chapter 48 of the Rhode Island General Laws [as amended] the Tax Administrator has the responsibility of preparing an annual tax expenditure report. The first report was issued in January 1997.

As mandated, this report contains the analyses of 43 tax preference items – 20% of the list of tax preference items as of December 31, 2002. Also included is a list of the next 42 items chosen for analysis in the report to be issued in 2004.

Prepared By:

At the request of R. Gary Clark, Tax Administrator, this report was prepared Cecilia C. Tavares, Revenue Analyst – Research.

Report Basics:

As directed in the charge, a “tax expenditure” is a tax credit, deduction, exemption, exclusion, modification, preferential tax rate, tax abatement, and tax deferral that provides preferential treatment to selected taxpayers, whether directly through Rhode Island General Laws or Constitutional provisions or indirectly through the adoption of other tax codes.

For ease of reference, where the tax preference item chosen applies to only one tax, it is presented with that tax. Tax preference items which apply to several taxes,

are grouped together in the section of the report entitled “Other Taxes and Miscellaneous Tax Preference Items”.

In order to present this report on a timely basis with the personnel and resources available, completion of the amounts of revenues foregone and number of taxpayers for each preference item were given the highest priority.

The other items required under 44-48.1-1 R.I.G.L. [as amended] are as follows:

“(3) to the extent allowable by law, identification of the beneficiaries of the exemption.

(4) a comparison of the tax expenditure to the tax system of the other New England states, with emphasis on Massachusetts and Connecticut.

(5) determination of the beneficiary’s state tax burden.

(6) to the extent allowable by law, identification of similar taxpayers or industries that do not enjoy the exemption.”

Under current law, the report can not specifically identify the beneficiaries of the preference items; however, where possible, numbers and classes of beneficiaries for the preference items are presented.

Similarly, to identify those specific taxpayers which are *not* beneficiaries of the preference item would, in many cases, identify those taxpayers which *were* to an extent not allowable by law.

Without identifying individual beneficiaries, it is virtually impossible to present each beneficiary’s state burden. The process is further complicated by businesses or individuals that have a number of available preference items. In taxes such as the Sales tax, the preference would reduce the burden to all consumers but the effect on each consumer would vary widely depending on income or circumstances. This request does not appear possible under current law and with the current resources.

The analyses performed on the 43 tax preference items chosen for this report include the following: (1) a legal citation to the Rhode Island General Laws [as amended]; (2) an estimate of the reliability of the revenues foregone for the preference item; (3) a description of the tax preference item; (4) the source of the information about the revenues foregone; (5) the dollar amount of revenues foregone presented rounded to the nearest thousand [\$,000]; (6) the number of taxpayers claiming the preference item; and (7) a capsule version of the comparative information for the 5 other New England states.

Report Structure:

This summary is 1 of the 6 major parts into which the report is divided. The other 5 are; the Personal Income Tax section; the Sales and Use Tax section; the

Business Corporation Tax section; the Other Taxes and Miscellaneous Tax Preference Items section; and the listing of tax preference items chosen for analysis in the 2004 report.

Results Summary and Reliability Estimate:

The results of the analysis of the 43 items in this year's report are that the revenues foregone total more than \$171.3 million with an average reliability of 3.63 where 1 is the most reliable and ending with 5 for preference items for which no reliable data exists. Items listed as N/A for reliability were not included in the average. The totals for each major section of this report rounded to the nearest thousand are:

Personal Income Tax	10 items	\$ 85,776,000.
Sales and Use Tax	14 items	85,172,300.
Business Corporation Tax	6 items	0.
Miscellaneous Taxes	10 items	414,600.
Other Preference Items	3 items	7,000.
GRAND TOTAL ALL ITEMS	43 Items	\$ 171,369,900.

The tables following give the additional details.

**STATE OF RHODE ISLAND
DIVISION OF TAXATION
2003 TAX EXPENDITURES REPORT
RESULTS SUMMARY BY TAX**

Tax and Preference Item Selected	\$	Reliability
<u>Personal Income</u>		
1. Artists' modifications	0.	4
7. Credit for artwork exhibition	0.	2
8. Modification for family education accounts	0.	5
24. Federal adjustment – alimony paid	1,200,000.	3
25. Federal deduction – standard	56,400,000.	2
28. Federal deduction – child/dependent care	2,300,000.	2
29. Federal credit – elderly or disabled	28,000.	2
30. Federal credit – foreign taxes	3,600,000.	2
31. Federal credit – general business	548,000.	2
32. Federal credit – earned income	21,700,000.	1
 TOTAL THIS TAX = 10 items	 <u>\$ 85,776,000.</u>	

Sales and Use

13. Demonstration boats	\$ 0.	N/A
16. School meals	58,000.	3
24. Prosthetic and orthopedic appliances	0.	5
25. Motor vehicles to nonresidents	6,000,000.	3
30. Nursing homes/hospitals rental charges	79,000,000.	3
32. Motor vehicles and adaptive equipment for persons with disabilities	89,300.	2
42. Boats to nonresidents	0.	N/A
46. Flags	0.	5
47. Amputee veterans' motor vehicle/equipment	15,000.	2
53. Trade-in on boats	0.	N/A
55. Coins	0.	5
59. Tangible personalty for jewelry display	0.	5
61. Investment companies' toll free calls	0.	5
67. Sales by artists	10,000.	4
 TOTAL THIS TAX = 14 items	 <u>\$ 85,172,300.</u>	

Business Corporations

13. Treatment as a DISC	\$ 0.	5
14. Treatment as a FSC	0.	5
17. Exclusion – dividends of banks	0.	5
18. Exclusion – dividends of corporations	0.	5
19. Exclusion – interest from utilities	0.	5
22. Allocation/apportionment of brokerage services	0.	5
 TOTAL THIS TAX = 6 items	 <u>\$ 0.</u>	

Miscellaneous Preference Items

Alcoholic Beverages

3. Rhode Island manufacturer ships out of state	0.	5
TOTAL THS TAX = 1 ITEM	<u>\$ 0.</u>	

**STATE OF RHODE ISLAND
DIVISION OF TAXATION
2003 TAX EXPENDITURES REPORT
RESULTS SUMMARY BY TAX**

Tax and Preference Item Selected	\$	Reliability
<u>Bank Excise Tax</u>		
1. Securities loss write-down	0.	5
TOTAL THIS TAX = 1 ITEMS	\$ <u>0.</u>	
<u>Beverage Container Tax</u>		
1. Constitutional Exemption	0.	5
TOTAL THIS TAX = 1 ITEM	\$ <u>0.</u>	
<u>Cigarette Tax</u>		
1. 10 packs of out of state cigarettes	0.	5
TOTAL THIS TAX = 1 ITEMS	\$ <u>0.</u>	
<u>Franchise Tax</u>		
1. Corporations specifically exempted	0.	5
TOTAL THIS TAX = 1 ITEM	\$ <u>0.</u>	
<u>Gasoline</u>		
3. Sales to US Government	134,300.	2
TOTAL THIS TAX = 1 ITEM	\$ <u>134,300.</u>	
<u>Litter Fee</u>		
1. New business Class A permit	0.	5
TOTAL THIS TAX = 2 ITEMS	\$ <u>0.</u>	
<u>Motor Carrier Fuel Use</u>		
1. Refunds of taxes paid to Rhode Island	280,300.	2
TOTAL THIS TAX = 1 ITEM	\$ <u>280,300.</u>	
<u>Public Utilities</u>		
1. Narragansett Pier Railroad	0.	1
6. Merchandise sold	0.	4
TOTAL THIS TAX = 2 ITEMS	\$ <u>0.</u>	
TOTAL MISCELLANEOUS TAXES = 9 ITEMS	\$ <u>414,600.</u>	

Other preference items for more than one tax

5. Apprenticeship Credit	1,400.	2
6. Hydroelectric Power Credit	0.	5
14. Adult Education Credit	5,600.	2
TOTAL ALL OTHER TAX ITEMS = 3 ITEMS	\$ <u>7,000.</u>	

GRAND TOTAL ALL ITEMS FOR 2002 43 ITEMS \$ 171,369,900.

STATE OF RHODE ISLAND
Division of Taxation
January 2003

TAX EXPENDITURES COMPARISON

Comparison Of Other New England States

For the purposes of this chart, "S" stands for an exemption of the same topic. However, the exemption may be quite different and the reader is invited to review the comparisons in detail. "X" stands for no similar provisions found. The designations are of a general nature, and applicable cites in the full text are included for reference purposes.

	<u>CT</u>	<u>MA</u>	<u>ME</u>	<u>NH</u>	<u>VT</u>
<u>PERSONAL INCOME</u>					
1. Artists' Modifications.....	X	X	X	X	X
7. Credit for artwork exhibition.....	X	X	X	X	X
8. Modification for family education accounts.....	X	X	X	X	X
24. Federal adjustment-alimony paid.....	S	S	S	X	S
25. Federal deduction-standard.....	X	X	S	X	S
28. Federal credit-child/dependent care.....	X	X	S	X	S
29. Federal credit-elderly or disabled.....	X	S	X	X	S
30. Federal credit-foreign taxes.....	X	X	X	X	X
31. Federal credit-general business.....	X	X	X	X	X
32. Federal credit-earned income.....	X	S	X	X	S
<u>SALES AND USE</u>					
13. Demonstration boats.....	X	X	X	X	X
16. School Meals.....	S	S	S	X	S
24. Prosthetic and orthopedic appliances.....	S	S	S	X	S

Division of Taxation
January 2003

TAX EXPENDITURES COMPARISON

Comparison Of Other New England States

<u>SALES AND USE CONTINUED</u>	<u>CT</u>	<u>MA</u>	<u>ME</u>	<u>NH</u>	<u>VT</u>
25. Motor vehicles to nonresidents.....	S	S	S	X	X
30. Nursing homes/hospitals rental charges.....	S	X	S	X	X
32. Motor vehicles and adaptive equipment for persons with disabilities.....	S	S	X	X	S
42. Boats to nonresidents.....	X	S	S	X	X
46. Flags.....	S	S	X	X	S
47. Amputee veterans' motor vehicle/equipment.....	S	S	S	X	X
53. Trade-in on boats.....	X	S	S	X	X
55. Coins.....	S	S	X	X	X
59. Tangible personalty for jewelry display.....	X	X	X	X	X
61. Investment companies toll-free calls.....	X	X	X	X	X
67. Sales by artists.....	X	X	X	X	X
 <u>BUSINESS CORPORATION</u>					
13. Treatment as DISC.....	S	S	X	S	X
14. Treatment as FISC.....	X	X	X	X	X
17. Exclusion-dividends of banks.....	X	X	X	X	X
18. Exclusion-dividends of corps.....	X	X	X	S	X
19. Exclusion-interest from utilities.....	X	X	X	X	X
22. Allocation/apportionment of brokerage services.....	S	X	X	X	X

STATE OF RHODE ISLAND
 Division of Taxation
 January 2003

TAX EXPENDITURES COMPARISON

Comparison of Other New England States

	<u>CT</u>	<u>MA</u>	<u>ME</u>	<u>NH</u>	<u>VT</u>
<u>MISCELLANEOUS TAX PREFERENCE ITEMS</u>					
<u>Alcoholic Beverages</u>					
3. RI manufacturer ships out of state.....	X	X	X	X	X
<u>Bank Excise Tax</u>					
3. Securities loss write down.....	X	X	X	X	X
<u>Beverage Containers</u>					
1. Constitutional exemption.....	X	X	X	X	X
<u>Cigarette Tax</u>					
1. 10 packs out of state cigarettes.....	X	X	S	X	X
<u>Franchise Tax</u>					
2. Corporations specifically exempted.....	X	X	X	X	X
<u>Gasoline Tax</u>					
3. Sales to US Government.....	S	S	S	S	S
<u>Litter Fee</u>					
1. New business Class A permit.....	X	X	X	X	X

STATE OF RHODE ISLAND
 Division of Taxation
 January 2003

TAX EXPENDITURES COMPARISON

Comparison of Other New England States

	CT	MA	ME	NH	VT
<u>Motor Carrier Fuel Use</u>					
1. Refunds of taxes paid to RI.....	S	S	S	S	S
<u>Public Utilities</u>					
1. Narragansett Pier RR.....	X	X	X	X	X
6. Merchandise sold.....	S	X	X	X	X
 <u>Other preference items for more than one tax</u>					
5. Apprenticeship Credits.....	S	X	X	X	X
6. Hydroelectric Power credit.....	X	X	X	X	X
14. Adult Education Credit.....	X	X	X	X	X

TOTAL SELECTED FOR 2003 = 43

2003

TAX EXPENDITURES REPORT

**PERSONAL INCOME TAX
TITLE 44, CHAPTER 30, R.I.G.L. AS AMENDED**

SUMMARY

The Personal Income Tax is one of the three largest revenue sources for the State of Rhode Island and has 17 direct tax preference items and 15 indirect tax preference items, 10 were chosen and included in this 2003 Tax Expenditures Report.

Comparisons for tax preference items available for personal income tax as well as for other taxes can be found in the part of this report entitled Other Taxes and Miscellaneous Tax Preference Items.

DESCRIPTION OF TAX

Who Is Subject to the Tax

A personal income tax is imposed for each taxable year (which is the same as the taxable year for federal income tax purposes) on the Rhode Island income of every individual, estate and trust. The Rhode Island tax based on federal taxable income subject to modification.

For the year 2000 the personal income tax was imposed on the Rhode Island income of every individual, estate and trust at 26% of the taxpayer's federal income tax liability. For 2001, the personal income tax rate was 25.5% of the taxpayer's federal income tax liability and for tax year 2002 the rate is 25%.

All the income of a Rhode Island resident is subject to tax, but for nonresidents only that income attributable to Rhode Island sources is subject to the tax.

TAX PREFERENCE ITEMS

I. INTRODUCTION:

The details of the Personal Income tax preference items included in this 2003 report are presented by showing: (1) a legal citation to the Rhode Island General Laws [as amended], (2) an estimate of reliability of the revenues foregone for the preference item, (3) a description of the tax preference item, (4) the source of the information about revenues foregone, (5) the amount of revenues foregone presented rounded to the nearest thousand, (6) the number of taxpayers claiming the tax preference, and (7) a capsule version of the comparative information for the five other New England states.

In cases where the tax's preference items come from other chapters and are also available to other taxes, reference is given to the separate part of this report dealing with Other Taxes and Miscellaneous Tax Preference items where each preference item is covered individually.

1. **Artists' Modifications:**

Cite: 44-30-1.1

Reliability estimate: 4

This tax preference item reduces the federal adjusted income for Rhode Island purposes for the profit or gain realized by a writer, composer or artist from the publication, production or sale of a "work" if the "work" was created while the artist was residing in a statutory defined economic development zone and the gain is received while the artist is a resident of that zone. For this report, the art economic development zones are located in the cities of Providence, Pawtucket and Westerly.

Source: The information for artists' modifications was derived from the personal income taxes filed within the Division during the 2002 for tax year 2001.

Revenues foregone: No modifications of this type were noted.

Number of Taxpayers: 0

Comparison: No similar provisions found in any other New England state.

7. **Credit for artwork exhibition:**

Cite: 44-30-24

Reliability estimate: 2

This credit against the Rhode Island tax for 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 presenting written certification from the Board of Curators (see Chapter 42-97, R.I.G.L.) and amounts of unused credits may not be carried forward.

Source: The information for artist's modifications were derived from the personal income taxes filed with the Division during 2002 for the tax year 2001.

Revenues foregone: No taxpayers claimed this preference item.

Number of Taxpayers: 0 No taxpayers claimed this preference item.

Comparison: No similar provisions found in any other New England state.

8. **Modification for family education accounts:**

Cite: 44-30-25

Reliability estimate: 5

Taxpayers who have set up family education accounts for their dependents treat the income from those accounts as a modification reducing their federal adjusted gross income for the purposes of calculating their Rhode Island tax. Recaptures resulting from nonqualified withdrawals from family education accounts are treated as modifications increasing federal adjusted gross income for both resident and nonresidents.

Source: The information for this modification was derived from the personal income taxes filed with the Division during 2002 for tax year 2001.

Revenues foregone: Revenue loss not reliably estimable.

Number of taxpayers: 0

Comparison: No similar provision found in any other New England state.

24. **Federal adjustment - alimony paid:**

Cite: Internal Revenue Code Section 215

Reliability estimate: 3

This tax preference item comes from the federal income tax basis of the Rhode Island filing. As such it comes from the federal determination of tax liability; more specifically, the preference item is allowed for alimony or separate maintenance paid. The deduction is found as part of the determination of the payor's federal adjusted gross income.

Source: State of Rhode Island Tax Model

Revenues foregone: \$1,200,000.

Number of taxpayers: Statistics not furnished by the Tax Model

Comparison:

Connecticut: Connecticut's income base provisions begin with federal adjusted gross income and, therefore, allow this item since it is part of the determination of the payor's federal gross income.

Connecticut Law Cite: Title 12, Chapter 229, Section 12-711(3)

Massachusetts: Massachusetts' provisions include a deduction from total 5.95% income for amounts paid to former spouses for alimony or separate maintenance under court order.

Massachusetts Law Cite: Chapter 62, Section 2

Maine: Maine's personal income tax base is the federal adjusted gross income as defined by federal law which, by application, allows a deduction for alimony paid.

Maine Law Cite: Title 36, Part 8, Section 5121

New Hampshire: No similar provision.

Vermont: Vermont's provisions include a similar deduction in the calculation of Vermont taxable income.

Vermont Law Cite: Title 32, Subtitle 2, Part 3, Chapter 151, Section 5888(A)

25. **Federal deduction - standard:**

Cite: Internal Revenue Code Section 63

Reliability estimate: 2

This tax preference item comes from the federal income tax basis of the Rhode Island filing. As such it comes from the federal determination of federal tax liability; more specifically, the preference item is allowed for a federally-determined minimum amount. The deduction is found as part of the determination of the taxpayer's federal taxable income.

Source: State of Rhode Island Tax Model

Revenues foregone: \$ 56,400,000.

Number of taxpayers: Statistics not furnished by the Tax Model

Comparison: Only Maine and Vermont have similar provisions.

Maine: Maine's provisions include a standard deduction for resident taxpayers which conforms to the taxpayer's allowable federal standard deduction.

Maine Law Cite: Title 36, Part 8, Section 5124-A

Vermont: Vermont's provisions come from the Vermont basis for tax [federal determination of tax liability]. Since the deduction is found as part of the determination

of the taxpayer's federal taxable income, it can be said that there is a comparable provision.

Vermont Law Cite: Title 32, Subtitle 2, Part 3, Chapter 151, Section 5823.

28. **Federal credit - child/dependent care:**

Cite: Internal Revenue Code Section 21

Reliability estimate: 2

This tax preference item comes from the federal income tax basis of the Rhode Island filing. As such it comes from the federal tax liability as one of the federal credits allowed for Rhode Island purposes. In general, a taxpayer can claim the **federal** credit of up to 30% of expenses if he/she pays someone to care for a dependent who is under age 13 or to care for a spouse or dependent who is unable to care for himself/herself. The expenses must be paid so that the taxpayer can work or look for work.

Source: *Statistics of Income Bulletin*, Spring 2001 Volume

Estimated using applied percentage of State and Federal tax liabilities.

Revenues foregone: \$ 2,300,000.

Number of taxpayers: 25,572

Comparison: Only Maine and Vermont have similar provisions.

Maine: Maine allows 25% of the Federal tax credit in the same tax year.

Maine Law Cite: Title 36, Part 8, Chapter 822, Section 5218(i)

Vermont: Vermont's provisions include allowing the amount of federal credit in the calculation of the federal tax liability which is the basis of the Vermont tax.

Vermont Law Cite: Title 32, Chapter 151, Subtitle 2 Part 3, Section 5811 (4).

29. **Federal credit-elderly or disabled:**

Cite: Internal Revenue Code Section 22

Reliability estimate: 2

This tax preference item comes from the federal income tax basis for the Rhode Island filing. As such it comes from the federal tax liability as one of the federal credits allowed for Rhode Island purposes. In general, a taxpayer can claim the **federal** credit of up to \$1,275 if he/she is a qualified individual and his/her income is within certain, federally-determined limits.

Source: *Statistics of Income Bulletin*, Spring 2001 Volume
Estimated using applied percentage of State and Federal tax liabilities.

Revenues foregone: \$28,000.

Number of Taxpayers: 746

Comparison: Only Massachusetts and Vermont have similar provisions.

Massachusetts: Massachusetts' provisions provide for the reduction of taxes of any federal credit allowable on the resident's federal income tax return.

Massachusetts Law Cite: Chapter 62, Section 6 (a)(ii)

Vermont: Vermont's provisions include allowing the amount of the federal credit in the calculation of the federal tax liability which is the basis of the Vermont tax.

Vermont Law Cite: Title 32, Chapter 151, Subtitle 2, Part 3, Chapter 151, Subchapter 2, Section 5828 b.

30. **Federal credit-foreign taxes:**

Cite: Internal Revenue Code Section 27

Reliability estimate: 2

This tax preference item comes from the federal income tax basis of the Rhode Island filing. As such it comes from the federal tax liability as one of the federal credits allowed for Rhode Island purposes. In general, a taxpayer can claim the **federal** credit for income taxes imposed on him/her by a foreign country for foreign income.

Sources: *Statistics on Income Bulletin*, Spring 2001 Volume
Estimated using applied percentage of State and Federal tax liabilities.

Revenues foregone: \$ 3,600,000.

Number of Taxpayers: 13,343

Comparison: No similar provisions found in any other New England state.

31. **Federal credit-general business:**

Cite: Internal Revenue Code Section 38

Reliability estimate: 2

This tax preference item comes from the federal income tax basis of the Rhode Island filing. As such it comes from the federal tax liability as one of the federal credits allowed for Rhode Island purposes. In general, the federal general business credit is a combination of other federal credits [investment credit, energy credit, targeted jobs credit, Trans-Alaska pipeline liability credit and others] and is limited to certain percentages of the federal tax liability.

Source: *Statistics of Income Bulletin*, Spring 2001 Volume
Estimated using applied percentage of State and Federal tax liabilities.

Revenues foregone: \$548,000.

Number of Taxpayers: 1093

Comparison: No similar provisions found in any other New England states.

32. **Federal credit-earned income:**

Cite: Internal Revenue Code Section 32

Reliability estimate: 1

This tax preference item comes from the federal income tax basis of the Rhode Island filing. As such it comes from the federal tax liability as one of the federal credits allowed for Rhode Island purposes. In general, a taxpayer can claim the **federal** credit if he/she is employed and meets certain rules including those having to do with children living in the home.

Source: *Statistics of Income Bulletin*, Spring 2001 Volume

Revenues foregone: \$21,700,000.

Number of Taxpayers: 58,233

Comparison: Only Massachusetts and Vermont have similar provisions.

Massachusetts: Massachusetts' provisions include a credit against the taxes imposed if the taxpayer qualified for and claimed the federal earned income credit.

Massachusetts Law Cite: Chapter 62, Section 6

Vermont: Vermont's provisions include a credit equal to that provided for federal purposes. In the event that the taxpayer's earnings come from periods of part-year residency, the credit is prorated.

Vermont Law Cite: Title 32, Subtitle 2, Chapter 151, Section 5828b

OTHER TAX PREFERENCE ITEMS

Other tax preference items available for this tax as well as for other taxes are covered in the part of this report entitled Other Taxes and Miscellaneous Tax Preference Items.

2003

T A X E X P E N D I T U R E S R E P O R T

SALES AND USE TAX

TITLE 44, CHAPTERS 18 AND 19, R.I.G.L. AS AMENDED

SUMMARY

The Sales and Use Tax is one of the three largest revenue sources for the State of Rhode Island, and currently has 77 tax preference items, 14 were chosen and included in this 2003 Tax Expenditures Report.

DESCRIPTION

The tax applies to retail sales of all tangible personalty and public utility services unless exempted. Any sale is a retail sale if the property sold is not to be resold in the regular course of business; thus, a manufacturer or wholesaler is making retail sales when he or she sells items which will be used, rather than resold, by the purchaser.

Imposition and Collection of the Sales Tax

The Sales tax is imposed on the retailer (seller) at 7% of the gross receipts from taxable sales and retailer collects from his or her customers the tax which he or she pays to the state.

Use Tax

Complementing the Sales tax, a Use tax is imposed at 7% on the storage, use or other consumption in this state of all tangible personalty (unless exempted), including a motor vehicle, airplane or trailer purchased from any retailer.

TAX PREFERENCE ITEMS

INTRODUCTION:

The details of the Sales and Use Tax direct preference items included in the 2003 report are presented by showing: (1) a legal citation to the Rhode Island General Laws [as amended], (2) an estimate of the reliability of the revenues foregone for the tax preference item, (3) a description of the tax preference item, (4) the source of the information about revenues foregone, (5) the amount of revenues foregone presented rounded to the nearest thousand, (6) the number of taxpayers claiming the tax preference, and (7) a capsule version of the comparative information for the five other New England states. Because of the nature of the Sales and Use Tax, there are no indirect preference items.

DIRECT PREFERENCE ITEMS

13. **Demonstration Boats:**
Cite: 44-18-26.1
Reliability estimate: N/A

This provision allowed boats used for demonstration and display to be exempted. Boats are now generally exempted by 44-18-30(49) which was reported on in the Tax Expenditures Budget report dated January, 1998.

Source: Excise Tax Section

Revenues foregone: \$0 See comment above on boat exemption.

Number: Because the Sales tax is on the ultimate consumer, all consumers purchasing this preference item are beneficiaries of the exemption. Additionally, Rhode Island retailers achieve some benefits from this exemption to the extent that the item is taxable in neighboring states. Since boats are now generally exempted by 44-18-30(49) which was reported on in the Tax Expenditures Budget report dated January, 1998, refer to the comparisons portion of that report.

Comparison: No similar provisions found in any other New England state.

16. **School Meals:**

Cite: 44-18-30(3)

Reliability Estimate: 3

This exemption applies to all sales of meals to students and teachers by schools, colleges, universities, student organizations and parent-teacher organizations and by persons having a concession agreement with the school, college or university.

Source: Revenue foregone was based only on public school meals' information as furnished by the Department of Education, Office of Finance, Nutrition Programs Section [for grades K through 12].

Revenues foregone: \$58,000.

Number: Because the Sales tax is on the ultimate consumer, all consumers purchasing this preference item are beneficiaries of the exemption.

Comparison:

Connecticut: Connecticut's provision includes not only schools, colleges and universities but also encompasses sales of meals and food products to patients in hospitals, homes for the aged and convalescent homes, nursing homes and rest homes.

Connecticut Law Cite: Title 12, Chapter 219, Section 12-41(9)

Massachusetts: Massachusetts' provision includes only meals served to students at schools, colleges and universities and meals served by camps for children eighteen years of age or under or developmentally individuals.

Massachusetts Law Cite: Chapter 64H, Subsection 6, General Laws

Maine: Maine's provisions include meals served to students and teacher by schools, colleges, universities, student organizations and parent-teacher associations to the students or teachers of a school.

Maine Law Cite: Title 36, Part 3, Chapter 211, Section 1760-6.

New Hampshire: No similar provision.

Vermont: Vermont does not specifically exempt school meals but food products in general are exempt. [See cite below].

Vermont Law Cite: Title 32, Section 974(a)(13)

24. **Prosthetic and orthopedic appliances:**

Cite: 44-18-30 (11)

Reliability estimate: 5

This exemption applies to all sales of prosthetic and orthopedic appliances, including eyeglasses, hearing aids and other devices which are individually designed made up or constructed for the use of a particular person so as to become a brace, support, supplement, correction or substitute for the body structure.

Source: Excise Tax Section

Revenues foregone: Revenue loss not reliably estimable.

Number: Because the Sales tax is on the ultimate consumer, all consumers purchasing this preference item are beneficiaries of the exemption. Additionally, Rhode Island retailers achieve some benefits from this exemption to the extent that the item is taxable in neighboring states.

Comparison:

Connecticut: Connecticut's provision includes prosthetic devices, dentures, and hearing aids, crutches, walkers and wheelchairs for the use of invalids and handicapped persons, eyeglasses and other ophthalmic materials but not sunglasses.

Connecticut Law Cite: Title 12, Chapter 219, Section 12-412(19).

Massachusetts: Massachusetts' provision includes sales of artificial devices individually designed, constructed or altered solely for a particular crippled person so as to become a brace, support, supplement, correction or substitute for the bodily structure including the extremities of the individual.

Massachusetts Law Cite: Chapter 64H, Section 6(1)

Maine: Maine's provision includes prosthetic aids, hearing aids, eyeglasses or artificial devices designed for the use of a particular individual to correct or alleviate physical incapacity and crutches, wheelchairs for the use of invalids or crippled persons and not for rental.

Maine Law Cite: Title 36, Part 3, Chapter 211, Section 1760, 5-a

New Hampshire: No similar provision.

Vermont: Vermont's provisions include artificial components of the human body, prosthetic appliance, medical appliances, corrective optical devices and appliances, dentures, hearing aids, Seeing – Eye dogs, crutches, wheelchairs, hospital type beds, sales or rental of stair left chairs sold pursuant to a doctor's prescription.

Vermont Law Cite: Title 32, Subtitle 2, Part 5, Chapter 233, Section 9741(2)

25. **Motor vehicles to nonresidents:**

Cite: 44-18-30 (13)

Reliability estimate: 3

This tax exemption applies to all sales of motor vehicles to bona fide nonresidents who do not register the vehicles in this state whether delivery is made in this state or to a place of residence outside this state.

EXCEPTION: All Rhode Island motor vehicle dealers are required to add and collect sales tax on motor vehicle sales to a bona fide nonresident of Rhode Island if the person's state of residence imposes a sales tax on the sale of a motor vehicle to its nonresidents. The dealer is required to collect tax on the sale at a rate equal to the rate that would be imposed in the nonresident's state of residence.

Source: Estimated using a sample of Automobile Dealer Statements [T-336] submitted to the Tax Division.

Revenues foregone: \$6,000,000.

Number: Because the Sales tax is on the ultimate consumer, all consumers purchasing this preference item are beneficiaries of the exemption. Additionally, Rhode Island retailers achieve some benefits from this exemption to the extent that the item is taxable in neighboring states.

Comparison:

Connecticut: Connecticut's provision allows an exemption for nonresidents who do not register the vehicle in Connecticut.

Connecticut Law Cite: Title 12, Chapter 219, Section 12-412

Massachusetts: Massachusetts' provisions include a requirement that the motor vehicle dealer charge and collect the Massachusetts tax on the vehicle of title to and possession of the vehicle were transferred to the purchaser in Massachusetts.

Massachusetts Law Cite: Chapter 64H

Maine: Maine's provisions include sales of motor vehicles purchased by a nonresident and intended to be driven or transported outside the state immediately upon delivery by the seller.

Maine Law Cite: Part 3, Chapter 211, Section 1760, Number 23

New Hampshire: No similar provision.

Vermont: No similar provision found.

30. **Nursing homes/hospitals rental charges:**

Cite: 44-18-30(13)

Reliability estimate: 3

This tax exemption covers rental charges for living quarters at camps or retreat houses; operated by religious, charitable, educational and other organizations, i.e. hospitals, nursing homes (living quarters to patients; or nonprofit educational institutions (living quarters for students).

Source: The revenues foregone estimate is based on the Business Corporation Tax returns for 43 of 67 nursing homes and hospitals and, as such, does not reflect the rental charges at those organizations which are exempt from filing under Title 44, Chapter 11, RIGL.

Revenues foregone: \$79,000,000.

Number: Because the Sales tax is on the ultimate consumer, all consumers purchasing this preference item are beneficiaries of the exemption.

Comparison: Only Connecticut and Maine have similar provisions.

Connecticut: Connecticut's provisions include exemption for rentals in nonprofit charitable hospitals, nursing homes, rest homes and homes for the aged.

Connecticut Law Cite: Title 12, Section 12-412(5)

Maine: Maine's provisions include exemption for rental charged for living or sleeping quarters in an institution licensed by the state for the hospitalization or nursing care of human beings; and for rentals for accommodation for any student necessitated by attendance at a school as further defined in Maine law.

Maine Law Cite: Part 3, Chapter 211, Section 1760, Number 18

32. **Motor vehicles and adaptive equipment for persons with disabilities:**

Cite: 44-18-30 (19)

Reliability estimate: 2

This exemption applies to sales of motor vehicles purchased by and specially equipped for use by paraplegics. Note: This exemption has been changed to cover motor vehicles and adaptive equipment for persons with disabilities effective July 1, 1998.

Source: Excise Tax Section

Revenues foregone: \$89,300.

Number: Because of the Sales Tax is on the ultimate consumer, all consumers purchasing this preference item are beneficiaries of the exemption. Additionally, Rhode Island retailers achieve some benefits from this exemption to the extent that the item is taxable in neighboring states.

Comparison:

Connecticut: Connecticut's provisions include only exemption for the specially adaptive equipment installed in a motor vehicle for the exclusive use of a person with disabilities.

Connecticut Law Cite: Title 12, Chapter 219, Section 408(80)

Massachusetts: Massachusetts' provisions include a broad exemption for sales of motor vehicles to disabled persons.

Massachusetts Law Cite: Section 6(u), Chapter 64H

Vermont: Vermont's provision include an exemption for one motor vehicle owned or leased and operated by a permanently physically handicapped person for whom the vehicle controls have been altered to enable to person to drive.

Vermont Law Cite: Title 32, Subtitle 2, Part 5, Chapter 219, Section 8911(12)

42. **Boats to nonresidents:**
Cite: 44-18-30(31)
Reliability estimate: N/A

This exemption applies to the sale of a new or used boat to a bona fide nonresident of Rhode Island who does not register or document the boat in Rhode Island whether the sale or delivery is made in Rhode Island or elsewhere provided that the nonresident must transport the boat outside the state within 30 days of the sale for use thereafter solely outside Rhode Island.

Source: Excise Tax Section Statistics not available, sales of boats are generally exempted by 44-18-30(49).

Revenues foregone: \$ 0 See comment above on boat exemption

Number: Because the Sales tax is on the ultimate consumer, all consumers purchasing this preference item are beneficiaries of the exemption. Additionally, Rhode Island retailers achieve some benefits from this exemption to the extent that the item is taxable in neighboring states.

Comparison: Only Massachusetts and Maine have similar provisions.

Massachusetts: Massachusetts' provision calls for the tax to be applied to boats which are brought into Massachusetts for storage or use within 6 months of their purchase.

Massachusetts Law Cite: Section 25B, Chapter 64H

Maine: Maine's provisions include exemption for watercraft sold to nonresidents when such craft are delivered outside the state or delivered in the state to be sailed or transported outside the state immediately upon delivery.

Maine Law Cite: Part 3, Chapter 211, Section 1760 Number 25

46. **Flags:**
Cite: 44-18-30(35)
Reliability estimate: 5

This exemption applies to sales of United States, Rhode Island or POW-MIA flags.

Source: Excise Tax Section

Revenues foregone: Estimated as minimal but revenue loss not reliably estimable.

Number: Because the Sales tax is on the ultimate consumer, all consumers purchasing this preference item are beneficiaries of the exemption. Additionally, Rhode Island retailers achieve some benefits from this exemption to the extent that the item is taxable in neighboring states.

Comparison:

Connecticut: Connecticut's provisions include only flags of the United States and the State of Connecticut.

Connecticut Law Cite: Title 12, Section 12-412(23)

Massachusetts: Massachusetts' provisions include only flags of the United States.

Massachusetts Law Cite: Chapter 64H, Section 6(W)

Maine: No similar provisions found.

New Hampshire: No similar provision.

Vermont: Vermont's provisions exempt sales of the flag of the United States to and by veterans' organizations which are exempted under Vermont Law.

Vermont Law Cite: Chapter 233, Title 32, Subsection 974(33)

47. **Amputee veterans' motor vehicle/equipment:**

Cite: 44-18-30 (36)

Reliability estimate: 2

This exemption applies to the sale of motor vehicles purchased by and specially equipped for use by paraplegics and amputee veterans.

Source: Estimates are based on information from the Rhode Island Division of Motor Vehicles.

Revenues foregone: \$15,000.

Number: 8

Comparison:

Connecticut: Connecticut's provisions include only exemption for the specially adaptive equipment installed in a motor vehicle for the exclusive use of a person with disabilities.

Connecticut Law Cite: Title 12, Chapter 219, Section 408(80)

Massachusetts: Massachusetts' provisions include a broad exemption for sales of motor vehicles to disabled persons.

Massachusetts Law Cite: Section 6(u), Chapter 64H

Maine: Maine's provisions include exemption of sales of motor vehicles to amputee veterans who have been granted free registration of such vehicles by the Secretary of State.

Maine Law Cite: Part 3, Chapter 211, Section 1760(22)

New Hampshire: No similar provision.

Vermont: No similar provision found.

53. **Trade-in on boats:**

Cite: 44-18-30(42)

Reliability estimate: N/A

This exemption applies to the trade in allowance on a boat given in trade in the purchase of a new or used boat and the insurance proceeds received from a claim for a stolen or damaged boat when used in the purchase of a new or used boat by the owner.

Source: Excise Tax Section statistics not available; sales of boats are generally exempted by 44-18-30(49).

Revenues foregone: \$0 See comment above on boat exemption.

Number: Because the Sales tax is on the ultimate consumer, all consumers purchasing this preference item are beneficiaries of the exemption. Additionally, Rhode Island retailers achieve some benefits from this exemption to the extent that the item is taxable in neighboring states.

Comparison: Only Massachusetts and Maine have similar provisions.

Massachusetts: Massachusetts' provisions include a reduction in the sale price for the amount allowed on a boat as a trade-in on the sale.

Massachusetts Law Cite: Section 27A, Chapter 64H

Maine: Maine's provisions generally exempt the trade in of one water craft when traded in toward another of the same kind.

Maine Law Cite: Part 3, Chapter 211, Section 1765 Number 3

55. **Coins:**

Cite: 44-18-30 (44)

Reliability estimate: 5

This exemption applies to sales of coins having numismatic or investment value.

Source: Excise Tax Section

Revenues foregone: Estimated as minimal but revenue loss is not reliably estimable.

Number: Because the Sales tax is on the ultimate consumer, all consumers purchasing this preference item are beneficiaries of the exemption. Additionally, Rhode Island retailers achieve some benefits from this exemption to the extent that the item is taxable in neighboring states.

Comparison: Only Connecticut and Massachusetts have similar provisions.

Connecticut: Connecticut's provisions include exemptions for gold or silver bullion, legal tender of any nation, rare and antique coins and coins traded according to value as a precious metal; however, the exemption is limited to transactions in which the total value of the sale is less than \$1,000.

Connecticut Law Cite: Title 12, Chapter 219, Section 12-412(45)

Massachusetts: Massachusetts' exemption for sales of \$1,000 or more of items traded or sold according to their value as precious metals such as rare coins of numismatic value, gold or silver bullion or coins; and gold or silver tender of any nation except the Republic of South Africa.

Massachusetts Law Cite: Section 6(11); Chapter 64H

59. **Tangible personalty for jewelry display:**

Cite: 44-18-30 (48)

Reliability estimate: 5

This tax preference item exempted the sale of tangible personal property used to display any jewelry product, provided that title to said jewelry product is transferred by the jewelry manufacturer or seller and said jewelry display product is shipped out of state for use solely outside the state and is not returned to the manufacturer or seller.

Source: Excise Tax Section

Revenues foregone: Revenue loss not reliably estimable.

Number: Because the Sales tax is on the ultimate consumer, all consumers purchasing this preference item are beneficiaries of the exemption. Additionally, Rhode Island retailers achieve some benefits from this exemption to the extent that the item is taxable in neighboring states.

Comparison: No similar provisions were found in any other New England state.

61. **Investment Companies Toll Free calls:**

Cite: 44-18-30(50)

Reliability estimate: 5

This exemption applies to the furnishing of interstate and international, toll-free terminating telecommunication service that is used directly and exclusively by or for the benefit of an eligible company which employs no less than 500 full time employees and is a “regular investment company” as defined by the Internal Revenue Code.

Source: Excise Tax Section

Revenues foregone: Revenue loss not reliably estimable.

Number of Taxpayers: Not reliably determinable.

Comparison: No similar provisions in any other New England state.

67. **Sales by artists:**

Cite: 44-18-30B

Reliability estimate: 4

This exemption applies to the sale of a “work” as defined as an original and creative work, whether written, composed, created or executed for “one of a kind, limited” production, which falls into one of eight listed categories. The sale of such work applies only when the work is sold by the writer, composer or artist residing in an economic development zone and when the work is sold from the writer, composer or artist’s place of business in the zone.

Source: Excise Tax Section

Revenues foregone: \$10,000.

Number: Because the Sales tax is on the ultimate consumer, all consumers purchasing this preference item are beneficiaries of the exemption. Additionally, Rhode Island retailers achieve some benefits from this exemption to the extent that the item is taxable in neighboring states.

Comparison: No similar provisions were found in any other New England state.

2003

T A X E X P E N D I T U R E S R E P O R T

BUSINESS CORPORATION TAX TITLE 44, CHAPTER 11, R.I.G.L. AS AMENDED

SUMMARY

The Business Corporation Tax is one of the three largest revenue sources for the State of Rhode Island and has 24 available direct tax preference items of various types in this chapter.

Additionally, tax preference items available for Business Corporation tax as well as for other taxes and information about them is found in the part of this report entitled Other Taxes and Miscellaneous Tax Preference Items.

DESCRIPTION OF TAX

Corporate Tax Basics

Corporations deriving income from sources in Rhode Island or engaging in activities for the purpose of profit or gain are required to pay a tax of 9% of net income as reported to the Federal Government and apportioned to Rhode Island. The minimum Business Corporation Tax is \$250.

TAX PREFERENCE ITEMS

INTRODUCTION:

The details of the Business Corporation tax preference items included in this 1999 report are presented by showing: (1) a legal citation to the Rhode Island General Laws [as amended], (2) an estimate of the reliability of the revenues foregone for the preference item, (3) a description of the tax preference item, (4) the source of the information about revenues foregone, (5) the amount of revenues foregone presented rounded to the nearest thousand and (6) the number of taxpayers claiming the tax preference.

In cases where the tax's preference items come from other chapters and are also available to other taxes, reference is given to the separate part of this report entitled

Other Taxes and Miscellaneous Tax Preference Items where each preference item is covered individually.

DIRECT TAX PREFERENCE ITEMS

13. **Treatment as DISC:**

Cite: 44-11-11(c)

Reliability estimate: 5

This tax preference item allows eligible corporations which have elected to be treated for federal purposes as domestic international sales corporations to be exempted from the business corporation tax calculated 44-11-2(a).

Source: Business Corporation Tax Section

Revenues foregone: Revenue loss not reliably estimable.

Number of taxpayers: Not reliably determinable.

Comparison:

Connecticut: Connecticut's provisions allow the same treatment as allowed federally for domestic international sales corporations.

Connecticut Law Cite: Section 12-214(a)

Massachusetts: Massachusetts' provisions allow a deduction in determining net income subject to tax equal to the credit allowed under the Federal International Revenue Code.

Massachusetts Law Cite: Chapter 63, Section 38I

New Hampshire: New Hampshire's provisions allow special treatment for the distributions from domestic international sales corporations when made to the parent if the profits from the DISC have already been subjected to taxation by New Hampshire under the same chapter for the same taxable year.

New Hampshire Law Cite: Title V, Chapter 77-A, Section 77A:4

14. **Treatment as FSC:**
Cite: 44-11-11(d)
Reliability estimate: 5

This tax preference item allows an eligible corporation which has elected to be treated for federal purposes as a foreign sales corporation to be exempted from the business corporation tax calculated by 44-11-2(a) to the same extent the corporation would be exempted if it were an electing small business corporation [1120S].

Source: Business Corporation Tax Section

Revenues foregone: Revenue loss not reliably estimable.

Number of taxpayers: Not reliably determinable.

Comparison: No similar provisions were found in any other New England state.

17. **Exclusion - dividends of banks:**
Cite: 44-11-12(1)(i)
Reliability estimate: 5

This tax preference item allows for the exemption of any dividends received from a bank which files under the Rhode Island Bank Excise tax provisions [44-14].

Source: Business Corporation Tax Section

Revenues foregone: Revenue loss not reliably estimable.

Number of taxpayers: Not reliably determinable.

Comparison: No similar provisions were found in any other New England state.

18. **Exclusion - dividends of corps:**

Cite: 44-11-11(1)(ii)

Reliability estimate: 5

This tax preference item allows for the exemption of any dividends received from a bank which files under the Rhode Island Bank Excise Tax provisions [44-14].

Source: Business Corporation Tax Section

Revenues foregone: Revenue loss not reliably estimable.

Number of taxpayers: Not reliably determinable.

Comparison: Only New Hampshire has similar provisions.

New Hampshire: New Hampshire's provisions include a deduction equal to the amount of dividends received from another corporation which have previously been included in the payor corporation's taxable enterprise value tax base and subject to taxation.

New Hampshire Law Cite: Title V, Chapter 77-E, Section 77-E:3

19. **Exclusion - interest from utilities:**

Cite: 44-11-12

Reliability estimate: 5

This tax preference item allows for the exemption of any dividends or interest received from a public utility subject to tax under the Gross Earnings Tax [44-13].

Source: Business Corporation Tax Section

Revenues foregone: Revenue loss not reliably estimable.

Number of taxpayers: Not reliably determinable.

Comparison: No similar provisions found for any other New England state.

22. **Allocation/apportionment of brokerage services:**

Cite: 44-11-14.2

Reliability estimate: 5

This tax preference item provides an election for a specialized method of apportionment of income for regulated investment companies and brokerage services. Apportionment is based on an average of two fractions one of which is based on Rhode Island receipts and the other is based on the number of shares owned by Rhode Island investors.

Source: Business Corporation Tax Section

Revenues foregone: Revenue loss not reliably estimable.

Number of taxpayers: Not reliably determinable.

Comparison: Only Connecticut has a similar provision.

Connecticut: Connecticut provisions allows receipts to be determined by multiplying the receipts from the rendering of management distribution or administrative services to or on behalf of each separate regulated investment company by a fraction. Apportionment which is based on the number of shares owned by the shareholders of regulated investment companies then domiciled in Connecticut and the average number of shares that are owned by shareholders of such regulated investment companies.

Connecticut Law Cite: Title 12, Chapter 208, Part I, Section 12-218

OTHER TAX PREFERENCE ITEMS

Other tax preference items available for this tax as well as for other taxes are covered in the part of this report entitled Other Taxes and Miscellaneous Tax Preference Items.

2003

TAX EXPENDITURES REPORT

OTHER TAXES
AND
MISCELLANEOUS TAX PREFERENCE ITEMS

INTRODUCTION:

This miscellaneous tax preference section of the 2003 Tax Expenditures Report contains 49 tax preference items, 10 of which were chosen for reporting.

Additionally, this section of the report contains 27 other tax preference items which are available to more than one tax. Three of the 27 were chosen for analysis in this 2003 report.

TAX PREFERENCE ITEMS

INTRODUCTION:

The details of the other taxes and miscellaneous tax preference items included in this 2003 report are presented by showing the name and description and (1) a legal citation to the Rhode Island General Laws [as amended], (2) an estimate of the reliability, (3) a description of the tax preference item, (4) the source of the information about revenues foregone, (5) the amount of revenues foregone presented rounded to the nearest thousand, (6) the number of taxpayers claiming the tax preference, and (7) a capsule version of the comparative information for the five other New England states.

MISCELLANEOUS TAXES AND THEIR PREFERENCE ITEMS

Alcoholic Beverage Tax and Importation Service Charge:

Cite: 3-10

The tax is collected on all alcoholic beverages manufactured, rectified, blended or reduced for sale in this state. The service charge is imposed by the Division of Taxation upon each wholesaler or person importing liquor beverages into this state. The manufacturing tax and importation service charge are the same and appear in the table below:

<u>Beverage</u>	<u>Tax or Service Charge</u>
Beer	\$ 3.00 per 31 gallons
Still wines (made entirely from Fruit grown in this state)	.30 per gallon
Still wines	.60 per gallon
Sparkling wines	.75 per gallon
Cordials (regardless of proof)	3.75 per gallon
Whiskey, Rum and Gin	3.75 per gallon
Whiskey, Rum and Gin (less than 30% proof)	1.10 per gallon
Ethyl alcohol (beverage)	7.50 per gallon
Ethyl alcohol (non-beverage)	.08 per gallon

Tax Preferences:

3. RI Manufacturer ships out of state:

Cite: 3-10-2

Reliability estimate: 5

A tax exemption for manufacturers for alcoholic beverages shipped out of this state where the beverage will be consumed outside this state.

Source: Excise Tax Section

Revenues foregone: Revenue loss not reliably estimable.

Number of taxpayers: There are 18 alcoholic beverage manufacturers in this state.

Comparison: No similar provisions were found in any other New England state.

Banking Institutions - Excise Tax:

Cite: 44-14

For the privilege of existing as a banking institution during any part of the year, each state bank, trust company, or loan and investment company in the state must annually pay an excise tax to the Tax Administrator measured by:

- 1) 9% of its net income for the preceding year, or
- 2) \$2.50 per \$10,000 or fraction thereof of its authorized capital stock as of the last day of the preceding calendar year.

The tax payable is the higher of the two. A national bank within this state is must only pay the excise tax measured by #1 above. The minimum payable is \$100. The tax is self-assessed and must be filed and paid on or before March 15 of each year. Banks which have their principal place of business or a branch in Rhode Island will apportion their net income under the Tax Administrator's rules and regulations.

Tax Preferences:

1. Securities loss write-down:

Cite: 44-14-14

Reliability estimate: 5

This tax preference item allows the financial institution a special deduction from the Bank Excise tax for any write-down in security values mandated by a regulatory authority.

Source: Business Corporation Tax Section

Revenues foregone: Revenue loss not reliably estimable.

Number of Taxpayers: Not reliably determinable.

Comparison: No similar provision found in any other New England state.

Beverage Containers

Cite: 44-44-3.6

A tax of 4 cents per case is imposed on each case of beverage containers sold by a beverage wholesaler (including any brewer, manufacturer, or bottler) to a beverage retailer or consumer in this state.

“Beverage” means carbonated soft drinks, soda water, mineral water and beer or other malt beverages. “Beverage container” is defined as any sealable bottle, can, jar or carton which contains a beverage.

On or before the 25th day of each month, the beverage wholesaler is required to file a return for the previous calendar month with the Tax Administrator and pay the amount of tax due.

Tax Preferences:

1. Constitutional exemption:

Cite: 44-44-3.6

Reliability estimate: 5

This exemption covers any taxes, fees, and any measure on which the state is prohibited from taxing the U.S. Constitution.

Source: Excise Tax Section

Revenues foregone: Revenue loss not reliably estimable.

Number of taxpayers: Not reliably determinable.

Comparison: No similar provisions were found in any other New England state

Cigarette Tax:

Cite: 44-20

A tax of 66 mills per cigarette is imposed on each cigarette and on each sheet of cigarette rolling paper sold or held for sale within Rhode Island (\$1.32 per package of twenty). Payment of the tax is evidenced by affixing the tax indicia to the bottom of packages. Distributors purchase indicia stamps at a discount to compensate them for stamping the packages.

Tax Preferences:

1. 10 Pack out of state cigarettes:

Cite 44-20-16

Reliability estimate: 5

This tax preference item allows an exemption for 10 packs of cigarettes [as commonly defined] to be brought in “on the person” of the purchaser.

Source: Excise Tax Section

Revenues foregone: No revenue impact.

Number of taxpayers: Not reliably determinable.

Comparison: Only Maine has similar provisions.

Maine: Maine’s provisions allow an unlicensed individual to Transport cigarettes for personal use not to exceed 2 cartons as commonly defined.

Maine Law Cite: Title 36, Part 7, Chapter 703, Section 4366-B

Franchise Tax:

Cite: 44-12

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 \$250.

Inactive corporations and those not engaged in business here during the taxable year taxed: \$250. where such stock does not exceed \$1,000,000. and \$12.50 per additional \$1,000,000 or part thereof. This tax is payable only when it is more than the business corporation tax.

Tax Preferences:

2. Corporations specifically exempted:

Cite: 44-12-11

Reliability estimate: 5

This preference item allows exemption from franchise tax for specifically listed hospitals and schools, insurance and surety companies, public utilities taxed under 44-13 RIGL, and other corporations which are exempt from taxation by charter.

Source: Business Corporation Tax Section

Revenues foregone: Revenue loss not reliably estimable.

Number of Taxpayers: Not reliably determinable.

Comparison: No similar provisions found in any other New England state.

Gasoline Tax:

Cite: 31-36

This tax is imposed on the distributor wherever located and imports or causes fuels to be imported into Rhode Island a tax cannot be less than 30 cents per gallon.

Tax Preference:

3.Sales to US Government:

Cite: 31-36-13

Reliability estimate: 2

This tax preference item allows fuels to be sold to the United States Government without tax and provides that any person who purchases fuels with the tax included and subsequently sells fuels to the United States Government to have the tax refunded.

Source: Excise Tax Section

Revenue foregone: \$134,300.

Number of Taxpayers: There are 65 distributors reporting.

Comparison:

Connecticut: Connecticut's provision allow an exemption for motor vehicle fuels sold to the United States Government.

Connecticut Law cite: Title 12, Chapter 221, Section 12-458(3)(A)

Massachusetts: Massachusetts' provisions allow sales exempted by federal law.

Massachusetts Law Cite: Chapter 64A, Section 12

Maine: Maine's provisions include an exemption for special fuels sold or used where the tax is precluded by operation of federal law.

Maine Law Cite: Title 36, Part 5, Chapter 459, Section 3204

New Hampshire: New Hampshire imposes a road toll tax and exempts sales to the United States, its agencies and instrumentalities.

New Hampshire Law Cite: Title XXI, Chapter 260, Section 260:32,1

Vermont: Vermont's provisions allow an exception to the tax on diesel fuel for state, municipal, school district, fire district, or other governmentally owned vehicles for official purposes [including those of the United States Government].

Vermont Law Cite: Title 23, Chapter 27, Section 3003(3)

Litter fee:

Cite: 44-44

All persons, corporations or other business entities selling or offering for retail sale of food or beverages for immediate consumption and/or packaged food or beverages for sale on a take out or to go basis are required to obtain a "litter control participation permit" on or before August 1 of each year. When issued, the permit will run on a calendar year from January 1 through December 31. A litter control participation permit is required for each place of business in which the retailer makes taxable sales of food and/or beverages.

Tax Preferences:

1. New Business Class A permit:

Cite: 44-44-3.1

Reliability estimate: 5

This tax preference item allows a new business to obtain its first permit as a class A for that location only at the minimum fee of \$25.

Source: Excise Tax Section

Revenues foregone: Revenue loss not reliably estimable.

Number of taxpayers: No way to determine the number of new businesses under this preference item, since new and existing class A permittees are grouped together.

Comparison: No similar provisions were found for any other New England state.

Motor Carrier Fuel Use:

Cite: Title 31, Chapter 36.1

A tax is imposed on motor carriers at the rate of twenty-eight cents (\$0.28) per gallon on the use of fuel for the propulsion of vehicles weighing over 26,000 lbs. gross vehicle weight; having 3 or more axles regardless of weight; or are used in combination and the gross weight of the combined vehicles exceeds 26,000 lbs. on public highways in Rhode Island.

Effective July 1, 1996 the State of Rhode Island became a participant in the International Fuel Tax Agreement (IFTA). Fundamental to IFTA is the concept of "base stating". "Base stating" allows a motor carrier to be licensed in one state for the purpose of fuel tax reporting rather than licensing and filing in every state in which the carrier operates.

Any motor carrier (individual, corporation, partnership, association, trust or other entity) based in Rhode Island and operating 1 or more qualified vehicles.

Tax Preferences:

1. Refunds of taxes paid to RI:

Cite: 31-36.1-15

Reliability Estimate: 2

This tax preference item allows a motor carrier to have a credit/refund on its tax equivalent to the rate per gallon for the tax in effect on motor fuel purchased by the carrier in Rhode Island for use outside Rhode Island.

Source: Excise Tax Section special refund statistics for FYE
6/30/98

Revenues foregone: \$280,300.

Number of taxpayers: 550

Comparison: All the other 5 New England states are signatories of the International Fuel Tax Agreement and, therefore, all have similar provisions.

Public Utilities:

Cite 44-13

The law imposes an annual excise tax payable March 1 on public service corporations and public service companies engaging in the same business as public service corporations. The tax is measured by gross earnings for the proceeding calendar year and is computed as follows:

- 1) Cable corporations – 8%
- 2) Electric companies, telegraph companies, and express companies doing business on steamboats – 4%
- 3) Gas companies – 3%
- 4) Common carrier steamboat, ferryboat, street railway, dining car, sleeping car, chair car or parlor car corporations and water and toll bridge companies – 1 ¼ %
- 5) Telecommunications corporations- 5%

Tax Preferences:

1. Narragansett Pier PR:

Cite: 44-13-1(a)

Reliability: 1

This tax preference item allows the Narragansett Pier Railroad to be exempted from gross earnings tax.

Source: Business Corporation Tax

Revenues foregone: No revenue impact.

Number of taxpayers: 0 Taxpayer is no longer in operation

Comparison: No similar provisions found in any other New England state.

6. Merchandise Sold:

Cite: 44-13-5

Reliability: 4

This tax preference item allows a deduction from gross earnings for the sales of merchandise as measured by the net invoice price of such merchandise plus the transportation costs of such merchandise.

Source: Business Corporation Tax Section returns filed.

Revenues foregone: \$ 0

Number of taxpayers: 14

Comparison: Only Connecticut has a similar provision.

Connecticut: Connecticut's provisions allow deduction from the Utilities Companies' Tax for sales of appliances which use water, steam, gas or electricity for the net invoice price plus transportation costs of such appliances.

Connecticut Law Cite: Title 12, Chapter 212, Section 12-265(b)(i)(c)

TAX PREFERENCE ITEMS APPLICABLE TO MORE THAN ONE TAX

This portion of the 2003 Tax Expenditures, items applicable to more than one tax has 27 tax preference items, 3 were chosen and included for analysis in this 2003 Tax Expenditure Report.

The details for these tax preference items are presented by showing the name and description of the preference item and (1) a legal citation to the Rhode Island General Laws [as amended], (2) an estimate of the reliability of the revenues foregone for the preference item, (3) a description of the tax preference item, (4) the source of the information about revenues foregone, (5) the amount of revenues foregone presented rounded to the nearest thousand, (6) the number of taxpayers claiming the tax preference and (7) a capsule version of the comparative information for the five other New England states.

5. Apprenticeship credits:

Cite: 44-11-4.1

Reliability estimate: 2

A taxpayer who is an employer and employs a machine tool, metal trade apprentice or plastic process technician apprentice enrolled and registered under the terms of a qualified program will be allowed a credit against the tax imposed by Chapter 11 of Title 44. The number of apprenticeships for which tax credit is allowed must exceed the average number of apprenticeships begun during the 5 preceding years. The amount of the credit is 50% of the actual wages paid to the qualifying apprentice or \$4,800 whichever is less. The credit is not refundable and amounts of credit not deductible in the taxable year may not be carried over to the following year.

Source: Statistics taken from actual personal income tax returns filed in 2001 for tax year 2000; corporate information was not available.

Revenues foregone: \$ 1,400.

Number of taxpayers: 1

Comparison: Only Connecticut has a similar provision.

Connecticut: Connecticut's provisions include credit for apprenticeships in machine tool, metal, plastics and plastic-related trades.

Connecticut Law Cite: Title 12, Chapter 208, Part 1, Section 12-217g

6. Hydroelectric Power Credit:

Cite: 44-30-22

Reliability Estimate: 5

A hydroelectric power developer will be allowed a credit for the installation costs of a small hydroelectric power production facility at an existing dam site in Rhode Island.

Source: Personal income tax filings and Business Corporation Tax Section records.

Revenues foregone: \$ Revenue loss not reliably estimable.

Total Number of Taxpayers: 0

Comparison: No similar provisions found for any other New England state.

Adult Education Credit:

Cite: 44-46-1

Reliability Estimate: 2

This chapter provides that an employer is allowed a credit against the tax imposed by Chapters 11, 13, 14, 15, 17 and 30 of Title 44 for 50% of the costs incurred solely and directly for non-worksite or worksite-based adult education programs as specifically defined. The employee for whose adult education programs credit is claimed by the employer must remain in the employ of the business for a minimum period of 13 consecutive weeks and a minimum of 455 hours of paid employment before the employer can become eligible for the credit. The maximum credit per employee under the new provisions is \$300 and the maximum overall credit per taxable year per employer is \$5,000.

Source: Statistics taken from actual personal income tax returns filed in 2001 for tax year 2002; corporate information was not available.

Revenues foregone: \$5,600.

Total number of Taxpayers: 2

Comparison: No similar provisions found for any other New England state.

STATE OF RHODE ISLAND
DIVISION OF TAXATION

Tax Expenditures Report
Details by Tax and Reliability Estimate

Items for reporting in January 2004 are X'd and in bold.

Tax and Preference Items	Reliability Estimate
Personal Income	
1. Artists' Modifications	4
X 2. Political check-off	1
3. Amortization air/water pollution control	4
4. Interest on federal obligations	5
X 5. Credit for other states' taxes	1
6. Credit to trust beneficiary for distribution	5
7. Credit for artwork exhibition	2
8. Modification for family education accounts	5
X 9. Credit for qualifying widow(er)	1
10. Exclusion for nonresident military pay	5
11. Allocation for nonresident partnership income	5
12. Credit for trust beneficiary	5
X 13. Credit - lead paint removal	1
X 14. Credit/refund property tax relief	1
X 15. Credit for historical residence renovations	1
X 16. Modification - Enterprise zone business owner	1
17. Exclusion for income and preference items for qualifying employee's ownership in qualifying corporation	4
18. Exclusion for gain from stock options in computer companies.	4
* 19. Federal adjustment - IRA deduction	3
* 20. Federal adjustment - moving expenses	3
* 21. Federal adjustment - 1/2 self employment	4
* 22. Federal adjustment - self employment health insurance	3
* 23. Federal adjustment - Keogh plan and SEP	3
* 24. Federal adjustment - alimony paid	3
* 25. Federal deduction - standard	2
* 26. Federal deduction - itemized	2
* 27. Federal exemption	2
* 28. Federal credit - child/dependent care	2
* 29. Federal credit - elderly or disabled	2
* 30. Federal credit - foreign taxes	2
* 31. Federal credit - general business	2
* 32. Federal credit - earned income	1

TOTAL THIS TAX = 32 items

* The tax preference items 19 through 32 listed are indirect items which occur through the adoption of the Internal Revenue Code in the taxpayer's Federal income tax liability.

STATE OF RHODE ISLAND
DIVISION OF TAXATION

Tax Expenditures Report
Details by Tax and Reliability Estimate

Items for reporting in January 2004 are X'd and in bold.

Tax and Preference Items	Reliability Estimate
Sales and Use	
1. Cash discounts	5
2. Refund in 120 days	5
3. Installation labor	5
4. Federal taxes	5
5. Transportation charges	5
6. Transfers to family members	5
7. Transfers - business dissolution/liquidation	5
8. Sales of residential trailers	5
9. Transferee is exempt	5
10. Casual sales	5
11. 120 days total loss or destruction	5
12. Sales for resale	4
13. Demonstration boats	N/A
14. Sales beyond state constitutional power	5
X 15. Newspapers	3
16. School meals	3
X 17. Containers	3
18. Charitable, educational or religious organizations	5
X 19. Gasoline	2
20. Purchases for manufacturing purposes	3
21. State or political subdivisions	5
X 22. Food products	3
X 23. Medicines and drugs	3
24. Prosthetic and orthopedic appliances	5
25. Motor vehicles to nonresidents	3
X 27. Coffins, caskets and burial garments	3
26. Sales by the visually impaired	3
28. Air/water pollution control facilities	4
29. Camps	5
30. Nursing homes/hospitals rental charges	3
31. Educational institutions rental charges	5
32. Motor vehicles and adaptive equipment for persons with disabilities	2
X 33. Heating fuel for residences	3
X 34. Electricity and gas for residences	3
35. Manufacturer's machinery and equipment	3
36. Motor vehicle trade-in	3
37. Precious metal bullion	5

STATE OF RHODE ISLAND
DIVISION OF TAXATION

Tax Expenditures Report
Details by Tax and Reliability Estimate

Items for reporting in January 2004 are X'd and in bold.

Tax and Preference Items	Reliability Estimate
38. Commercial vessels 50T	N/A
39. Commercial fishing vessels	N/A
X 40. Clothing and footwear	3
X 41. Water for residential use	3
42. Boats to nonresidents	N/A
43. \$20. sales of certain nonprofit	5
44. Farm equipment	5
45. Compressed air	5
46. Flags	5
47. Amputee veterans' motor vehicles and equipment	2
48. Textbooks	3
49. Supplies for hazardous waste treatment	5
50. Literature for boat manufacturers	5
51. Food stamp items	3
52. Transportation charges motor carriers	5
53. Trade-in on boats	N/A
54. Equipment for research and development	5
55. Coins	5
56. Farm structure construction materials	5
57. Telecommunications carrier access service	5
58. Boats for storage and repair	N/A
59. Tangible personalty for jewelry display	5
X 60. Boats	N/A
61. Investment companies' toll free calls	5
62. Mobile and manufactured homes	2
63. Taxes paid elsewhere	5
64. Vehicles of nonresident armed forces personnel	3
65. Sales to federal government	4
66. Sales to common carriers	5
67. Sales by artists	4
68. Property purchased from federal government	N/A
69. Property bought elsewhere by nonresident	N/A
70. Property otherwise exempted	N/A
71. Trucks, buses in interstate commerce	3
72. Certain energy products	2
73. Alternative fueled vehicles	4
74. Building materials to rebuild after disaster	4
75. Florist supplies	4
76. Renewable energy systems	3
77. Horse food	4

**The list above excludes items bought by nonresidents before 7/1/47 and items excluded if subject to sales tax - not considered preference items.

TOTAL THIS TAX = 77 ITEMS

STATE OF RHODE ISLAND

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Tax Expenditures Report
 Details by Tax and Reliability Estimate

Items for reporting in January 2004 are X'd and in bold.

Tax and Preference Items	Reliability Estimate
Business Corporation	
1. Exclusion for financial institution	3
2. Exclusion for public service company	5
3. Exclusion for insurance companies	5
4. Exclusion for nonprofit	5
5. Exclusion for fraternal benefit societies	5
6. Exclusion for special chartered corporations	5
7. Special provisions for security companies	3
8. Special provisions for investment companies	5
9. Exclusion for 1120S	4
10. Consolidation provisions	4
11. Interest on federal obligations	4
12. Net operating loss deductions	4
13. Treatment as DISC	5
14. Treatment as FSC	5
X 15. Rapid amortization of air/water facility	1
X 16. Accelerated depreciation for manufacturers	1
17. Exclusion - dividends of banks	5
18. Exclusion - dividends of corporations	5
19. Exclusion - interest from utilities	5
20. Apportionment of net income	4
X 21. Special apportionment of USFDA facilities	1
22. Allocation/apportionment of brokerage services	5
23. Exclusion for international investment services	5
24. Credit for ISO certification	4

TOTAL THIS TAX = 24 ITEMS

Alcoholic Beverages

1. Sacramental wine by clergy	4
X 2. First 100,000 bbl beer	1
3. RI Manufacturer ships out of state	5

TOTAL THIS TAX = 3 ITEMS

STATE OF RHODE ISLAND
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Tax Expenditures Report
Details by Tax and Reliability Estimate

Items for reporting in January 2004 are X'd and in bold.

Tax and Preference Items	Reliability Estimate
Bank Excise Tax	
1. Gain/loss on sale property not securities	3
2. Gain/loss on sale of securities	3
3. Securities loss write-down	5
4. Dividend exclusion for US obligations	5
TOTAL THIS TAX = 4 ITEMS	
Beverage Containers	
1. Constitutional exemption	5
2. Refillable and reuseable containers exempted	5
TOTAL THIS TAX = 2 ITEMS	
Cigarette Tax	
1. 10 pack out of state cigarettes	5
X 2. Stamping discount	1
3. Holding period for unstamped items	5
TOTAL THIS TAX = 3 ITEMS	
Franchise Tax	
1. Taxed under 44-11	4
2. Corporations specifically exempted	5
TOTAL THIS TAX = 2 ITEMS	
Gasoline Tax	
1. Exclusion for lubricating oils, etc.	3
X 2. Federal and State taxes excluded	1
3. Sales to US Government	2
4. Railroad transportation equipment	3
5. Alternative fuels exempted	5
TOTAL THIS TAX = 5 ITEMS	
Generation Skipping Transfer Tax	
1. Realty or personalty in another state	5
TOTAL THIS TAX = 1 ITEM	
Insurance Premiums Tax	
1. Ocean marine insurance exclusion	4
2. Fraternal benefit societies	5
3. Premiums returned	4
4. Retaliatory provisions	4
TOTAL THIS TAX = 4 ITEMS	

STATE OF RHODE ISLAND
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Tax Expenditures Report
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Items for reporting in January 2004 are X'd and in bold.

Tax and Preference Items	Reliability Estimate
Jai Alai Betting and Breakage	
X 1. Licensee Commission	1
TOTAL THIS TAX = 1 ITEM	
Litter Fee	
1. New business Class A permit	5
2. Constitutional exemption	4
TOTAL THIS TAX = 2 ITEMS	
Motor Carrier Fuel Use	
1. Refunds of taxes paid to RI	2
TOTAL THIS TAX = 1 ITEM	
Pari-Mutual Betting/Breakage	
X 1. Licensee's commission	1
TOTAL THIS TAX = 1 ITEM	
Public Utilities	
1. Narragansett Pier RR	1
2. Company subject to Business Corp. Tax	5
3. Carrier Access fees	5
4. Electricity for resale	5
5. Telecommunications non-voice service	5
6. Merchandise sold	4
7. Apportionment	5
8. Sale of alternative fuels exempted	5
TOTAL THIS TAX = 8 ITEMS	
Real Estate Conveyance Tax	
1. Consideration of \$100 or less	3
2. Statement in lieu of consideration	5
3. Grantor - US government or subdivision	5
4. Capitol Center project	N/A
TOTAL THIS TAX = 4 ITEMS	
Telephone Company Property Tax	
1. Limited depreciation allowance	4
TOTAL THIS TAX = 1 ITEM	
Hard to Dispose Tax	
1. Constitutional exemption	3
TOTAL THIS TAX = 1 ITEM	

STATE OF RHODE ISLAND
DIVISION OF TAXATION

Tax Expenditures Report
Details by Tax and Reliability Estimate

Items for reporting in January 2004 are X'd and in bold.

Tax and Preference Items	Reliability Estimate
Simulcast Betting	
X 1. Licensee Commission	1
TOTAL THIS TAX = 1 ITEM	
Rental Vehicle Surcharge	
X 1. 50% surcharge retained	1
TOTAL THIS TAX = 1 ITEM	
Environmental Protective Fee	
X 1. Fees deposited into restricted account	1
TOTAL THIS TAX = 1 ITEM	
Uniform Oil Response Fee	
X 1. Fees deposited into restricted account	1
TOTAL THIS TAX = 1 ITEM	
Mobile or Manufactured Homes Conveyance Tax	
1. Consideration of \$100 or less	3
2. Statement in lieu of consideration	5
TOTAL THIS TAX = 2 ITEMS	
TOTAL MISCELLANEOUS TAX ITEMS = 49	
Other preference items for more than one tax	
X 1. Juvenile Restitution Credit	2
X 2. Enterprise Zone Donations Credit	2
X 3. Enterprise Zone Wage Credit	2
X 4. Enterprise Zone Interest Credits	2
5. Apprenticeship Credit	2
6. Hydroelectric Power Credit	5
X 7. Investment Credit	2
X 8. Research and Development Property Credit	2
X 9. Research and Development Expense Credit	2
X 10. Educational Assistance and Development Credit	2
X 11. Small Business Investment Modification	4
X 12. Small Business Investment Exemption	4
X 13. SBA Loan Guaranty Fee Credit	2
14. Adult Education Credit	2
X 15. Daycare Credit	2
16. Elective Deduction for Research and Development	4

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Tax Expenditures Report
Details by Tax and Reliability Estimate

Items for reporting in January 2004 are X'd and in bold.

Tax and Preference Items	Reliability Estimate
17. Welfare Bonus Program	4
18. Jobs Development Rate Reduction	2
19. Jobs Training Credit	2
20. Credit for construction of alternative fuel filling stations	3
21. Credit for accommodations under ADA	3
22. Deduction/modification for hiring the unemployed or welfare recipients	4
23. Specialized mill building investment credit	3
24. Interest credit for loans to mill building owners	3
25. Wage credit for employers in mill buildings	3
26. Credit for qualified film production companies	3
27. Credit for renewable energy systems	3

TOTAL OTHER TAX ITEMS = 27

TOTAL CHOSEN FOR JANUARY 2004 REPORT = 42