

Summary of Legislative Changes

Rhode Island Division of Taxation

June 18, 2012

Following is a summary of tax law changes in the FY 2013 budget bill enacted June 15, 2012.

Tax Amnesty

Rhode Island will offer a state tax amnesty for 75 days – from September 2, 2012, through November 15, 2012. The amnesty will be open to all taxpayers who are delinquent on any state taxes – such as personal income tax, sales and use tax, corporate income tax, or unemployment insurance tax.

For taxpayers whose amnesty applications are accepted, the Tax Administrator generally will waive all related penalties – and reduce the applicable interest rate by 25 percent. Thus, the interest rate of 18 percent that applied for 2011, for example, would be reduced to 13.5 percent. The amnesty will be open to any taxpayer who pays the tax and interest due upon filing the amnesty tax return, or who enters into a bona fide installment payment agreement for reasons of financial hardship. The Tax Division will develop and post the form to be used by amnesty applicants.

The Tax Administrator must provide a written analysis of the amnesty program by January 1, 2013, to the chairs of the House and Senate Finance Committees, with copies to the members of the revenue estimating conference.

Effective: July 1, 2012

Citation: New Rhode Island General Laws (RIGL) Chapter 44-6.4

Repeal of tax on package tours and sightseeing

The sales tax on package tour and scenic and sightseeing transportation services is hereby repealed.

A law enacted in June 2011 broadened the sales and use tax to include the furnishing of package tour and scenic and sightseeing transportation services (as listed in the 2007 North American Industrial Classification System (NAICS), code 561520 and Subsector 487), effective October 1, 2011.

Under the new law, the tax shall no longer apply to such services after June 30, 2012.

Effective: July 1, 2012

Citation: Amends RIGL §§ 44-18-7, 44-18-8, 44-18-12, 44-18-15, 44-18-18, 44-18-20, 44-18-21, 44-18-22, 44-18-23, 44-19-7, 44-18-25, 44-18-30

Beverage containers tax

The Rhode Island beverage containers tax will be expanded to include all non-alcoholic drinks for human consumption, except milk, but including beer and other malt beverages.

The tax formerly applied only to carbonated soft drinks, soda water, mineral water, bottled water, and beer and other malt beverages. The new law expands the tax to include sports drinks, iced teas, iced coffees, and the like.

The tax remains at 4 cents per case, is levied on each case of beverage containers sold by a beverage wholesaler, and is collected and remitted to the Tax Division by the wholesaler.

Effective: July 1, 2012

Citation: Amends RIGL § 44-44-2

Hospital licensing fee

For fiscal year 2013, a two-tier system is established for the hospital licensing fee, which is applied to net patient services revenue.

For all hospitals except those located in Washington County, Rhode Island, the rate shall be 5.35 percent of the net patient services revenue based on the hospital's first fiscal year ending on or after January 1, 2011.

For hospitals located in Washington County, Rhode Island, the rate shall be 3.37 percent -- subject to approval by the Secretary of the U.S. Department of Health and Human Services.

Every hospital must pay the fee to the Tax Administrator on or before July 15, 2013. Each hospital's return is due to the Tax Administrator on or before June 17, 2013.

Effective: July 1, 2012

Citation: Amends RIGL § 23-17-38.1

Liquor licensee filing

Each licensee authorized to sell alcoholic beverages at wholesale or retail in Rhode Island must now file an annual report with the Tax Division on or before February 1.

Each such report must include total sales of alcoholic beverages, as well as sales tax and excise tax collections on such sales.

Using the information in those reports, the Tax Administrator must prepare and submit a report on or before May 1 each year, including a compilation of total sales of alcoholic beverages, and sales tax and excise tax collections by county. The Tax Administrator's report is due to the chairs of the House and Senate Finance Committees.

Effective: July 1, 2012

Citation: Amends RIGL § 3-10-5

Film tax credit

A number of changes are made to the film tax credit, also known as the Motion Picture Production Tax Credits. For example:

- ❖ Documentary productions are eligible for the credit;
- ❖ The definition of “final production budget” has been added to the law;
- ❖ The definition of “primary locations” has been broadened;
- ❖ The Rhode Island Film and Television Office, formerly within the Rhode Island State Council on the Arts, is shifted to the Department of Administration;
- ❖ A definition for “application year” has been added to the law;
- ❖ The minimum total production budget used in calculating the amount of the credit, formerly \$300,000, is lowered to \$100,000;
- ❖ The total credit for a given production – which formerly could be as much as the amount of the total production budget itself – is now capped at \$5 million. (The Tax Administrator may waive the tax credit cap for any feature-length film or television series to use up any unused amounts in the film tax credit program’s \$15 million overall, annual calendar-year cap.);
- ❖ A taxpayer seeking to claim the film tax credit must attach to the tax return the Division of Taxation’s certification as to the amount of the tax credit;
- ❖ A motion picture production company is prohibited from using state funds, state loans, or state guaranteed loans to qualify for the film tax credit; and
- ❖ Under a sunset provision, no film tax credits can be issued on or after July 1, 2019 (unless a production has received initial certification prior to July 1, 2019).

Musical, theatrical productions

The new law also essentially expands the film tax credit program to include musical and theatrical productions. Thus, musical and theatrical productions are now eligible for a tax credit based on provisions that are similar to those that apply to the film tax credit.

To reflect the change, a new chapter has been added to the Rhode Island General Laws – Chapter 44-31.3, “Musical and Theatrical Production Tax Credits.” The minimum production budget for a given production is \$100,000. The maximum tax credit for a given production is \$5 million. The credit can be used against the business corporation tax, franchise tax, public service corporation tax, bank tax, insurance company tax, and personal income tax.

Credits allowed to a subchapter S corporation, partnership – or limited liability company that is taxed as a partnership – can be passed through to shareholders, partners, members, or owners. The credits are also transferable.

The film tax credit program’s \$15 million overall, annual calendar-year cap is to be equally available to motion picture productions and musical and theatrical productions. (No specific amount will be set aside for either type of production.) The sunset provision is the same as the one that applies to the motion picture credit.

Effective: July 1, 2012

Citation: Amends RIGL §§ 44-31.2-2, 44-31.2-5, and 44-31.2-6. Adds new RIGL Chapter 44-31.3

Tax on cigarettes, little cigars

The cigarette excise tax increases to \$3.50 per pack of 20 cigarettes, from \$3.46.

In addition, a tax will apply to the cigarette inventory of each cigarette retailer in the state. The tax – known as a “floor tax” – will be measured by the number of cigarettes held by the retailer as of 12:01 a.m. on July 1, 2012. The tax rate will be 4 cents a pack.

Similarly, a tax will apply to the inventory of cigarette tax stamps – whether affixed or not – that are held by each distributor as of 12:01 a.m. on July 1, 2012. The floor tax on cigarette tax stamps will be computed at a rate of 4 cents a pack.

Those subject to the floor tax on cigarettes or the floor tax on cigarette tax stamps must file a return with the Tax Administrator by midnight on July 10, 2012.

Little cigars

The new law broadens the definition of little cigars. It will now read as follows:

“Little cigars” means and includes any roll, made wholly or in part of tobacco, irrespective of size or shape and irrespective of whether the tobacco is flavored, adulterated or mixed with any other ingredient, where such roll has a wrapper or cover made of tobacco wrapped in leaf tobacco or any substance containing tobacco paper or any other material and where such roll has an integrated filter, except where such wrapper is wholly or in greater part made of tobacco and where such roll has an integrated filter and weighs over four (4) pounds per thousand (1,000).

Thus, little cigars will now generally be taxed like cigarettes.

Effective: July 1, 2012

Citation: Adds new RIGL § 44-20-12.4. Amends 44-20-1, 44-20-2, 44-20-3, 44-20-4.1, 44-20-12, 44-20-13, 44-20-13.2, 44-20-39, 44-20-45, 44-20.2-1

Increased tobacco tax enforcement

The General Assembly authorizes the Tax Division to hire four more tax investigators to fully staff its tobacco tax enforcement task force. The new hires will supplement the agency’s existing tax investigator; the team will be responsible for enforcing the state’s cigarette and tobacco tax laws.

Effective: July 1, 2012

Citation: H 7323Aaa, Article 1

New, modernized computer system

The Tax Division is appropriated a total of \$25 million over five years to acquire and implement a new computer system, called an integrated tax system, or ITS.

The Tax Division currently administers 57 different tax/fee types and collects about \$2.7 billion per year. But the agency must use an assortment of software systems, the most critical of which was built on 40-year old technology that is increasingly difficult and expensive to use and maintain (it uses COBOL language).

The ITS will support the Tax Division in meeting its goals of increasing revenue collections, improving taxpayer service, promoting better taxpayer compliance, and improving operational efficiency and transparency. The system will expand taxpayer, tax preparer, and taxpayer representative online functionality for registration, filing, payment, account inquiry, access to taxpayer documents, and other self-service activities.

In addition, it will result in processing efficiencies, stronger enforcement capabilities, improved reconciliation of receipts, improved taxpayer compliance, and improved collections. Furthermore, over the five years that it will take to get the system installed and fully operational, the expected new revenue will exceed the project's cost.

Effective: July 1, 2012

Citation: 2012-H 7323Aaa

Tax Division staffing shift

The Tax Division will shift the work of some staff in its Personal Income Tax section to focus more on enforcement.

As a result, starting in January 2013, staff in the Personal Income Tax section who formerly prepared income tax returns and property-tax relief claims will be shifted to focus more on enforcement, with an emphasis on combating fraud.

Taxpayers who formerly used the agency's "walk-in" service to get their returns prepared by the agency at no charge will be urged to take advantage of the many volunteer tax preparation services, or the many paid preparers, in the region. Although the Tax Division will no longer prepare taxpayers' tax returns, the agency will continue to provide certain taxpayer services on a walk-in basis, including disbursing tax forms, answering questions, and accepting payments.

Effective: July 1, 2012

Citation: 2012-H 7323Aaa

Tax on clothing and footwear

Rhode Island's 7 percent sales and use tax will apply to each sale of clothing and footwear with a sales price of more than \$250, but the tax will apply only to the portion of the sales price of an individual item of clothing or footwear that exceeds \$250. For example:

- ❖ For a pair of shoes priced at \$275, the sales tax will apply to \$25, for a total tax of \$1.75.
- ❖ For a suit priced at \$300, the tax will apply to \$50, for a total tax of \$3.50.
- ❖ If a consumer buys 10 shirts at \$30 a shirt, for a total of \$300, no tax applies because the sale of each item is less than \$250.

Should a federal law be enacted to require remote sellers, such as Internet-only retailers, to collect and remit sales and use tax for states, the sale of clothing in Rhode Island will become fully exempt from tax, as it was prior to October 1, 2012.

Effective: October 1, 2012

Citation: Amends RIGL § 44-18-30(27)

Tax on taxi services, pet care services

Rhode Island's 7 percent sales and use tax will apply to the following services:

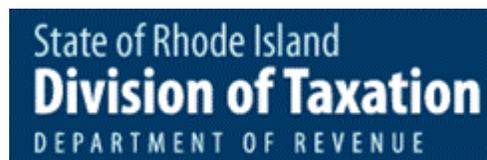
- ❖ Taxicab services, including taxi dispatchers (485310);
- ❖ Limousine services (485320);
- ❖ Charter bus service (485510);
- ❖ All other transit and ground passenger transportation (485999); and
- ❖ Pet care services (812910) except veterinary and testing laboratories services.

Each service shown above is accompanied by its applicable code as listed in the 2007 NAICS.

A vendor of such services performed in Rhode Island shall be deemed to be a retailer – and shall therefore be required to register with the Tax Division, obtain a sales tax permit, and collect and remit sales tax.

Effective: October 1, 2012

Citation: New RIGL § 44-18-7.3. Amends RIGL §§ 44-18-7, 44-18-8, 44-18-12, 44-18-15, 44-18-20, 44-18-21, 44-18-22, 44-18-23, 44-18-25, 44-19-7



Notice

This publication is an informal summary of recently enacted legislation and is for general information purposes only. It is not a substitute for Rhode Island General Laws, or for Rhode Island Division of Taxation regulations, rulings or notices. Citations listed in this document are from the original legislative text (2012-H 7323Aaa as approved by the General Assembly and signed into law on June 15, 2012), and are subject to revision.

– Tax Administrator David M. Sullivan