

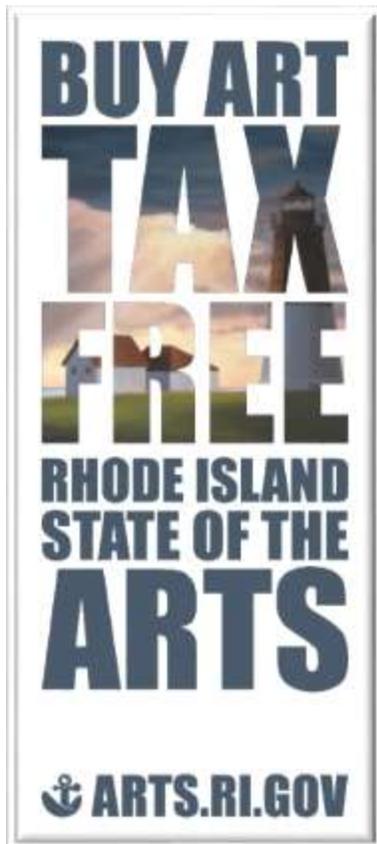


Annual Report to Rhode Island General Assembly - 2015

# Impact of Sales Tax Exemption for Artistic Works

## 1 EXECUTIVE SUMMARY

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### 1.1 BACKGROUND

In 2013 the Rhode Island General Assembly amended an existing Rhode Island General Law to provide an incentive for the sale of original and limited edition works of art anywhere in Rhode Island. The impetus for this change came out of a February 2013 gathering of arts, government, and business people organized by leaders in the General Assembly and the Governor's Office to explore the role the arts could play in Rhode Island's economic development strategy. Those assembled believed that establishing Rhode Island as a destination for arts buying public – a “State of the Arts” - would have a positive impact on revenue by taking advantage of the well-documented spending habits of so-called "cultural and heritage tourists."<sup>1</sup> In addition, support for the arts has been proven to be a positive (and inexpensive) part of state economic development strategy in many of the most successful states.<sup>2</sup>

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<sup>1</sup> U.S. Department of Commerce and the President’s Committee on the Arts and Humanities, [A Position Paper on Cultural & Heritage Tourism in the United States](#), 2005

<sup>2</sup> National Governors Association Center for Best Practices, [Arts & the Economy: Using Arts and Culture to Stimulate State Economic Development](#), January 2009

In amending the law, the General Assembly established a sales tax exemption for the sale of original works of art and limited edition works of art anywhere in the State of Rhode Island. This was an expansion of a 1996 law establishing designated arts districts in communities throughout the state, wherein art could be purchased exempt from state sales tax at galleries located within the districts. These districts worked well, and were soon sought-after designations for a number of communities in Rhode Island. In response to this interest, and in the hope that a coordinated effort might result in greater economic benefit for the state, the General Assembly approved the expansion and charged the Rhode Island State Council on the Arts (RISCA) with managing the program.

The law calls on RISCA to "work with the state tourism agencies, local chambers of commerce, advertising/marketing agencies to run with this program, and coordinate its efforts with the city and town governments." In an effort to track the success of the initiative, the legislation further called upon the Tax Administrator, in cooperation with RISCA, to gather data to assess the overall impact of the statewide arts district program, and issue an annual report, including, but not be limited to, the impact of the tax exemption on employment, tourism, sales and spending within the arts sector and adjacent businesses, and any other factors that describe the impact of the program."

That is the purpose behind this report.

## 1.2 WHAT WE LEARNED

Given that this is the first year of the program, we consider the financial data we received from the artists and arts related businesses to be baseline information. That said, the numbers are impressive.

- ✚ Sales of artistic works totaled \$16,973,981 in 2014
- ✚ Of that, sales reported on the Annual Reconciliation were \$15,980,524 and sales that took place at fairs, festivals and shows totaled \$993,457
- ✚ A significant majority (80%) indicated that the sales tax exemption had a positive impact on the sale of art over the past year
- ✚ A majority (58%) indicated that their sales had gone up in 2014 when compared to the previous year
- ✚ We need to do a better job of promoting the sales tax exemption. Most of the survey respondents (58%) tell us that most of the people who buy art from them are unaware of the exemption. A majority (52%) say that the exemption has helped them to make a sale in the past year.

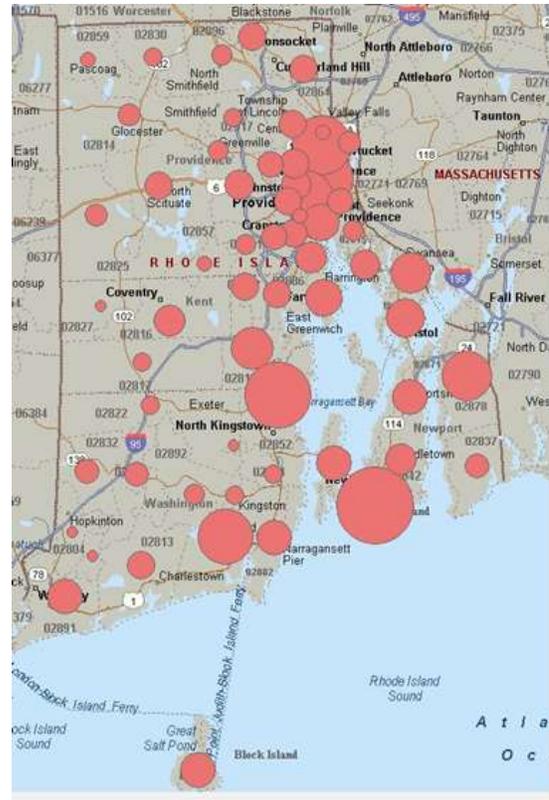
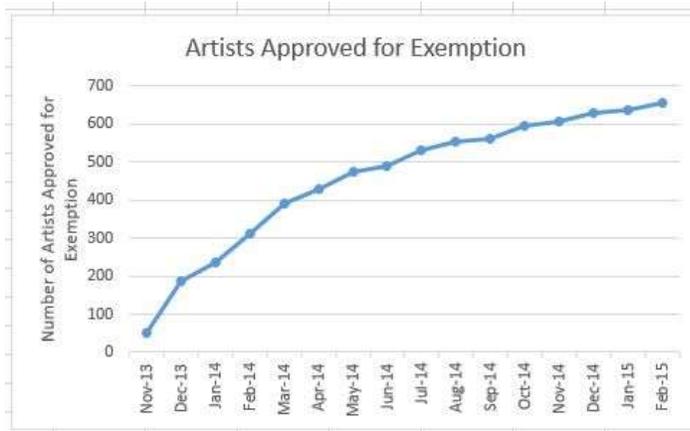


Figure 1 - Location of artists approved for sales tax exemption

We received a number of positive responses on the program from its participants. Here are a sampling:

- ✦ “The tax exemption has been a huge selling point when I am marketing my jewelry. I sell at retail craft shows such as Water Fire and customers love hearing my work is sales tax free, many times it has made the sale for me!”
- ✦ “People come to RI to buy art at my open studio because we are tax exempt.”
- ✦ “I am located in the heart of Newport and see thousands of tourists and often hear them comment on the tax exemption and how wonderful that is. I sell taxable items too and they often buy both original art and gift items together.”
- ✦ “I have an umbrella exemption for my show & exhibitors. They were ENORMOUSLY grateful & saw an increase in sales and an increase in out of state customers which then had an economic impact on the Pawtucket, RI and surrounding area as a result!”
- ✦ “This seems to have created an incentive to buy \*more\* art by people who were already buying art, rather than creating an incentive among the "maybes". Is an especially nice incentive for out-of-state customers, who seem thrilled.”
- ✦ “The higher the price of the art (metal sculpture for me), the more impact the exemption has on buyer decision making. Especially true for commissions. Sales increase of 18% over prior year which means I pay a higher income tax as well.”

### 1.3 GROWTH OF THE SALES TAX EXEMPTION FOR ARTISTIC WORKS PROGRAM



The Sales Tax Exemption for Artistic Works program began in earnest in December 2013. As of the beginning of March 2015, 639 artists and arts-related businesses have been approved for the sales tax exemption for the sale of original and limited edition works of art. This does not include those artists who have been exempted through a promoter’s license issued by one of Rhode Island’s arts festivals and fairs. The first applications for the exemption began to come in around

mid-November 2013 and have steadily increased since that time.

### 1.4 GATHERING OF INFORMATION

In late December 2014 the Division of Taxation distributed an Annual Reconciliation Form to those artists who received approval for the sales tax exemption. The form for artists was revised from the standard reconciliation form that sales tax permit holders are required to submit annually. It gathered information on sales of artistic and other works, and also looked at the legal deductions for all of these sales. In addition, the form gathered information on the type and number of works sold by month over the previous year. A total of 461 artists filed.

In addition to the information gathered and compiled by the Division of Taxation, RISCA developed and distributed a survey to all artists who received the sales tax exemption. Through the survey we asked artists questions to help us ascertain whether the sales tax exemption had a positive impact on the sale of their art over the past year; whether their sales had gone up, down, or stayed the same; and we asked them whether they felt their customers were aware of the sales tax exemption, and whether they felt exemption help them to make sales. In addition we asked for their comments on the value of this initiative, as well as their recommendations on ways that we could better promote this incentive.

As of March 30, 2015 we have received 161 responses to this survey.

#### Survey of Tax Exempt Artists and Arts Businesses

**\*1. Do you think the sales tax exemption had a positive impact on the sale of your works of art over the past year?**

- Yes, very much so
- Yes, somewhat
- Very little
- Not at all
- Don't know

**\*2. When you compare your sales from last year (2014) to the year before (2013), did your sales:**

- go up?
- decline?
- stay basically the same?

**3. What percentage of your sales would you estimate come from out-of-state?**

- more than 50%
- less than 50%
- can't really tell

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
DEPARTMENT OF REVENUE  
DIVISION OF TAXATION  
ONE CAPITOL HILL  
PROVIDENCE, RI 02908  
WWW.TAX.RI.GOV

**2014**

**WRITERS, COMPOSERS AND ARTISTS - ANNUAL RECONCILIATION**  
SALES AND USE TAX RETURN TO BE FILED BY WRITERS, COMPOSERS AND ARTISTS  
RIGL § 44-18-30B

**DUE ON OR BEFORE FEBRUARY 1, 2015**

Name \_\_\_\_\_ Taxpayer ID \_\_\_\_\_  
Address \_\_\_\_\_  
City, town or post office \_\_\_\_\_ State \_\_\_\_\_ ZIP Code \_\_\_\_\_  
Telephone number \_\_\_\_\_ Email address \_\_\_\_\_ NAICS Code \_\_\_\_\_

Have you sold or closed your business?  Yes  No If yes, on what date? \_\_\_\_\_

If you file a consolidated Sales Tax Return, list all locations by Rhode Island identification number including the 2 digit location number. If there are more than 15 locations, please attach a separate listing. If you have multiple locations, but file individual Sales Tax Returns, you must file a T-204W-Annual for each location.


**Before completing lines A through E, complete Schedules A and B on page 2.**

A. Total Net Taxable Sales for the period Jan - Dec (NOTE: Line A must equal Net Taxable Sales from page 2, line 5) \_\_\_\_\_ A.  
B. Amount of tax. Multiply line A by 7% (0.07) \_\_\_\_\_ B.  
C. 1. Total tax withheld for the period January through December \_\_\_\_\_ C1.  
2. Credit balance (if any) per line D of the 2013 Annual Reconciliation return - Form T-204R \_\_\_\_\_ C2.  
3. Sales tax due and paid to another state on items included in Schedule A, line 2. \_\_\_\_\_ C3.  
4. Total Tax Paid. Add lines C1 through C3. \_\_\_\_\_ C4.  
D. Line C4 should equal line B. If line B is more than line C4, there is a balance due. Please send payment to the Rhode Island Division of Taxation and send in with this Annual Reconciliation. See instructions for additional information. \_\_\_\_\_ D.  
E. If line C4 is more than line B, there is a credit due. This amount will be credited to the 2015 sales tax payments. Note: Taxpayer must submit a "Claim for Refund" form with this reconciliation in order to receive a refund of the overpayment. \_\_\_\_\_ E.

I hereby certify that I have personal knowledge of the information contained in this return, that all statements contained herein are true, correct, and complete to the best of my knowledge, and believe that this return is made under penalty of perjury.

Name of filer: \_\_\_\_\_ Name of owner, partner or authorized officer: please print \_\_\_\_\_  
Signature of owner, partner or authorized officer \_\_\_\_\_ Title of owner, partner or authorized officer \_\_\_\_\_ Date \_\_\_\_\_  
Preparer Signature \_\_\_\_\_ Preparer name \_\_\_\_\_ Date \_\_\_\_\_ Preparer telephone number \_\_\_\_\_

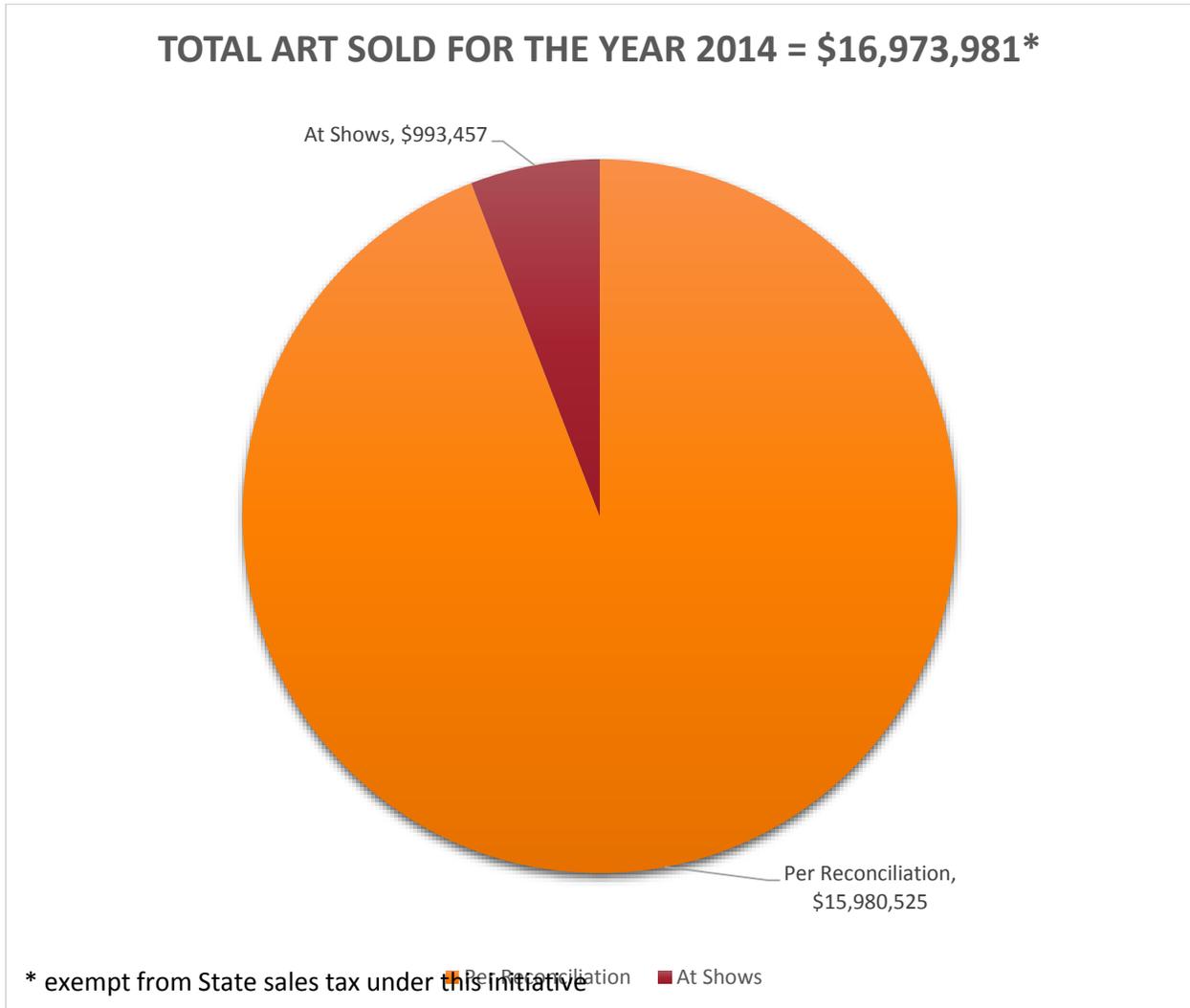
May the Division of Taxation contact your preparer? YES  NO

Form T-204W-Annual  
Rev. 05/2014

Page 1 of Annual Reconciliation for Writers, Composers and Artists - entire form is attached as Appendix 1 of report

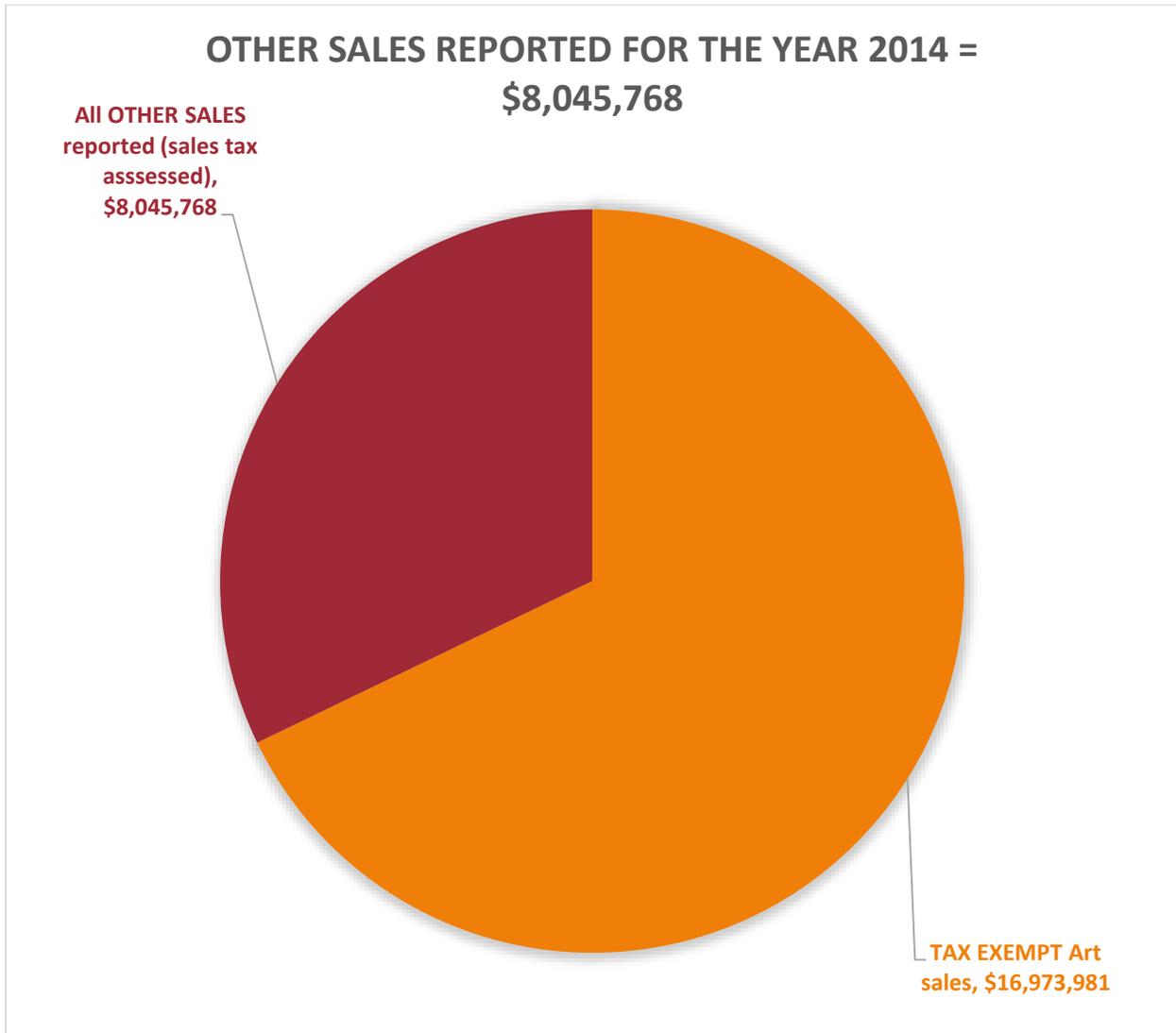
## 2 RESPONSES FROM THE DIVISION OF TAXATION'S ANNUAL RECONCILIATION FORM

### 2.1 SCHEDULE A – SALES BY CATEGORY



In this first year of reporting, the 461 artists who filed their Annual Reconciliation form listed a total of \$16,973,981 in sales of tax exempt art in Rhode Island. Approximately 6% of those sales, or \$993,457, were sales made at fairs and festivals throughout the year, while the remaining 94% were direct sales by artists and through galleries and stores.

## 2.2 SCHEDULE B – LEGAL DEDUCTIONS – SALES



On the Annual Reconciliation form artists were asked to report on any other sales they made, some of which were taxable under the law. Filers reported an additional \$8,045,768 in additional sales.

## 2.3 SCHEDULE C – TYPES OF WORKS SOLD

The Annual Reconciliation form asked artists to list the kinds of works sold by arts discipline. While this is by no means a comprehensive list, and many artists sell more than one kind of work, below are some of the art disciplines and types of work reported on the Annual Reconciliation form.



CERAMICS

BLOWN GLASS

SCULPTURE

BOOK/WRITING

FINE ART PAINTING

PRINTS(SIGNED/LIMITED EDITION)

PHOTOGRAPHY

TRADITIONAL CRAFTS

FINE CRAFTS

HANDMADE JEWELRY

DRAWINGS

ETCHING

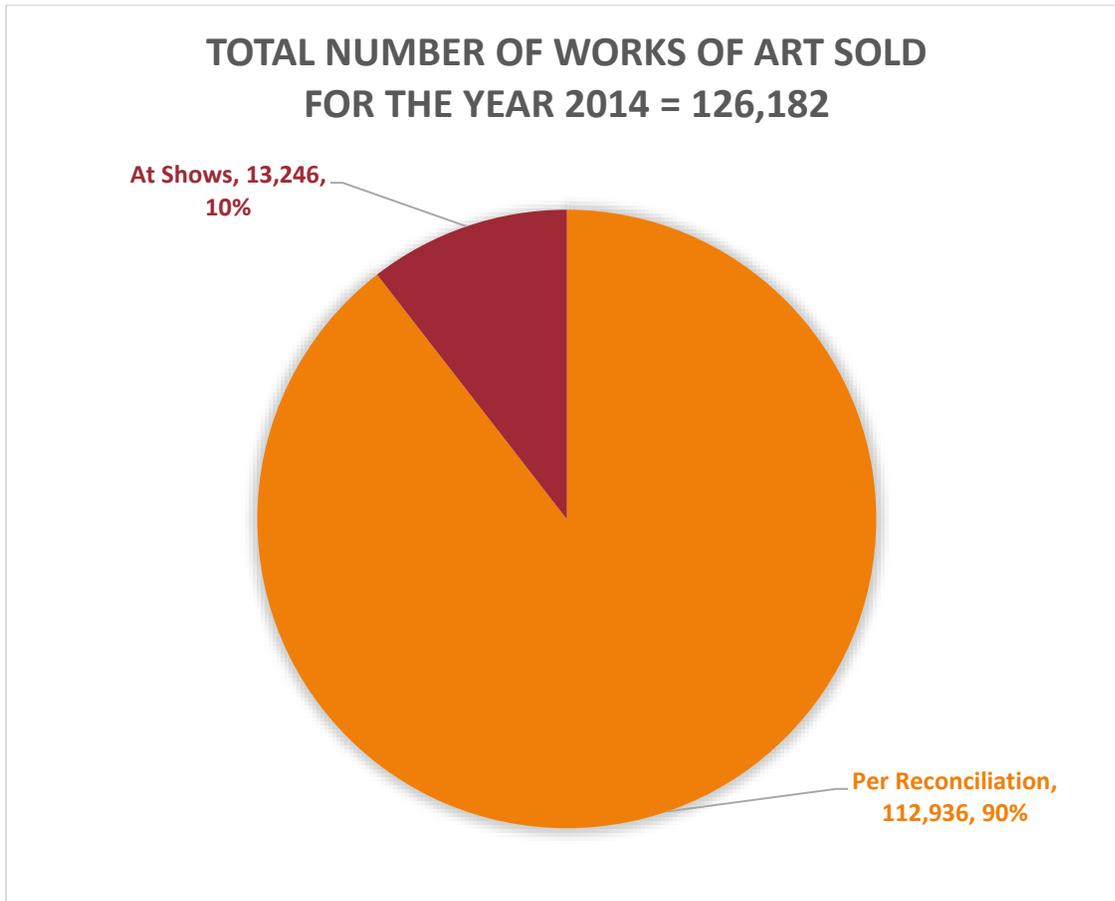
TEXTILE ART

WOOD CARVINGS

STAINED GLASS

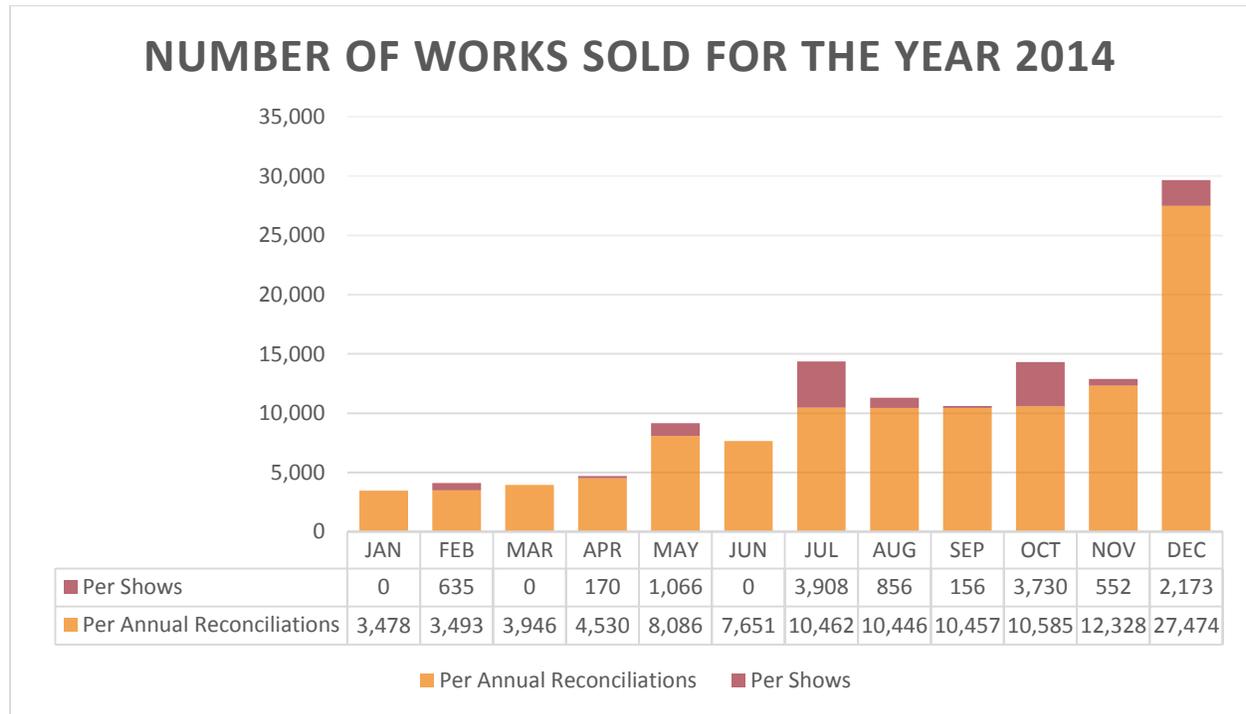
HANDWOVEN APPAREL

## 2.4 SCHEDULE C – TOTAL NUMBER OF WORKS OF ART SOLD FOR 2014



Artists reported selling 126,182 separate works of art on their Annual Reconciliation form. Of that, approximately 10%, or 13,246 pieces, were sold at fairs and festivals. The remaining 112,936 were direct sales made by artists, galleries and shops throughout the state.

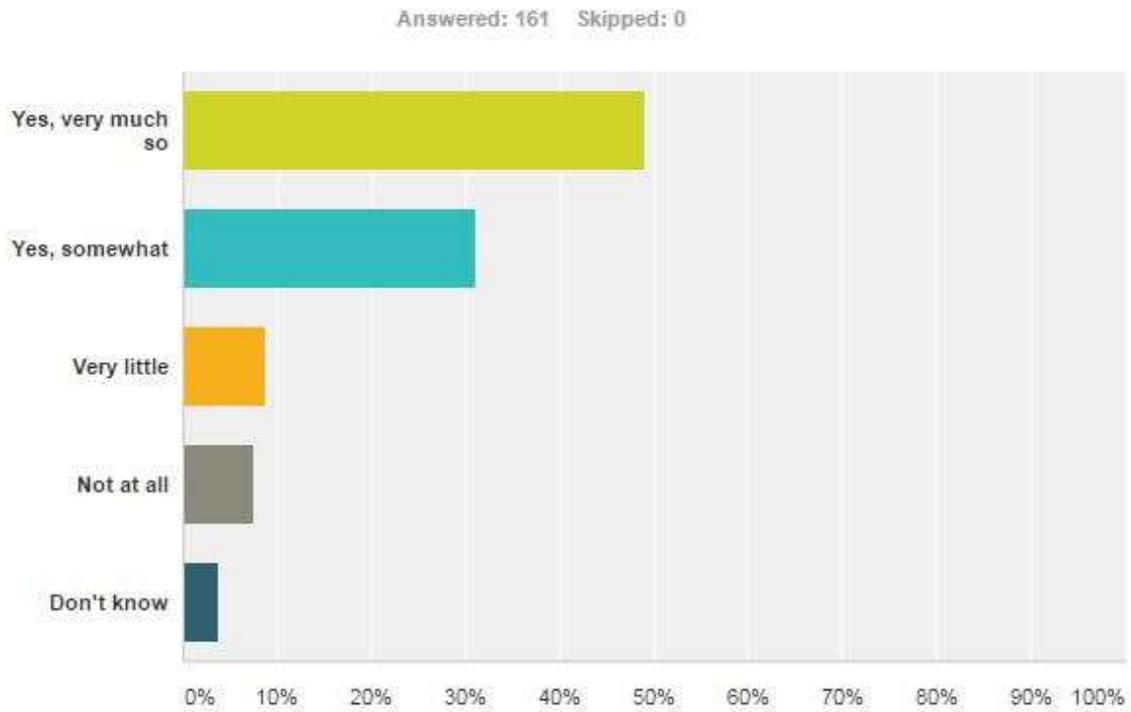
## 2.5 SCHEDULE C – NUMBER OF WORKS SOLD BY MONTH



The Division of Taxation also asked artists to report on how many works were sold by month. Not surprisingly the bulk of sales happened during the summer and around the year-end holiday season.

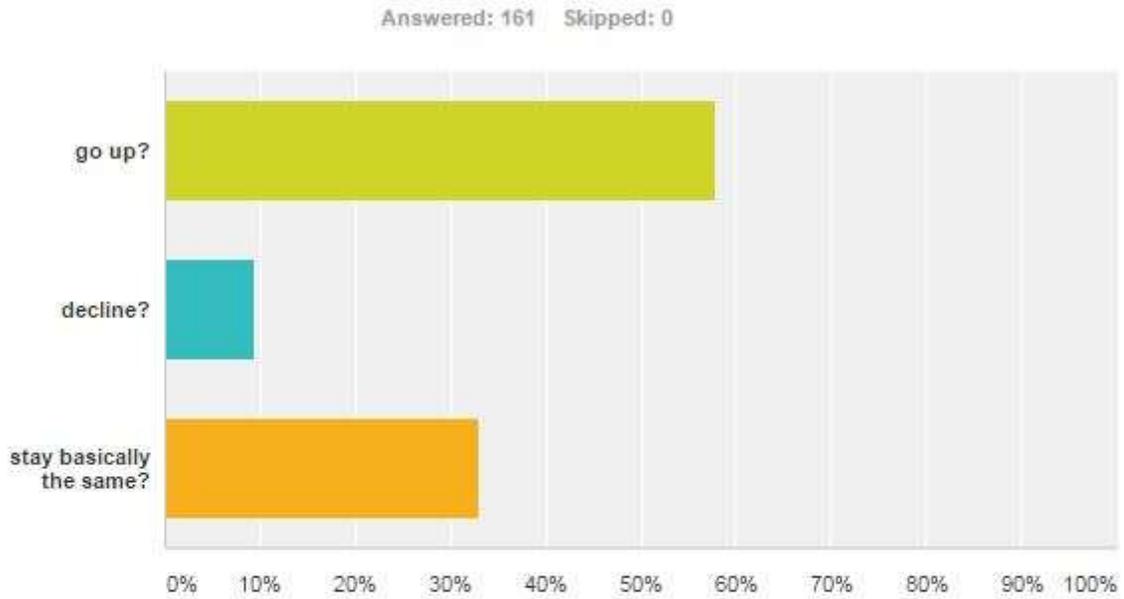
### 3 RESPONSES FROM THE RHODE ISLAND STATE COUNCIL ON THE ARTS SURVEY OF ARTISTS PARTICIPATING IN THE TAX EXEMPTION PROGRAM

#### 3.1 QUESTION 1: DO YOU THINK THE SALES TAX EXEMPTION HAD A POSITIVE IMPACT ON THE SALE OF YOUR WORKS OF ART OVER THE PAST YEAR?



Answer Choices	Responses
Yes, very much so	49.07% 79
Yes, somewhat	31.06% 50
Very little	8.70% 14
Not at all	7.45% 12
Don't know	3.73% 6
<b>Total</b>	<b>161</b>

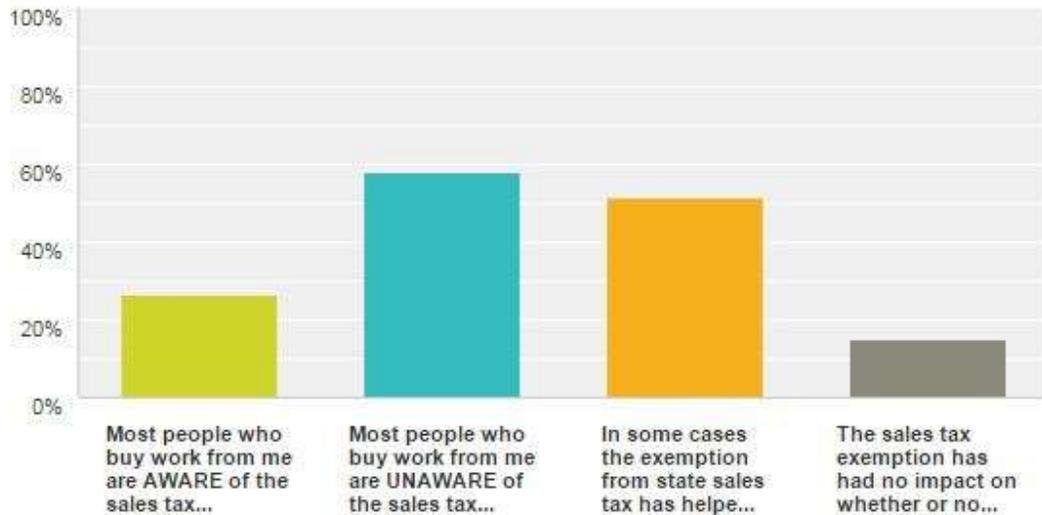
### 3.2 WHEN YOU COMPARE YOUR SALES FROM LAST YEAR (2014) TO THE YEAR BEFORE (2013), DID YOUR SALES



Answer Choices	Responses
go up?	57.76% 93
decline?	9.32% 15
stay basically the same?	32.92% 53
Total	161

### 3.3 HOW AWARE ARE YOUR CUSTOMERS ABOUT THE SALES TAX EXEMPTION, AND HOW MUCH OF A FACTOR WAS THE EXEMPTION IN MAKING SALES?

Answered: 161 Skipped: 0



Answer Choices	Responses
Most people who buy work from me are AWARE of the sales tax exemption for art	26.71% 43
Most people who buy work from me are UNAWARE of the sales tax exemption for art	57.76% 93
In some cases the exemption from state sales tax has helped me to make a sale	51.55% 83
The sales tax exemption has had no impact on whether or not I make a sale	14.91% 24
Total Respondents: 161	

## 4 RECOMMENDATIONS FOR THE FUTURE

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Most of the recommendations we received from program participants encouraged us to do more to market and promote this incentive. RISCA has no money earmarked for this purpose, and this has been a real challenge for us. For example, the rack cards, window decals, logos and other promotional material are paid for out of our grants budget. The state and regional tourism agencies, while supportive, have not budgeted funds for this purpose. The program can be much more effective if we can promote it in publications that cater to a travel and arts buying public.

Here are some of the suggestions we received from a variety of sources. We will certainly attempt to adopt some of the less expensive or time intensive ideas:

- ✚ A little sign, card or poster to display or hand out to customers would be wonderful. Something to help me explain why RI has given artist the sales tax exemption.
- ✚ Make sure the people on the front line at the visitor's bureau emphasize the exemption to visitors.
- ✚ More promotional material to be posted in retail locations
- ✚ There needs to be more awareness of the tax free status for art, using social media . Newspaper articles and through the tourism agencies?
- ✚ Advertising - I cannot afford to advertise, so I can only make those people aware who visit my website, or through my customer e-mail. How about a state wide advertising campaign?
- ✚ A constant reminder (print ad, electronic ad, visibility in any form).....will keep potential customers aware that a purchase in RI is very different in any other state.
- ✚ I think it will take some time to feel the impact. Not sure if the state uses the sales tax exemption in its marketing, but should if it doesn't
- ✚ Continue advertising. Perhaps acknowledging RI as not only a state devoted to tourism but as an arts destination...the smallest state with the largest arts impact.
- ✚ The window decals are nice tools, in our gallery we display them at the front door. Not everyone notices, but when chatting up a customer, we stress the generosity of the state of RI to allow this exemption on art. It is a positive reaction every time.
- ✚ A billboard on I-95 would be awesome. Otherwise (or additionally), create signage, stickers, pamphlets, etc that we can use in the store. A removable "This Item is Sales Tax Free" sticker would be awesome... especially if available in a few sizes.
- ✚ Advertise this in other states ! Can you imagine what one full page ad in the NY Times would do. ! Think BIG! Also, Re- Open the tourist welcome center. Rhode Island- State of the Arts.
- ✚ Using the "Buy Art Tax Free" image from State Council of the Arts website, create posters that can be distributed to local shops, galleries, etc to hang in their windows, or even a digital file they can download and print on their own. Banners or signs at art festivals throughout the state. Encourage festival and craft fair organizers to market their events with the "buy art tax free" slogan in mind.