PROVIDENCE, R.I. – Acting Department of Revenue Director David M. Sullivan reminds taxpayers that a number of Rhode Island tax changes take effect tomorrow – July 1, 2015.

“These changes are the result of legislation that was approved by the General Assembly and signed into law by Governor Gina M. Raimondo this afternoon,” Sullivan said.

“Many of the changes were originally proposed by Governor Raimondo in her fiscal 2016 budget and are designed to help existing businesses grow, attract new businesses to Rhode Island, and create jobs. We are offering this summary to keep practitioners and taxpayers informed,” he said.

The following tax changes take effect July 1, 2015

- **HEATING FUEL:** All sales of heating fuels will be exempt from Rhode Island’s 7 percent sales and use tax. (Under prior law, the exemption applied to heating fuel used in the heating of homes and residential premises, and to heating fuel used in the manufacturing process. Under the new law, the exemption will apply to heating fuel in any type of use, including any business use.)

- **ELECTRICITY AND GAS:** All sales of electricity and gas will be exempt from sales and use tax. (Under prior law, the exemption applied only to electricity and gas furnished for domestic use by occupants of residential premises, and to electricity and gas used in the manufacturing process. Under the new law, the exemption applies to electricity and gas furnished for any type of use, including any business use.)

- **ENTERPRISE ZONE TAX CREDITS:** No new tax credits under the Rhode Island Distressed Areas Economic Revitalization Act (“enterprise zone” tax credits) can be issued on or after July 1, 2015, unless the business has received certification prior to July 1, 2015.

- **ALCOHOLIC BEVERAGES:** The sale of wine and spirits at liquor stores in Rhode Island is permanently exempt from Rhode Island’s 7 percent sales and use tax. (Under prior law, the exemption was to have expired at midnight tonight. Beer and other malt beverages will continue to be subject to the sales and use tax under the new law.)
- **WHOLESALE TAX:** Excise taxes on a number of categories of alcoholic beverages will stay at their current level. Among the categories affected are malt beverages (including beer), a number of still wines, and spirits such as whiskey, gin, rum, and brandy containing alcohol measuring more than 30 proof. (The current tax rates were to have expired at midnight tonight.)

- **MANAGED AUDITS:** The Tax Administrator may enter into a written agreement with a taxpayer authorizing the taxpayer to conduct a managed audit – sometimes called a self-audit – regarding Rhode Island sales and use tax obligations. (The Tax Division is in the early stages of preparing guidelines for the program.)

- **TAX CREDITS AND INCENTIVES:** The new law creates a package of tax credits and other incentives that are intended to spur job creation. Among the highlights:

  - The “Rebuild Rhode Island Tax Credit” program is intended to encourage the development of commercial projects. In general, the maximum tax credit will be 20 percent of a project’s cost, although – under certain circumstances – an applicant can be eligible for an additional tax credits of up to 10 percent of the project cost. The maximum credit will be $15 million per project.

  - A tax increment financing (TIF) program is established to stimulate business development; retain and attract business and industry; create jobs; help with business, commercial, and industrial real estate development; and generate revenue. Under the program, the Division of Taxation will pay to a developer the incremental state revenues directly realized from projects or businesses operating in a qualifying TIF area.

  - The “Stay Invested in RI Wavemaker Fellowship” program is established to expand employment opportunities in the state and to retain talented individuals in the state by providing tax credits related to education loan repayment expenses to applicants who meet eligibility requirements, according to the legislation. Tax credits may reach as high as $1,000 for an associate’s degree holder, $4,000 for a bachelor’s degree holder, and $6,000 for a graduate degree holder.

  - The “Anchor Institution Tax Credit” program is established to attract businesses to locate in Rhode Island and to give existing Rhode Island businesses an incentive to encourage businesses in their supply chain, service providers, or customers to relocate to Rhode Island.

  - The “New Qualified Jobs Incentive” program generally provides a qualifying business with a tax credit whose base amount is up to $2,500 a year for each new full-time job, although the credit can rise to $7,500 a year if the business meets certain criteria.

  - The new also law requires that certain new tax credit/incentive programs be included in the state’s systematic and comprehensive analysis of economic development tax incentives as spelled out in statute.
▪ **JOBS DEVELOPMENT ACT:** The corporate tax rate reduction program, known as the Jobs Development Act (Rhode Island General Laws Chapter 42-64.5), is discontinued effective July 1, 2015. However, any company that has qualified for a rate reduction under the Jobs Development Act program prior to July 1, 2015, will be entitled to maintain the rate reduction that was in effect as of June 30, 2015 (no additional rate reduction will be permitted).

▪ **SHORT-TERM VACATION RENTALS:** Someone who rents out an entire house, an entire beach cottage, an entire condominium, an entire apartment, or other such accommodation, for a period of 30 days or less must register with the Division of Taxation for a sales permit and pay the required annual $10 fee; charge the 7 percent sales tax and 1 percent local hotel tax, for a total of 8 percent, on the transaction; and send the tax collected to the Rhode Island Division of Taxation. The following exception applies only for 2015: If one rents out an accommodation as described above, but a written contract for the rental is signed before July 1, 2015, the tax provisions do not apply for occupancy in 2015 – no matter when the tenants paid or will pay for the rental.

▪ **SHORT-TERM ROOM RENTALS:** Someone who rents out a room for 30 days or less must register for a sales permit with the Division of Taxation and pay the required annual $10 fee; charge the 7 percent sales tax, the 5 percent statewide hotel tax, and the 1 percent local hotel tax on the transaction, for a total of 13 percent; and send the tax that is collected to the Division of Taxation. The following exception applies only for 2015: If you rent out a room as described above, but you and the tenant signed a written contract for the rental before July 1, 2015, the tax provisions do not apply. No sales or hotel tax applies on that transaction – no matter when the tenants paid or will pay you for the rental.

▪ **ROOM RESELLERS:** Online companies that facilitate the rental of hotel rooms and the like – companies that are sometimes called room resellers – must register with the Division of Taxation for a sales tax permit and pay the required annual $10 fee; charge and collect the 7 percent Rhode Island sales and use tax, the 5 percent statewide hotel tax, and the 1 percent local hotel tax, for a total of 13 percent, on each transaction; and remit the taxes to the Division of Taxation. The room reseller may, in effect, claim a credit for the amount it was charged by the hotel in Rhode Island sales and use tax, statewide hotel tax, and local hotel tax.

▪ **REAL ESTATE CONVEYANCE TAX:** The new law extends the real estate conveyance tax to the transfer of a controlling interest in a limited liability company (LLC) or other entity that owns real estate in Rhode Island. For example, an LLC which owns real estate in Rhode Island is owned 75 percent by A and 25 percent by B. If A sells to C the 75 percent interest in the LLC, the conveyance tax applies. (The conveyance tax did not apply in this example under the old law.) In general, the real estate conveyance tax applies when real estate changes hands. The tax is $2.30 for each $500 (or fractional part thereof) which is paid for the purchase of real estate.

> The budget bill signed into law today includes other tax provisions which will take effect at a later date. For example, the 25-cent increase in the cigarette tax takes effect on August 1, 2015, and the modification for taxable Social Security benefits takes effect for tax years beginning on or after January 1, 2016.
Gasoline tax increase

The gasoline tax, currently 32 cents a gallon, will increase by one cent tomorrow, to 33 cents a gallon. The increase is due to an inflation-indexing formula that was contained in legislation enacted on June 19, 2014.

The mandatory inflation adjustment for gasoline applies only to the 32-cent Rhode Island excise tax; it does not apply to the 1-cent Rhode Island environmental protection regulatory fee or to the 18.4-cent federal excise tax.

The one-cent increase in the gasoline tax that takes effect tomorrow, July 1, 2015, also applies to diesel and other taxable motor fuels that meet the definition of “fuels” under Rhode Island General Laws § 31-36-1(4). The adjustment must be rounded to the nearest one cent increment. (Click here for more details on the gasoline tax increase.)

Tax Division hours

The Division of Taxation announces its hours involving this year’s Fourth of July holiday. “Practitioners and taxpayers who need to get in touch with us should keep in mind our hours during the holiday period,” Sullivan said. Please see the listing below.

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The agency's regular operating hours are 8:30 a.m. to 3:30 p.m. business days.

Seminars about new tax on short-term residential rentals

The Division of Taxation has launched a series of outreach seminars to explain the new law dealing with the taxation of short-term residential rentals, including vacation homes, beach cottages, and online room rentals.

As a result of the legislation, owners of short-term residential rentals – such as houses, cottages, condominiums, apartments, and rooms – will have to register with the Division of Taxation to obtain a sales tax permit, charge and collect tax on rentals, remit the tax to the Division of Taxation, and file sales tax and hotel tax returns and payments with the Division of Taxation.
Among the topics being covered at the seminars are the following:

- Which rentals will be taxed?
- Which rentals are excluded from tax?
- Who is responsible for collecting the tax?
- How should one register for a sales tax permit?
- How should one compute the sales tax on rentals?
- How should one compute the hotel tax on rentals?
- When must sales tax returns be filed?
- When must hotel tax returns be filed?
- How are real estate professionals affected?
- What if the rental is through an online company?

The Tax Division held its first such seminar at Narragansett Town Hall in Narragansett. (To view the Narragansett presentation, click here.) The second seminar was held at the Rhode Island Society of Certified Public Accountants in Cranston. The third is scheduled to be held at New Shoreham Town Hall on Block Island this evening (June 30, 2015) from 5:00 p.m. to 7:00 p.m.

The fourth seminar is to be held at the Newport Hyatt on Goat Island on July 8, 2015, from 9:00 a.m. to 11:30 a.m. There will be free parking. The seminar is geared chiefly to those who rent out short-term vacation rental property, but it is also open to others who have questions and who will be affected in one way or another by the new law, including owners or operators of bed & breakfast (B&B) establishments, inns, hotels, and others.

The seminar is free, but pre-registration is required because space is limited. To register, please contact Anna Duffy by e-mail at: aduffy@discovernewport.org or by phone at (401) 845-9110. (The contact information is solely for pre-registration purposes. Questions about the application of the recent legislation will be answered at the seminar.)

Sales tax permits

The Division of Taxation has begun mailing sales tax permits and coupon booklets to retailers. More than half of the permits and booklets have already been mailed; others are in the process of mailing.

Although June 30, 2015, is the expiration date for existing sales tax permits, retailers who have submitted their renewal forms and paid the required $10 annual fee on a timely basis may continue to use the existing permit until the new one arrives. (New permits have already been mailed to those who file electronically.)