

**State of Rhode Island
Department of Administration
Division of Taxation**

**TAX EXPENDITURES
REPORT**

January, 1997

STATE OF RHODE ISLAND
DIVISION OF TAXATION

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TAX EXPENDITURES REPORT

INTRODUCTION AND SUMMARY

Overview:

This portion of the Tax Expenditures Report gives a capsule version of the presentation. 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 various sections of the report.

The Charge:

During the 1996 legislative session, Title 44, Chapter 48 of the Rhode Island General Laws was changed and the Tax Administrator was charged with the responsibility of preparing an annual tax expenditure report. On the second Tuesday of January, 1997, a report was mandated to include a list of all the taxes for which the Division of Taxation is responsible including a list of the tax preference items in effect in the Rhode Island tax laws as of December 31, 1996.

Additionally, the charge to the Tax Administrator was to provide an index of reliability indicating the reliability with which the Division could provide an estimate of the revenues foregone for each tax preference item starting with 1 as being the most reliable and ending with 5 for preference items for which no reliable data exists.

Report Basics:

As directed in the charge, a "tax expenditure" is any tax credit, deduction, exemption, exclusion, credit 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, direct tax preference items which are contained in each tax's chapter of the Rhode Island General Laws and those direct preference items which apply only to THAT tax are grouped with that tax. Those preference items which apply to that tax only through the adoption of other tax codes are referred to as indirect and are grouped with that tax.

Direct tax preference items which apply to SEVERAL taxes are grouped together in the section of the report entitled "Miscellaneous Tax Preference Items".

Graphic Display:

At the end of this part of the report is a graphic display of the results of the research done. Legal citations are also provided on the chart for the reader's reference.

Report Structure:

This summary is 1 of the 6 parts into which the report is divided. The other 5 are, briefly: the personal income tax section; the sales and use tax section; the business corporation tax section; the miscellaneous taxes section; and the miscellaneous tax preferences section.

Resources Needed:

As mandated, the resources needed to implement the tax expenditures reporting on an on-going and successful basis include a person with the classification Budget Analyst I; a person with the classification Principal Clerk - Stenographer and the additional computers, printers and software related to their work.

Prepared By:

At the request of R. Gary Clark, Tax Administrator, this report was prepared by Virginia R. O'Shan, C.P.A. (Chief Revenue Agent - Research and Taxpayer Assistance).

STATE OF RHODE ISLAND
DIVISION OF TAXATION

TAX EXPENDITURES REPORT
TABULAR SUMMARY

<u>TAX TYPE</u>	<u>LEGAL REFERENCE</u>	<u>DIRECT ITEMS</u>	<u>INDIRECT ITEMS</u>	<u>TOTAL ITEMS</u>
Personal Income	44-30	17	15	32
Sales and Use	44-18,19	74	-	74
Business Corporation	44-11	22	-	22
Unemployment	28-42,43,44	-	-	-
Temporary Disability	28-39,40,41	-	-	-
Job Development	28-42,43	-	-	-
Admissions - Racing	44-29	-	-	-
Alcoholic Beverages	3-10	3	-	3
Bank Deposits	44-15	3	-	3
Bank Excise	44-14	4	-	4
Beverage Containers	44-44	1	-	1
Cigarettes	44-20	3	-	3
Estate	44-22,23	-	-	-
Franchise	44-12	2	-	2
Gasoline	31-36	5	-	5
Generation Skipping	44-40	1	-	1
Hotel	44-18-36.1	-	-	-
Insurance Premiums	44-17	4	-	4
Jai Alai Betting	41-7	1	-	1
Litter	44-44	2	-	2
Motor Carrier - IFTA	31-36.1	1	-	1
Pari-Mutuel Betting	41-3.1	1	-	1
Public Utilities	44-13	7	-	7
Real Estate Conveyance	44-25	4	-	4
Telephone Special Property	44-13-13	1	-	1
Hard to Dispose	44-44	1	-	1
Simulcast	41-11-3	1	-	1
Tobacco Products	44-20	-	-	-
Retail Tire Fee	23-63	1	-	1
Rental Vehicle Surcharge	31-34.1	1	-	1
Environmental Protection	46-12.9	1	-	1
Uniform Oil Response	46-12.7	1	-	1
Mobile/Manufactured Homes	31-44	2	-	2
Controlled Substances	44-49	-	-	-
Healthcare Provider	44-50	-	-	-
Nursing Facility Provider	44-51	-	-	-
Outpatient Care Provider	44-52	-	-	-
		<u>164</u>	<u>15</u>	<u>179</u>
Direct preference items applicable to more than one tax		<u>19</u>	<u>-</u>	<u>19</u>
GRAND TOTAL TAX PREFERENCE ITEMS		<u>183</u>	<u>15</u>	<u>198</u>

TAX EXPENDITURES REPORT

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

SUMMARY

At June 30, 1996, the Personal Income Tax generated \$577,700,000. in revenue for the State of Rhode Island and is therefore the first of the three largest revenue sources. Research and review of the personal income tax show that there were 17 available direct tax preference items of various types contained in this chapter. Additionally, there are 15 available indirect tax preference items.

There are also 16 cases where the tax's preference items come from other chapters and are also available to other taxes, for these reference is given to the separate part of this report dealing with Miscellaneous Tax Preferences where each preference item is covered individually with its own reliability estimate.

DESCRIPTION OF TAX

Who Is Subject to the Tax

For 1996 the personal income tax was imposed on the Rhode Island income of every individual, estate and trust at 27.5 % of the taxpayer's federal income tax liability.

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.

A resident is a person domiciled in the State of Rhode Island or, a person who, although not domiciled here, maintains a permanent home in Rhode Island and is here for more than 183 days of the taxable year.

A nonresident individual is an individual who is not a resident.

Armed forces personnel stationed in Rhode Island who are domiciliaries of other states are not subject except for income (other than service pay) from Rhode Island sources. Rhode Island domiciliary armed forces personnel are subject on all income even if they are stationed outside Rhode Island and notwithstanding the fact that they may spend no time at all in Rhode Island during a taxable year.

A resident estate or trust is the estate of a decedent who, at death, was a resident of this state and, generally, where the beneficiaries are Rhode Island residents.

TAX PREFERENCE ITEMS

INTRODUCTION:

The following are details of the Personal Income tax preference items called for in this report. For direct preference items, the details include a legal citation to the Rhode Island General Laws [as amended], a description of the tax preference item and an estimate of reliability of the cost of the preference item. Indirect preference items are also listed since they occur through the adoption of the Internal Revenue Code in the taxpayer's federal income tax liability which is the tax base referenced in 44-30-2(b).

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 Miscellaneous Tax Preference items where each preference item is covered individually with its own reliability estimate.

DIRECT TAX PREFERENCE ITEMS

1. Artists' Modification:

Cite: 44-30-1.1

Reliability estimate: 4

Federal adjusted gross income for Rhode Island purposes will be reduced by 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 resident in a statutory-defined economic development zone and the gain is received while the artist is a resident of that zone.

2. Checkoff for political contributions

Cite: 44-30-2(3)(d):

Reliability estimate: 1

This tax preference item allows the taxpayer to designate as a contribution to the political party of his or her choice (or to a nonpartisan general account) \$2.00 or \$4.00 if a joint return as filed out of the Personal Income tax paid. Since this checkoff removes Personal Income tax revenue from the general fund, it is tax preference item included in this report.

3. Amortization of air and water pollution control facilities:

Cite: 44-30-7:

Reliability estimate: 4

This tax preference item allows taxpayers to amortize the treatment facility over a period of 60 months. This preference item is basically in the nature of a rapid writeoff. The amortization deduction requires that the federal depreciation or amortization, if any, must be added back as the Rhode Island calculation is made. The treatment facility must be certified by the Director of Environmental Management in order for the election of this rapid amortization to be valid.

4. Rhode Island resident modifications for interest on federal obligations

Cite: 44-30-12 (c):

Reliability estimate: 4

This tax preference item is a modification which reduces a resident's federal adjusted gross income for any interest on federal obligations or other obligations exempt from Rhode Island tax.

5. Credit for income tax of other states

Cite: 44-30-18:

Reliability estimate: 1

This credit against the Rhode Island tax occurs when the income of a Rhode Island resident has been reported to another state and a personal income tax has been paid to that state.

6. Credit to trust beneficiary receiving accumulation distribution

Cite: 44-30-19:

Reliability estimate: 4

This credit applies to a resident beneficiary whose Rhode Island income includes an accumulation distribution for which the trust paid tax.

7. Credit for artwork exhibition

Cite: 44-30-24:

Reliability estimate: 2

This credit is available 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 for taxpayers presenting written certification to the board of curators (under Title 42, Chapter 97 of the RIGL). Amounts of unused credits may not be carried forward.

8. Modification for Family Education Accounts

Cite: 44-30-25

Reliability estimate: 4

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

9. Qualifying Widow(er) Credit:

Cite: 44-30-26

Reliability estimate: 1

A Rhode Island resident may qualify for a credit based on 2% of his/her adjusted gross income up to a maximum of \$500. To qualify, individuals must be residents for the entire year, be 65 years of age or older, and both qualify and file his/her Federal income tax return as a qualifying widow(er) with a dependent child for that tax year.

10. Nonresident individuals' military pay
Cite:44-30-32(d):
Reliability estimate: 5
This tax preference item excludes compensation for Armed Forces service personnel if they are not domiciled in Rhode Island.
11. Nonresident partners' partnership income
Cite:44-30-34:
Reliability estimate: 5
This item provides methods by which a nonresident partner's Rhode Island source income is determined.
12. Credit for trust beneficiary:
Cite: 44-30-37
Reliability estimate: 4
This tax preference item allows the nonresident beneficiary whose Rhode income includes an accumulation distribution to have a credit against the tax similar to a resident beneficiary.
13. Residential Lead Paint Credit
Cite: 44-30-97
Reliability estimate: 1
An individual is entitled to a credit against his/her Rhode Island Personal Income tax for residential lead removal if he/she (1) obtains written certification of the hazard; (2) has the hazard removed by a licensed contractor; (3) pays for the hazard's removal; and (4) obtains written certification that the dwelling is acceptable for occupancy. the credit is equal to the amount paid for the lead removal or reduction to a maximum of \$1,000 per dwelling unit. Amounts of unused credit may be carried forward for 5 years. The credit may not be applied until all other credits available to the taxpayer have been used.
14. Property tax relief credit
Cite: 44-33:
Reliability estimate: 1
Rhode Island residents 65 years of age or older or who are disabled (receiving social security disability payments) and who meet certain eligibility requirements may be entitled to relief against property taxes accrued or rents paid which constitute property taxes accrued. This relief is provided by appropriations through the general fund in the form of tax credits against the resident's personal income tax or by filing the

appropriate form (RI 1040H) in the case of a person who is not required to file an income tax return. The maximum credit allowed is \$200 per year.

15. Historical Residence Credit

Cite: 44-33.1

Reliability estimate: 1

A taxpayer who owns and lives in a Rhode Island historical residence may claim a credit against his/her personal income tax for up to 10% of the certified costs of renovation in the year in which the work is completed. The maximum credit per year is \$1,000 and amounts of unused credits may be carried forward by the owner. This credit is administered by the RI Historical Preservation Commission.

16. Enterprise Zone resident business owner modification

Cite: 42-64.3-7

Reliability estimate: 1

A domiciliary of an enterprise zone who owns and operates a qualified business facility in that zone may deduct \$50,000 per year as a modification reducing federal adjusted gross income during the first 3 years' operations in the zone and \$25,000 per year in the 4th and 5th years. A resident business owner may elect to claim this modification or the business tax credit from the same certified business but not both.

17. Exclusion for qualifying securities:

Cite: 44-43-8

Reliability estimate: 4

The gains, income or preference items from the transfer of interest in a qualifying corporation by a qualifying current or former employee of the qualifying corporation are excluded from personal income tax.

INDIRECT TAX PREFERENCE ITEMS

Federal Adjustments:

1. IRA deduction
Reliability estimate: 3
2. Moving expenses
Reliability estimate: 3
3. One half of self employment tax
Reliability estimate: 3

4. Self employed health insurance deduction
Reliability estimate: 3
5. Keough retirement plan and self employed
SEP deduction
Reliability estimate: 3
6. Penalty on early withdrawal of savings
Reliability estimate: 3
7. Alimony paid
Reliability estimate: 3

Federal Deductions:

8. Standard deductions
Reliability estimate: 2
9. Itemized deductions
Reliability estimate: 2

Federal Exemptions:

10. Reliability estimate: 2

Federal Credits:

11. Child and dependent care expenses
Reliability estimate: 3
12. Elderly or disabled
Reliability estimate: 3
13. Foreign taxes
Reliability estimate: 3
14. Others / General business credit
Reliability estimate: 3
15. Earned income credit
Reliability estimate: 3

OTHER TAX PREFERENCE ITEMS

Other tax preference items available for this tax are covered in the Miscellaneous Tax Preferences chapter of this report:

Juvenile restitution credit

Cite: 14-1-22.1:

Tax credit for installation cost (hydroelectric power developers)

Cite: 44-30-22:

Investment Credit

Cite: 44-31:

Adult education credit

Cite:44-46:

Daycare Assistance

Cite: 44-47

Enterprise zone donations credit

Cite: 42-64.3-6

Enterprise zone business tax credit

Cite: 42-64.3-6

Enterprise zone interest credits

Cite: 42-64.3 -8.1

Research and Development - property

Cite: 44-32-2

Research and Development - expenses

Cite: 44-32-3

Small business investment modification

Cite: 44-43-2

Small business investment exemption

Cite: 44-43-5

S.B.A. loan guaranty fee credit

Cite: 44-43.1

Apprenticeships credit

Cite: 44-11-41

Elective deduction for research facilities

Cite: 44-32

Jobs development training credit

Cite: 42-64.6

SALES AND USE TAX
TITLE 44, CHAPTERS 18 AND 19, RIGL AS AMENDED

SUMMARY

At June 30, 1996, the Sales and Use Tax generated \$461,000,000 in revenue for the State of Rhode Island and is therefore the second of the three largest revenue sources. Research and review of the Sales and Use Tax show that there were 76 available tax preference items of various types for the Sales and Use Tax.

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.

Examples of items to which the Sales Tax applies are:

1. Sales of goods, wares, and merchandise; meals, alcohol and nonalcoholic beverages; motor vehicles (if not required to be registered), automobile lubricants and accessories (but not gasoline); building materials and fixtures and other types of tangible personalty.

Sales and casual sales of motor vehicles, boats, airplanes and trailers are taxable under the Use Tax.
2. Sales of food or drinks served at restaurants, soda fountains, hotels, bars, clubs and similar places.
3. Fabrication or production of personal property to the special order of a customer, such as printing or photography.

4. Furnishing of public utility services such as electricity, water, gas, community antenna television and cable television as well as telephone and telephone services.
- #
5. The leasing or renting of tangible personal property such as bicycles; typewriter and other business machines; trucks and automobiles; manufacturing equipment and other personalty.
6. Rental charges for transient accommodations for the first 30 days of each rental period.

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 the retailer collects from his or her customers all or a part of the tax which he or she pays to the state.

Permits

Any manufacturer, wholesaler, jobber or other business establishment which sells any tangible personalty to be used (and not resold) by the purchaser is a retailer as well as out-of-state vendors conducting activities in Rhode Island. All of these kinds of sellers must get a permit to collect the tax.

Sales Tax Returns and Payments

Generally on or before the 20th day of each month, the retailer must file a return for the previous calendar month and pay the tax due. In specifically approved cases, retailers may file on a less frequent basis.

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. Although usually reported and paid by the purchaser/consumer, in some cases, the use tax will be collected from the consumer by a retailer.

Use tax returns are required from every retailer and also from every person who purchases property subject to the use tax unless the tax has already been paid to a retailer authorized to collect it. Returns must be filed on or before the 20th day of the month to cover the preceding calendar month and the tax must be remitted with the return.

The largest single area of use tax collection is on motor vehicles which are required to be registered. The law excludes these vehicles from the Sales tax required to be charged and collected by the dealer/retailer and places the use tax burden specifically on the purchaser/consumer when the purchaser registers the vehicle in R.I. Although the use tax is collected by the Division of Taxation as part of the registration process, the motor vehicle is taxable whether registered or not.

TAX PREFERENCE ITEMS

INTRODUCTION:

In the same manner as the other taxes covered by this report, the following are the details of the tax preference items. The details are presented by a legal citation to the Sales and Use Tax law, a brief description of the tax preference item (its kind or type) and a reliability estimate for the cost of the tax preference item. Because of the nature of the Sales and Use Tax, there are no indirect preference items.

DIRECT PREFERENCE ITEMS

1. Cash Discounts:

Cite: 44-18-12 (b) (1)

Reliability estimate: 5

This tax preference item excludes the amount of cash discounts allowed and taken from the sales price on which the Sales tax is levied.

2. Refunded within 120 days:

Cite: 44-18-12 (b) (2)

Reliability estimate: 5

This tax preference item excludes the entire sale if the entire sales price (exclusive of handling charges) is refunded and the property is returned within 120 days.

3. Installation labor stated separately:
Cite: 44-18-12 (b)(3)
Reliability estimate: 5
This exclusion applies to the amount for labor or services separately stated for installing or applying the property sold or for altering wearing apparel.
4. Federal taxes:
Cite: 44-18-12 (b)(4)
Reliability estimate: 5
This tax preference item excludes from the sale price the taxes imposed by the U.S. Government (but not manufacturers' and employers' excise taxes).
5. Transportation charges stated separately:
Cite: 44-18-12 (b)(5)
Reliability estimate: 5
This tax preference item excludes transportation charges if stated separately and if the transportation happens after the property is purchased.
6. Transfers between family members:
Cite: 44-18-20 (d)(1)
Reliability estimate: 5
This use tax exemption item applies to property transferred if the transferee or purchaser is the spouse, mother, father, brother, sister or child of the transfer or seller.
7. Transfers in business organization, reorganization, dissolution or partial liquidation:
Cite: 44-18-20 (d)(2)
Reliability estimate: 5
This use tax preference item allows transfers or sales to be made without tax if they are in connection with the organization, reorganization, dissolution or partial liquidation of a business with certain provisions but only if certain other separate criteria exist.
8. Sale or transfer of residence trailer:
Cite: 44-18-20 (d)(3)
Reliability estimate: 5
This use tax preference item excludes the sale or transfer of a trailer ordinarily used for residence purposes (homes, trailer or mobile home) but does not include a camping trailer.
9. Transferee is exempt:
Cite: 44-18-20 (d)(4)
Reliability estimate: 5
This use tax preference item applies if the purchaser is already exempt under provisions of 44-18-30 (such as

charitable, educational or religious organizations with a valid exemption). This item may also apply if the purchaser is exempt under other parts of the Rhode Island General Laws or under a separate act of the General Assembly.

10. Casual sales:

Cite: 44-18-20 (g)

Reliability estimate: 5

This tax preference item gives an exclusion for up to 5 casual sales in any 12-month period.

11. 120 days total loss or destruction:

Cite: 44-18-21(c)

Reliability estimate: 5

This use tax exclusion applies to the total loss or destruction of a motor vehicle within 120 days of its purchase if the purchaser has paid the tax. The exclusion is applied as though it were an overpayment of tax when the owner replaces the vehicle.

12. Sales for Resale:

Cite: 44-18-25

Reliability estimate: 4

This exclusion applies when items are sold to a person or company which will resell them rather than consume them and requires that the purchaser give the seller a resale certificate.

13. Demonstration boats:

Cite: 44-18-26.1

Reliability estimate: n/a

This tax preference item excludes boats which are used for "demonstration purposes" as set out in the law. This exemption is redundant due to the general exemption for boats. See #62 in this part of the report.

14. Sales and use beyond state constitutional power:

Cite: 44-18-30 (1)

Reliability estimate: 5

This exemption from Sales and Use Tax provides the necessary opening for those items the sale or use taxation of which would be prohibited under either United States constitution or the Rhode Island constitution. This Sales Tax exemption is presented for completeness only since its amendment or removal would have major constitutional consequences.

15. Newspapers:

Cite: 44-18-30 (2)

Reliability estimate: 3

This exemption covers publications issued regularly at intervals not exceeding 3 months.

16. School meals:

Cite: 44-18-30 (3)

Reliability estimate: 5

This exemption covers the sales of meals to students and teachers by schools, colleges, universities, student organizations and PTAs and by persons having a concession agreement with the specific school or college.

17. Containers:

Cite: 44-18-30 (4)

Reliability estimate: 3

This exemption covers both returnable and nonreturnable containers of specific kinds. Nonreturnable containers are exempt when sold without the contents to people who put the contents in the containers and sell the contents with the materials used for packing. Returnable containers are exempt when sold with the contents in connection with the retail sale of the contents. Returnable containers are also exempt when sold for refilling.

18. Charitable, educational, and religious organizations:

Cite: 44-18-30 (5)

Reliability estimate: 5

This exemption applies in sales to but not sales by institutions or organizations operated exclusively for educational, religious or charitable purposes such as hospitals not operated for profit, educational institutions not operated for profit, churches, orphanages, interest-free nonprofit loan associations, nonprofit sporting leagues and bands for youths under 19, nonprofit senior citizens groups, parent-teacher organizations and the following vocational student organizations (which are chapters of national organizations): Distributive Educational Clubs of America (DECA); Future Business Leaders of America/Phi Beta Lambda (FBLA/PBL); Future Farmers of America (FFA); Future Homemakers of America/Home Economics Related Occupations (HERD); and Vocational Industrial Clubs of America (VICA). These sales must not only be made to these organizations but the payments made for these sales must be made by the organization or institution.

This exemption also carries provisions for contractors' ability to purchase materials or supplies which are going to be used in construction of projects not only for these organizations and institutions but also for contracts with the Federal Government, the State of Rhode Island or other states in the United States, Rhode Island agencies, cities, towns and districts.

19. Gasoline:

Cite: 44-18-30 (6)

Reliability estimate: 2

This exemption applies to gasoline and other fuels taxed under Title 31, Chapter 36 of the Rhode Island General Laws. (Also see information on the gasoline tax in this report).

20. Purchase for manufacturing purposes:

Cite: 44-18-30 (7)

Reliability estimate: 3

This exemption applies to tangible personalty and various public utilities' services when the property or service becomes a component part of a product manufactured for resale or when the product or service is consumed directly in a manufacturing or processing of products for resale. This consumption must occur within one year from the date the property is first used in production in order to be exempt.

21. State and political subdivisions:

Cite: 44-18-30 (8)

Reliability estimate: 5

This exemption excludes both Sales and Use Tax for items sold to and used by the State of Rhode Island and any city, town, district or political subdivision of Rhode Island. Additionally, redevelopment agencies created under Title 45, Chapter 31 of the Rhode General Laws are deemed to be subdivisions of the municipalities in which they are created.

22. Food products:

Cite: 44-18-30 (9)

Reliability estimate: 3

This tax exemption applies to all food products sold for human consumption (including noncarbonated and noneffervescent, bottled water). This tax expenditure item does not exclude meals served on or off the premises of the retailer.

23. Medicines and drugs:
Cite: 44-18-30 (10)
Reliability estimate: 3
This tax exemption excludes "medicines" and "drugs" (defined in Title 5, Chapter 19, Section 1 of the RIGL) sold on prescriptions and all proprietary medicines commonly called patent medicines.
24. Prosthetic and orthopedic appliances:
Cite: 44-18-30 (11)
Reliability estimate: 5
This exemption for Sales and Use Tax applies to such things such as crutches, artificial limbs, dentures, eyeglasses, hearing aids and other prosthesis.
25. Coffins, caskets, and burial garments:
Cite: 44-18-30 (12)
Reliability estimate: 3
This exemption applies to coffins, caskets, shrouds and other burial garments ordinarily sold by a funeral director.
26. Motor vehicles sold to nonresidents:
Cite: 44-18-30 (13)
Reliability estimate: 4
This exemption applies to the sale of a motor vehicle to a bonafide nonresident who does not register it in Rhode Island and it applies whether or not the delivery of the motor vehicle is made in Rhode Island or at the nonresident's residence. This provision also provides for negation of the exemption for any nonresident who, within 90 days of the sale, registers the motor vehicle in Rhode Island.
27. Sales in public buildings by blind people:
Cite: 44-18-30 (14)
Reliability estimate: 4
This exemption applies to the sale in public buildings of any products by a person licensed under Title 40, Chapter 9, Section 11.1. R.I.G.L.
28. Air and water pollution control facilities:
Cite: 44-18-30 (15)
Reliability estimate: 4
This exemption applies to air and water pollution control equipment incorporated into or consumed directly in the operation of a control facility approved by the Department of Environment Management.

29. Camps:
Cite: 44-18-30 (16)
Reliability estimate: 5
This exemption applies to the rental charge for living quarters at camps or retreats operated by charitable, educational or religious organizations having a valid exemption and also applies to privately owned and operated summer camps for children.
30. Certain Institutions:
Cite: 44-18-30 (17)
Reliability estimate: 3
This exemption applies to the rental charged for living or sleeping quarters at institutions licensed to give hospitalization, custodial or nursing care to human beings.
31. Educational institutions:
Cite: 44-18-30(18)
Reliability estimate: 5
This exemption applies to the rental charges by educational institutions for living quarters for students or teachers whose attendance is necessary.
32. Motor vehicle purchases by paraplegics:
Cite: 44-18-30(19)
Reliability estimate: 2
This exemption applies to the sale of a motor vehicle to a person furnishing a physician's affidavit that he or she is a paraplegic.
33. Heating fuels:
Cite: 44-18-30(20)
Reliability estimate: 3
This exemption applies to every type of fuel used in both homes and residential premises.
34. Electricity and gas:
Cite: 44-18-30(21)
Reliability estimate: 3
This exemption applies to all electricity and gas furnished for domestic use by the occupants of residential premises.
35. Manufacturing machinery and equipment:
Cite: 44-18-30(22)
Reliability estimate: 4
This exemption applies to tools, dies and molds and machinery and equipment (including replacement parts) if used directly and exclusively in an industrial plant in the manufacture of tangible personalty to be sold or to furnish power to the manufacturing plant.

36. Trade in value of a motor vehicle:
Cite: 44-18-30(23)
Reliability estimate: 3
This exemption applies to the sales price of a new or used motor vehicle by allowing a reduction for the value of the vehicle given in trade. This modification in measure also applies to the proceeds received from an insurance claim from a stolen or damaged vehicle and to the proceeds received if the automobile is repurchased by the manufacturer.
37. Precious metal bullion:
Cite: 44-18-30 (24)
Reliability estimate: 5
This exemption applies to precious metal bullion if the transaction is substantially equivalent to a transaction in securities. The exemption does not include fabricated metal processed for industrial, professional or artistic uses.
38. Sales by the Bicentennial Commission:
Cite: 44-18-30 (25)
Reliability estimate: 1
This exemption applies both to purchases by the Bicentennial Commission and also to its sales.
39. Commercial vessels (50 tons):
Cite: 44-18-30 (26)
Reliability estimate: n/a
This exemption applies to sales made to commercial ships, barges or other vessels of 50 tons burden or more primarily engaged in interstate or foreign commerce and also includes provisions, supplies and materials purchased for maintenance and repair. This exemption is redundant due to the general exemption of boats. See #62 in this part of the report.
40. Commercial fishing vessels (5 tons):
Cite: 44-18-30 (27)
Reliability estimate: n/a
This exemption applies to sales of vessels and other watercraft of more than 5 net tons if used exclusively for commercial fishing and also applies to fishing equipment used in connection with the commercial fishing done by the vessel. This exemption is redundant due to the general exemption of boats. See #62 in this part of the report.
41. Clothing and footwear:
Cite: 44-18-30 (28)
Reliability estimate: 3
This exemption applies to articles of clothing and footwear intended to be worn or carried on the human body

but does not include footwear or clothing for athletic activities or protective uses. This exemption also includes wearing materials or cloth to be used for clothing purposes.

42. Water for residential use:

Cite: 44-18-30 (29)

Reliability estimate: 3

This exemption applies to water furnished for domestic use by the occupants of residential premises.

43. Bibles:

Cite: 44-18-30 (30)

Reliability estimate: 1

This tax preference item exempts any canonized scriptures of tax exempt, nonprofit religious organizations. This includes the Old and New Testament versions.

44. Boats to nonresidents:

Cite: 44-18-30 (31)

Reliability estimate: n/a

This tax exemption applies to sale of boats to bona fide nonresidents. This exemption is redundant due to the general exemption for boats. See #62 in this section of the report.

45. \$20 Sales of certain nonprofits:

Cite: 44-18-30 (32)

Reliability estimate: 5

This exemption applies to the sale of items for not more than \$20.00 each by nonprofit Rhode Island organizations for youth activities and sales by accredited elementary and secondary schools for school purposes or for organized student activities.

46. Farm equipment:

Cite: 44-18-30 (33)

Reliability estimate: 5

This tax exemption applies to machinery and equipment used directly by a qualified farmer for commercial farming and agricultural production.

47. Compressed air:

Cite: 44-18-30 (34)

Reliability estimate: 5

This exemption applies to compressed air.

48. Flags:
Cite: 44-18-30 (35)
Reliability estimate: 5
This tax exemption applies to the sale or use of flags of the United States, the State of Rhode Island and for MIAs.
49. Amputee veterans' motor vehicles and equipment:
Cite: 44-18-30 (36)
Reliability estimate: 2
This tax exemption applies to a motor vehicle and adaptive equipment to and for the use of a veteran with a service connected loss of a leg, foot, hand, or arm, or for any veteran who is a double amputee, whether service connected or not.
50. Textbooks:
Cite: 44-18-30 (37)
Reliability estimate: 5
This exemption applies to the sale or use of textbooks by an "educational institution" defined in subsection S of 44-18-30 R.I.G.L.
51. Items and supplies used in hazardous waste treatment:
Cite: 44-18-30 (38)
Reliability estimate: 4
This exemption is for tangible personal property or supplies used or consumed in the operation of equipment if the exclusive function of that equipment is recycling, reuse, or recovery of materials (other than precious metals) from hazardous waste treatment.
52. Literature of boat manufacturers:
Cite: 44-18-30 (39)
Reliability estimate: 5
This exemption applies to boat manufacturers' promotional and product literature if it is shipped to points outside of Rhode Island accompanying the product sold, shipped to out-of-state dealers for use in the sale of the product or mailed free to customers.
53. Food stamp items:
Cite: 44-18-30 (40)
Reliability estimate: 5
This exemption applies if payment for eligible food items is properly made in the form of U.S. Government Food Stamps (issued in accordance with the Food Stamp Act of 1977 as amended).
54. Transportation charges:
Cite: 44-18-30 (41)
Reliability estimate: 5

This tax exemption applies to the sale or hiring of motor carriers (as defined in 39-12-2(1)RIGL) to haul goods, if the contract or hiring cost is charged by a motor freight tariff filed with the Rhode Island Public Utilities Commission based on the number of miles driven or by the number of hours spent on the job.

55. Trade-in value of boats:

Cite: 44-18-30 (42)

Reliability estimate: n/a

This tax preference item is a reduction in the tax measure and applies to that part of the purchase price paid for a new or used boat which comes from a trade-in allowance on the boat traded in by the buyer. This also applies to the proceeds received from an insurance claim resulting from a stolen or damaged boat applied to the purchase of another boat. This exemption is redundant due to the general exemption for boats. See #62 in this section of the report.

56. Equipment used for research and development:

Cite: 44-18-30 (43)

Reliability estimate: 5

This exemption applies to equipment used predominantly for research and development purposes by a qualifying firm. A "qualifying firm" means a business for which the use of "research and development" equipment is an integral part of its operation, and "equipment" means scientific equipment, computers, software and related items.

57. Coins:

Cite: 44-18-30 (44)

Reliability estimate: 5

This tax exemption applies to coins which have numismatic or investment value.

58. Farm structure construction materials:

Cite: 44-18-30 (45)

Reliability estimate: 5

This tax exemption applies to lumber, hardware and other materials used in the new construction of farm structures including production facilities and other structures used in connection with commercial farming.

59. Telecommunications carrier access service:

Cite: 44-18-30 (46)

Reliability estimate: 5

This tax exemption applies to carrier access or telecommunications service purchased by a telecommunications company from another telecommunications company.

60. Boats brought into this state for winter storage, maintenance, repair or sale:
Cite: 44-18-30 (47)
Reliability estimate: n/a
This tax exemption applies to boats brought into this state between October 1 and April 30 exclusively for winter storage, maintenance, repair or sale. This exemption is redundant due to the general exemption for boats. See #62 in this section of the report.
61. Tangible personal property used to display any jewelry product:
Cite: 44-18-30 (48)
Reliability estimate: 5
This tax exemption applies to tangible personal property used to display any jewelry product, provided that title to said jewelry display product is transferred by the jewelry manufacturer or seller and that said jewelry product is shipped out of state for use solely outside the state and is not returned to the jewelry manufacturer or seller.
62. Boats:
Cite: 44-18-30 (49)
Reliability estimate: 3
This tax exemption applies to the sale and to the storage, use or other consumption in this state of any new or used boat.
63. Regulated investment companies interstate toll-free calls:
Cite: 44-18-30 (50)
Reliability estimate: 5
The tax 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 a regulated investment company.
64. Mobile and manufactured homes:
Cite: 44-18-30 (51)
Reliability estimate: 2
The tax exemption applies to mobile and/or manufactured homes.
65. Taxes paid elsewhere:
Cite: 44-18-30-A(a)
Reliability estimate: 5
This use tax preference item exempts property on which the purchaser has already lawfully paid a Sales or Use Tax to another state if the rate of tax was greater than or

equal to the Rhode Island rate. If the rate was less than the Rhode Island rate, the amount of tax due Rhode Island is reduced by the amount of out of state tax paid.

66. Taxes paid on motor vehicles of armed forces personnel:

Cite: 44-18-30-A(b)

Reliability estimate: 3

This use exemption applies to motor vehicles of Armed Forces Service personnel bought in Rhode Island if the purchaser is stationed outside Rhode Island and has paid a Sales or Use Tax to another state in an amount greater than or equal to Rhode Island.

67. Sales to Federal Government:

Cite: 44-18-31

Reliability estimate: 5

This tax preference item excludes gross sales of tangible personalty to the United States Government, its agencies and instrumentalities.

68. Sales to common carriers:

Cite: 44-18-33

Reliability estimate: 5

This Sales Tax exclusion applies to sales of items to a common carrier if actually shipped by the seller (via the carrier) to a point outside Rhode Island for use by the common carrier as part of its business.

69. Sales by writers, composers and artists:

Cite: 44-18-30B

Reliability estimate: 5

This tax preference item applies to writers, composers and artists residing in and conducting business within a section of the defined economic development zone in the city of Providence.

70. Use tax exemption if subject to Sales Tax:

Cite: 44-18-34

Reliability estimate: n/a

This use tax exemption applies if the gross receipts from the sale of the property are required to be included in the Sales tax measure. This exemption is included for completeness only. No estimate of loss is possible since this item's change or deletion would raise constitutional double taxation issues.

71. Property purchased from Federal Government:

Cite: 44-18-35

Reliability estimate: n/a

This exemption applies to property bought from the United States Government but only to the extent that the

taxation would violate the U.S. Constitution. This tax preference item is included for completeness only since its change or deletion could have major constitutional consequences.

72. Prior to July 1, 1947, purchase by user while a nonresident:

Cite: 44-18-36(1)

Reliability estimate: n/a

This exemption provides relief for items bought by a nonresident user prior to the Sales and Use Tax law's imposition. This exemption is included for completeness only. There was no sales and use tax prior to July 1, 1947.

73. Property bought elsewhere by nonresident:

Cite: 44-18-36(2)

Reliability estimate: n/a

This exemption applies to property bought outside Rhode Island by a nonresident and then brought by the nonresident into Rhode Island for his or her own use. This tax preference item is included for completeness only since its change or deletion could have major constitutional consequences.

74. Property otherwise exempted from Sales tax:

Cite: 44-18-36(3)

Reliability estimate: n/a

This exemption applies to purchases of property for which the purchaser would have been expressly exempt if the sale was taxable. This exemption is included for completeness only. No estimate of loss was practical since the change or deletion of this exemption would raise serious logic and structural questions for the tax.

75. Exemption for buses, trucks and trailers in interstate commerce:

Cite: 44-18-40

Reliability estimate: 3

This tax preference item applies to the purchase, rental or lease of buses, trucks or trailers by bus or trucking companies utilized exclusively in interstate commerce.

76. Exemption for certain energy products:

Cite: 44-18-40.1

Reliability estimate: 5

This tax preference item applies to sale of or storage, use or consumption of electricity, steam or thermal energy produced, transmitted and/or sold by the RI Port Authority and Economic Development Corporation.

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

SUMMARY

At June 30, 1996, the Business Corporation Tax generated \$63,100,000 in revenue for the State of Rhode Island and is therefore the third of the three largest revenue sources. Research and review of the Business Corporation Tax as set out in Title 44, Chapter 11 shows that there were 22 available direct tax preference items of various types.

Additionally, there are 20 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 Miscellaneous Tax Preferences where each preference item is covered individually with its own reliability estimate.

DESCRIPTION OF TAX

The following is a brief overview of the Business Corporation Tax. It is for the reader's benefit and is not intended to be all inclusive or to take the place of the law.

Corporate Tax Basics

At June 30, 1996, corporations deriving income from sources in Rhode Island or engaging in activities for the purpose of profit or gain were required to pay a tax of the higher of 9% of net income as reported to the Federal Government and apportioned to Rhode Island. The minimum Business Corporation Tax is \$250.

Returns and Other Information

A Business Corporation Tax return must be filed on or before the 15th day of the third month following the close of the taxable year. Extensions similar to those provided federally are available. Corporations must make estimated payments of tax if the tax liability can be reasonably expected to exceed \$500.00 in excess of allowable credits.

For the purposes of this report these treatments are considered and include [but are not limited to] the ability to file on a consolidated basis (subject to Rhode Island provisions); the ability to elect Subchapter S status, and the ability to be treated as a domestic, international sales corporation (DISC) in a manner similar to the federal treatment.

TAX PREFERENCE ITEMS

INTRODUCTION:

The following are details of the corporate tax preference items called for in this report. The details include a legal citation to the Business Corporation Tax law, and a brief description of the tax preference item (its kind or type). For ease of reference, tax preference items which may be used by more than one type of taxpayer are not listed here but may be found under the Miscellaneous Tax Preference Items part of this report.

DIRECT TAX PREFERENCE ITEMS

1. Financial institutions

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

Reliability estimate: 3

This tax preference item is an exclusion and excludes from the definition of a corporation (and therefore from this tax) financial institutions such as state banks, mutual savings banks, federal savings banks, trust companies, national banking associations, building and loan associations, credit unions, and loan and investment companies. These financial institutions are taxable under other chapters of the General Laws.

2. Public service companies

Cite: 44-11-1(a)(2)

Reliability estimate: 5

This subsection is an exclusion and excludes public service corporations (usually called utilities) from tax under 44-11 since these companies are taxed under the Public Service Corporation chapter of the Rhode Island General Laws.

3. Insurance companies

Cite: 44-11-1(a)(3)

Reliability estimate: 5

This tax preference item excludes insurance and surety companies from being taxed under the Business Corporation Tax unless they are taxed under 44-17, the Insurance Premiums Tax.

4. Nonprofits

Cite:44-11-1(a)(4)

Reliability estimate: 5

This section of the Business Corporation Tax excludes most normal nonprofit corporations, such as colleges, schools, incorporated hospitals and other classes of companies normally designated as "nonprofits" from this tax.

5. Fraternal benefit societies

Cite:44-11-1(a)(5)

Reliability estimate: 5

This section of the Business Corporation Tax excludes fraternal benefit societies set out in Title 27, Chapter 25, Section 1 from being taxed as a business corporation.

6. Specific charter exemption

Cite:44-11-1(a)(6)

Reliability estimate: 5

This portion of the Business Corporation Tax law excludes any corporation which is expressly exempt from taxation from charter. This would include all those corporations specifically chartered by the Legislature which have within them specific provisions to prevent the Business Corporation Tax from being applied.

7. Security companies

Cite: 44-11-2(b)

Reliability estimate: 3

This tax preference item gives a different tax basis of tax for companies which are dealing in securities on their own behalf and derive 90% of their gross receipts from these securities' activities. While the corporations are excluded from net worth, they must pay the net income tax but are taxed at only 50% of the excess of capital gains over capital losses for the taxable year.

8. Investment companies

Cite:44-11-2(c)

Reliability estimate: 3

This tax preference item, like 44-11 2(b) above it, involves a special measure of tax if the company is a personal holding company, a regulated investment company or a real estate investment trust. The tax is based on the normal tax base minus 50% of the excess of capital gains over capital losses. The tax rate is 10 cents for each \$100.00 of gross income for the year or a tax of \$100.00, whichever is greater.

9. Subchapter S corporations

Cite: 44-11-2(d)

Reliability estimate: 5

This tax preference area allows small business corporations, which have valid Subchapter S elections with the IRS to be excluded from the Business Corporation Tax providing that resident and nonresident shareholders properly report their income.

10. Consolidation

Cite: 44-11-4

Reliability estimate: 5

This area of the Business Corporation Tax allows an affiliated group of corporations to file Rhode Island consolidated return providing that certain technical criteria are met.

11. Interest on Federal and Other Obligations

Cite:44-11-11(a)(4)

Reliability estimate: 5

This tax preference item removes the interest from federal obligations of the United States or its possessions and other interest exempt from tax by Rhode Island from the calculation of net income in the Business Corporation Tax. This exclusion is presented for completeness only since its amendment or removal would raise major constitutional challenges.

12. Net operating loss deduction

Cite: 44-11-11(b)

Reliability estimate: 3

The net operating loss deduction for Rhode Island purposes generally follows the net operating loss deduction allowed under Section 172 of the Internal Revenue Code with some specific determinative criteria

which must be met. This section also allows the taxpayer to carry back a net operating loss within stated parameters.

13. DISC's

Cite 44-11-11(c)

Reliability estimate: 5

This tax preference item allows domestic international sales corporations (DISC's) to be treated for Business Corporation Tax purposes in the same manner as they are treated for federal tax purposes.

14. FSC's

Cite: 44-11-11(d)

Reliability estimate: 5

This subsection allows foreign sales corporations (FSC's) to be treated and taxed in the same manner as they are treated and taxed for federal purposes.

15. Amortization of air and water pollution control facilities

Cite: 44-11-11.1

Reliability estimate: 1

This tax preference item allows taxpayers to amortize the treatment facility over a period of 60 months. This preference item is basically in the nature of a rapid writeoff. The amortization deduction requires that the federal depreciation or amortization, if any, must be added back as the Rhode Island calculation is made. The treatment facility must be certified by the Director of Environmental Management in order for the election of this rapid amortization to be valid.

16. Accelerated amortization deduction for certain manufacturers:

Cite: 44-11-11.3

Reliability estimate: 1

This tax preference item allows certain types of manufacturers to amortize the unrecovered basis of all or a portion of depreciable assets over 60 months.

17. Bank shares' dividends exclusion

Cite: 44-11-12(a)

Reliability estimate: 5

This tax preference item is an exclusion from the Business Corporation Tax for any dividends the corporation receives from a banking institution liable to the bank

excise tax under 44-14. It should be noted that this exclusion applies only to the shares of a banking institution and not to bank holding companies, since only the banking institution itself would be subject to the bank excise tax.

18. Local company shares' dividends exclusion

Cite:44-11-12(b)

Reliability estimate: 5

This tax preference item excludes from the taxpayers' net income any dividends received from corporations which are subject to tax under the Business Corporation Tax act. In operation, this tax preference item removes the additional 15% over and above amounts of the federal dividends received deduction already in place for the corporation.

19. Utility interest and dividends exclusion

Cite: 44-11-12(c)

Reliability estimate: 5

This tax preference item excludes from the Business Corporation Tax base any amounts of interest or dividends from the shares of stock, bonds or notes of public utilities subject to tax under Title 44, Chapter 13, which is the public service corporation tax act.

20. Apportionment

Cite: 44-11-14

Reliability estimate: 3

This tax preference item allows corporations with a regular place of business outside Rhode Island to apportion their net income by averaging:

1. The ratio of real and tangible property held or owned in Rhode Island to such property everywhere;
2. The ratio of salaries and wages paid in Rhode Island to salaries and wages everywhere; and
3. The ratio of gross receipts in Rhode Island to gross receipts everywhere.

In computing the gross receipts factor, the point of destination is used to determine receipts from sales of tangible and personal property. 100% of the receipts from these sales are attributed to Rhode Island if the property is located here and is shipped to points here or when the property is located outside Rhode Island and the shipment is made to points within Rhode Island.

21. Certified facility apportionment

Cite: 44-11-14.1

Reliability estimate: 1

This tax preference item is available to corporations if they have a Rhode Island facility which is both certified and registered by the USFDA and is considered manufacturing. The taxpayer's apportionment factor may then subtract any increase in Rhode Island realty and tangible personalty from the numerator of the taxpayer's property tax apportionment factor.

22. Allocation and apportionment of regulated investment companies and securities brokerage services:

Cite: 44-11-14.2

Reliability estimate: 3

This tax preference item is available to be elected by specialized regulated investment companies and brokerage service corporations. These companies are allowed to apportion by a one factor formula based upon receipts from Rhode Island domiciles. There is a five year election.

INDIRECT TAX PREFERENCE ITEMS

For purposes of this report, indirect tax expenditures which occur through the adoption of the Internal Revenue Code in the definition of "net income" at Title 44, Chapter 11, Section 11 are the ordinary and necessary expenses allowed for federal tax purposes and for which it would almost impossible to determine fiscal impact.

OTHER TAX PREFERENCE ITEMS

Other tax preference items available for this tax are covered in the Miscellaneous Tax Preferences chapter of this report:

Hydroelectric power development credit

Cite: 44-30-22

Investment credit

Cite: 44-31

Elective deduction for new research and development facilities

Cite: 44-32

Education assistance and development credit
Cite: 44-42

Small Business Investment Modification
Cite: 44-43-2

Small Business Investment Exemption
Cite: 44-43-5

S.B.A. Loan Guaranty Fee Credit
Cite: 44-43.1

Adult education tax credit
Cite: 44-46

Daycare assistance and development credits
Cite: 44-47

Juvenile Restitution Credit
Cite: 14-1-32.1:

Enterprise Zone Donation Credit
Cite: 42-64.3-7.1

Enterprise Zone Business Tax Credit
Cite: 42-64.3-6

Enterprise Zone Interest Credits
Cite: 42-64.3-8.1

Research and Development Credit - Property
Cite: 44-32, Section 2

Research and Development Credit - Expenses
Cite: 44-32, Section 3

Job Development Credit
Cite: 42-64.5

Job Training Credit
Cite: 42-64.6

Apprenticeships credit
Cite: 44-11-41

Welfare employment bonus credit
Cite: 44-39.1

Jobs development rate reduction
Cite: 42-64.5

TAX EXPENDITURES REPORT
MISCELLANEOUS TAXES

INTRODUCTION:

To give the reader a better understanding of the taxes not described elsewhere in this report, the following are brief summaries of each tax and listings of the tax preferences available to each tax with a legal citation for the reader's use. Since most of these taxes take their basis from Rhode Island statutes, there are few indirect tax preferences taken from the adoption of other tax codes.

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 Miscellaneous Tax Preferences where each preference item is covered individually with its own reliability estimate.

SUMMARY: In addition to the 3 taxes covered elsewhere in this report, the Division of Taxation is responsible for the levy, collection, and administration of 34 other taxes. In these taxes, there are a total of direct tax preferences available in various forms.

DETAILS:

1. **Unemployment Tax:**

Cite: 28-42, 28-43 and 28-44

This tax is imposed on every employer and finances the Unemployment Insurance Fund which provides unemployed workers a means of getting through a temporary period of involuntary unemployment. Employers are taxed at rates ranging from 2.15% to 8.25% on the first \$17,600 of wages paid to each employee in 1997. In addition, non-profit employers, governmental entities and religious organizations may elect to be self insured.

Tax Preferences: None. Employees exempt from the tax are not eligible to receive unemployment benefits.

2. **Temporary Disability**

Cite: 28-39, 28-40, and 28-41

This tax is imposed on employees at the rate of 1.2% on earnings up to \$38,000 and finances the Temporary Disability Insurance Fund. The Fund provides benefits to workers for non-work related sickness and/or injuries.

Tax Preferences: None. Workers exempt from the tax are not eligible to receive temporary disability benefits.

3. **Job Development:**

Cite: 28-42 and 28-43

This tax is imposed on employers and is used to stimulate long-term economic development, integrate women and minorities into the workforce and improve workers' educational skills. Employers are taxed at the rate of 0.15% on the first \$17,600 of wages paid to each employee in 1997.

Tax Preferences: None. This tax takes its authority from the Employment Security Act.

4. **Admissions Tax to Racing Events:**

Cite: 44-29

This tax is levied and assessed at the rate of 1 cent for each 5 cents or fraction of admissions charge to any racing event at which pari-mutuel betting is permitted. The term "admissions" means all charges established for admissions except those specifically designated as service charges.

Tax Preferences: None.

5. **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 same and appear below:

The tax rates and service charges shown below are those currently in effect.

<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
Ethyl alcohol (beverage)	7.50 per gallon
Ethyl alcohol (nonbeverage use)	.08 per gallon

Tax Preferences:

1. Sacramental wines purchased by clergy
Cite: 3-10-1
Reliability estimate: 4
2. First 100,000 barrels of beer from RI for every manufacturer
Cite: 3-10-1
Reliability estimate: 1
3. RI manufacturer ships out of state
Cite: 3-10-2
Reliability estimate: 4

6. Bank Deposits Tax:

Cite: 44-15

This tax is imposed annually on every bank at .0695 (for banks with total deposits in excess of \$150,000,000) or at .0625 (for banks with total deposits of \$150,000,000 or less) on each \$100 of daily average of the deposits during the calendar year. For the period January 1, 1997 to December 31, 1997 the 0.0695 rate is reduced to 0.0348 and beginning January 1, 1998 and thereafter, the rate is 0%.

The tax imposed on every credit union with total deposits in excess of \$150,000,000 is .0695 on each \$100 of the daily average of deposits and for credit unions with total deposits of \$150,000,000 or less, the rate is .0625 on each \$100 of the daily average of deposits.

A report is filed by December 15 of each year showing the tax due the following June 15, when the tax return and payment are filed.

Tax Preferences:

1. Out of state deposits
Cite: 44-15-1(2)(ii) and 44-15-1.1(2)(ii)
Reliability estimate: 5
2. Percentage deposits for U.S. Government obligations
Cite: 44-15-1.1(2)(i) and 44-15-2
Reliability estimate: 2
3. Credit for franchise tax paid
Cite: 44-15-4
Reliability estimate: 2

Other credits available covered in the Miscellaneous Tax Preferences part of this report:

Adult education credit

Cite: 44-46

Welfare employment bonus credit

Cite: 44-39.1

7. Bank Excise Tax:

Cite: 44-14

This tax is imposed annually on each state bank, trust company, or loan and investment company for the privilege of existing as a banking institution during any part of the year. The excise tax is measured by:

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

The tax payable is the higher of the two; but a national bank within this state must only pay the excise tax measured by #1 above. The minimum tax payable is \$100. The tax is self-assessed and must be filed and paid on or before March 15 of each year.

Tax Preferences:

1. Gains and losses from property other than securities
Cite: 44-14-11
Reliability estimate: 3
2. Gains and losses from securities
Cite: 44-14-12
Reliability estimate: 3

3. Security losses writedowns
Cite: 44-14-14
Reliability estimate: 5
4. Dividend exclusions
Cite: 44-14-15(1), (2), and (3)
Reliability estimate: 5

Other credits available for this tax are covered in the Miscellaneous Tax Preferences part of this report:

Employment tax credit

Cite: 44-39.1

Education assistance and development tax credit

Cite: 44-42

Small business capital investment deduction

Cite: 44-43-2(c)

Long term capital gain exemption

Cite: 44-43-5

Daycare credits

Cite: 44-47

Adult education credit

Cite: 44-46

Enterprise Zone donations credit

Cite: 42-64.3-7.1

Enterprise Zone business tax credit

Cite: 42-64.3-6

Enterprise Zone interest credits

Cite: 42-64.3-8.1

Jobs development rate reduction

Cite: 42-64.5

Jobs development training credit

Cite: 42-64.6

8. **Beverage Container Tax:**

Cite: 44-44

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

For the tax's purposes, "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 must file a return for the previous calendar month and pay the tax due.

Tax Preferences:

1. Constitutional exemption
Cite: 44-44-3.6
Reliability estimate: 3

9. Cigarette Tax:

Cite: 44-20

This tax is 30 and 1/2 mills for each cigarette (61 cents per package of twenty) and for each sheet of cigarette rolling paper sold or held for sale within Rhode Island. Payment of the tax is shown by the tax indicia on the bottom of the package. Distributors purchase indicia (stamps or meter impressions) at a discount to compensate them for stamping the packages.

Tax Preferences:

1. Ten packages of out of state cigarettes
Cite: 44-20-16
Reliability estimate: 5
2. Discount for stamping
Cite: 44-20-19
Reliability estimate: 1
3. Holding period for unstamped cigarettes
Cite: 44-20-33
Reliability estimate: 5

10. Estate Tax:

Cite: 44-22 and 44-23

This tax is levied on the transfer of the net value of the assets of every resident decedent and the value of real and personal property of nonresident decedents located within this state. Under 44-22-1.1 the tax is a pickup of the federal credit; and, as such there are preferences provided indirectly by the federal statutes.

Tax Preferences: none by state statute

11. Franchise Tax:

Cite: 44-12

This tax is imposed on every corporation chartered in Rhode Island or qualified to do business at the rate 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 \$100.

Inactive corporations and those not engaged in business in R.I. during the taxable year are taxed: \$100 where the stock does not exceed \$400,000; \$125 where the stock exceeds \$400,000 but does not exceed \$1,000,000; and \$12.50 per additional \$1,000,000 or fraction.

This tax is payable only when it is more than the business corporation tax and is due within 15 days after billing.

Tax Preferences:

1. Taxation under 44-11
Cite: 44-12-1
Reliability estimate: 4
2. Corporations specifically exempted
Cite: 44-12-11
Reliability estimate: 5

12. Gasoline Tax:

Cite: 31-36

This tax is imposed on the distributor at 11% of the average wholesale selling price of a gallon of fuel and the tax cannot be less than 25 cents per gallon.

Distributors also pay an excise tax equal to 2% of the wholesale price per gallon and the excise tax cannot be less than 3 cents per gallon.

All distributors are required to make deposit payments for quarterly periods during each month and must file a tax return on or before the 20th of the month following the close of each calendar quarter. The difference between the actual amount of tax liability for the entire quarter and the sum of the amounts previously paid for that quarter is reconciled when the return is filed.

Tax Preferences:

1. Exclusion for lubricating oil, marine diesel and heating oil
Cite: 31-36-1(a)
Reliability estimate: 3

2. Federal and state excise taxes excluded from "wholesale selling price".
Cite: 31-36-7(d)
Reliability estimate: 1
3. Sales to the United States government
Cite: 31-36-13
Reliability estimate: 2
4. Railroad transportation equipment
Cite: 31-36-13
Reliability estimate: 3
5. Refunds for special uses
Cite: 31-36-15
Reliability estimate: 2

13. Generation Skipping Transfer Tax:

Cite: 44-40

This tax is imposed on every generation skipping transfer for which a credit is allowable under the Federal Code (26 U.S.C Subsection 2602). The tax is imposed in an amount equal to the allowable Federal credit.

Tax Preferences:

1. Realty or personalty in another state
Cite: 44-40-53
Reliability estimate: 5

14. Hotel Tax:

Cite: 44-18-36.1

This tax is collected and remitted monthly by all hotels, motels, tourist homes, tourist camps, lodging houses and inns offering transient lodging accommodations. The 5% tax applies to the first thirty consecutive calendar days of each rental. The Hotel tax is due on or before the 20th day of the month following the month for which the return is required.

Tax Preferences: The Hotel tax is a separate tax included in title 44, Chapter 18 having to do with the liability and computation of Sales and Use Tax. The law provides, in part, as follows:

".. This hotel tax shall be administered and collected ... and unless otherwise provided to the contrary in this chapter, all administration, collection, and other provisions of chapters 18 and 19 of this title shall apply..."

Accordingly, tax preferences found in the Sales and Use tax law are applicable, at least in theory, to the Hotel Tax.

15. Insurance Premiums Tax:

Cite: 44-17

This tax is paid by all domestic insurance companies (except marine insurance companies) doing business in Rhode Island. These companies must file a return each year by March 1 and pay a tax of 2% of gross premiums. These are premiums on insurance contracts written during the preceding calendar year. The same tax applies to out-of-state insurance companies but the tax cannot be less than that which would be levied by the state or organization on a similar Rhode Island insurance company or its agents doing business to the same extent there, unless the domestic state has a similar reciprocal non-retaliatory statute as Rhode Island.

Tax Preferences:

1. Ocean marine insurance company exclusion
Cite: 44-17-1
Reliability estimate: 5
2. Fraternal benefit society exclusion
Cite: 44-17-1
Reliability estimate: 5
3. Premiums returned and reinsurance assumed
Cite: 44-17-2
Reliability estimate: 4
4. Retaliatory rate provisions
Cite: 44-17-1
Reliability estimate: 4

Other credits available for this tax are covered in the Miscellaneous Tax Preferences part of this report:

Employment tax credit

Cite: 44-39.1

Education assistance and development tax credit

Cite: 44-42

Small business capital investment deduction

Cite: 44-43-2(d)

Daycare credits

Cite: 44-47

Enterprise Zone donations credit

Cite: 42-64.3-7.1

Enterprise Zone business tax credit

Cite: 42-64.3-6

Enterprise Zone interest credits
Cite: 42-64.3-8.1

S.B.A. Loan guaranty fee credit
Cite: 44-43.1

Adult education credit
Cite: 44-46

Jobs development rate reduction
Cite: 42-64.5

16. Jai Alai Betting and Breakage Taxes:

Cite: 41-7

This tax is levied on each licensee conducting jai alai events, and is: (1) a tax equal to 3% of the amounts contributed to the mutuel pool, and (2) a tax equal to one-half (1/2) of the breakage to the dime.

Tax Preferences:

1. Licensee's Commission
Cite: 41-7-6
Reliability estimate: 1

17. Litter Participation and Permit Fees:

Cite: 44-44

This tax is implemented by having all persons, corporations or other business entities selling or offering for retail sale food or beverages for immediate consumption and/or packaged food or beverages for sale on a "take out" or "to go" basis get a permit each August based on the gross receipts from the prior calendar year.

When issued, the permit runs on a calendar year. A permit is required for each place of business in which the retailer makes taxable sales of food and/or beverage. The tax rates based on gross receipts are:

<u>Gross Receipts Table</u>	<u>Class</u>	<u>Permit Fee</u>
\$ -0- to less than \$ 50,000	A	\$ 25
\$ 50,000 to less than \$100,000	B	\$ 35
\$ 100,000 to less than \$400,000	C	\$ 75
\$ 400,000 to less than \$ 1,000,000	D	\$100
\$ 1,000,000 or more	E	\$125
		per million & fraction thereof

Tax Preferences:

1. New business Class A permit
Cite: 44-44-3.3(a)
Reliability estimate 5
2. Constitutional exemption
Cite: 44-44-3.6
- Reliability estimate: 4

18. Motor Carrier Fuel Use Tax:

Cite: 31-36.1

This tax is levied on motor carriers (at the same rate as the gasoline tax) for the use of fuel to propel certain motor vehicles on Rhode Island's public highways.

In December of 1991, the Federal government passed legislation mandating that after September 30, 1996 "No state shall maintain any law that has fuel tax requirements that are not in conformity with the International Fuel Tax Agreement (IFTA). IFTA was formed as a voluntary compact between member states and Canadian provinces to promote uniformity in motor carrier fuel use tax reporting and to ease the paperwork burden on interstate carriers. Fundamental to the agreement 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 filing in every state in which the carrier operates.

Rhode Island legislation was passed in July, 1994 allowing the Tax Administrator to enter into IFTA. IFTA was implemented by Rhode Island on July 1, 1996.

Any motor carrier based in Rhode Island and operating one (1) or more qualified vehicles in at least one other IFTA member jurisdiction must obtain an IFTA License each calendar year. "Qualified Motor Vehicles" are vehicles that are used, designed or maintained for transporting persons or property and:

- have two axles and a gross vehicle weight or registered gross weight exceeding 26,000 pounds (11,797 kilograms) or
- have three or more axles regardless of weight or
- are used in combination and the gross weight or registered gross weight of the combined vehicles exceeds 26,000 pounds (11,797 kilograms)

IFTA LICENSE AND DECALS. Each licensee is issued an IFTA license. The licensee is required to make legible

copies of the license and place one copy in each vehicle. Each licensee is issued two vehicle identification decals (\$10.00 per set) for each qualified vehicle in its fleet.

FUEL USE TAX REPORTING REQUIREMENTS. Each Rhode Island licensee is required to file an IFTA quarterly report. The tax due or credit / amount is calculated for each member jurisdiction on the report. If there is a net tax due, the licensee must submit a check payable to the Rhode Island Division of Taxation. If there is a credit due, the licensee will have the option to carryover the credit over to the next quarter or receive a refund.

Tax Preferences:

1. Refund for tax paid to R.I.
Cite: 31-36.1-15
Reliability estimate: 2

19. Pari-Mutuel Betting and Breakage Taxes:

Cite: 41-3.1

This tax is paid by the licensee of a dog track at the rate of 5 1/2% of the amounts contributed to the mutuel pool and one-half (1/2) the breakage to the dime.

Tax Preferences:

1. Licensee's Commission
Cite: 41-3.1-6
Reliability estimate 1

20. Public Utilities' Gross Earnings Taxes:

Cite: 44-13

This tax is an annual excise payable each March 1 by public service corporations. The tax is measured by gross earnings for the preceding 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%; 2% effective July 1, 1994; 1% effective July 1, 1995 and 0% effective July 1, 1996. For manufacturers only, a reduction of 1% per year effective July 1, 1994 for both gas and electric until the rate is 0%; and

- (4) Common carrier steamboat, ferryboat, street railway, dining car, sleeping car, chair car or parlor car corporations and water and toll bridge companies -- 1 1/4%; and
- (5) Telecommunications corporations -- 6% effective July 1, 1988; and 5% effective July 1, 1997.

The minimum tax payable is \$100.

Tax Preferences:

1. Narragansett Pier Railroad
Cite: 44-13-1(a)
Reliability estimate: 1
2. Subject to Business Corporation Tax
Cite: 44-13-1(b)
Reliability estimate: 5
3. Carrier access fees
Cite: 44-13-1(b)
Reliability estimate: 5
4. Electricity sold for resale
Cite: 44-13-4(b)
Reliability estimate: 5
5. Telecommunications companies nonvoice services
Cite: 44-13-4(d)
Reliability estimate: 5
6. Merchandise sales
Cite: 44-13-5
Reliability estimate: 4
7. Apportionment
Cite: 44-13-10
Reliability estimate: 5

Other tax preferences available for this tax are covered in the Miscellaneous Tax Preferences part of this report:

Employment tax credit

Cite: 44-39.1

Education assistance and development tax credit

Cite: 44-42

Small business capital investment deduction

Cite: 44-43-2(b)

Small business long term capital gain exemption

Cite: 44-43-5

Daycare credits

Cite: 44-47

Enterprise zone donations credit
Cite: 42-64.3-7.1

Enterprise zone business tax credit
Cite: 42-64.3-6

Enterprise zone interest credits
Cite: 42-64.3-8.1

Adult education credit
Cite: 44-46

21. Real Estate Conveyance Tax:

Cite: 44-25

This tax is imposed on each deed, instrument or writing by which interests in real estate are conveyed to a purchaser. The consideration for the conveyance must be more than \$100, and if no consideration is paid, the deed must state that no documentary stamps are required.

For the fiscal year ended June 30, 1996, the tax is at \$1.40 per \$500 (or fraction thereof) of the purchase price of the property including any liens or encumbrances remaining at the time of sale. Unless otherwise agreed, the tax is paid by the grantor. Payment of the tax is shown by the recorder affixing a stamp to the original instrument.

Tax Preferences:

1. Consideration \$100 or less
Cite: 44-25-1(a)
Reliability estimate: 3
2. Statement in lieu of consideration
Cite: 44-25-1(b)
Reliability estimate: 5
3. Grantor is United States, State of Rhode Island or political subdivisions
Cite: 44-25-2(a)
Reliability estimate: 5
4. Capital Center Project
Cite: 44-25-2(b)
Reliability estimate: n/a

22. Special Tax on Tangible Personalty:

Cite: 44-13-13

This tax is a property tax on the tangible personalty of telegraph, cable, express and telecommunications corporations where the property is exempted from local taxation. By April 15 of each year the Tax Division,

(using certifications made by the Department of Administration based on the companies' declarations of property held) issues billings which are payable within 60 days.

Tax Preferences:

1. Limited depreciation allowance
Cite: 44-13-13(1)(e)
Reliability estimate: 5

23. Hard-To-Dispose-Material Tax:

Cite: 44-44

The hard-to-dispose material taxes include: tax of five cents (\$0.05) per quart (32 oz.) or five and 3/10th cents (\$0.053) per liter on lubricating oils; ten cents per gallon or two and 64/100th cents (\$0.0264) per liter on antifreeze; one fourth of one cent (\$0.0025) per gallon or (\$0.000066) per liter on organic solvents; and fifty cents (\$0.50) per tire. For new motor vehicles, a fee of \$3.00 per vehicle is paid to the Registry of Motor Vehicles in conjunction with the titling of the new vehicle.

Tax Preferences:

1. Constitutional exemption
Cite: 44-44-3.6
Reliability estimate: 3

24. Simulcast Tax:

Cite: 41-11-3

Each licensee conducting wagering in a simulcast betting facility under the pari-mutuel systems pays the state a tax on such programs at the rate of:

1. four percent (4%) of the total money wagered thereon on win, place and show wagers;
2. four percent (4%) of multiple wagers therein involving two (2) animals; and
3. five and one-half percent (5.5%) on exotic wagers therein involving three (3) or more animals.

"Simulcast" means the live television broadcast of programs either interstate or intrastate to a licensee of a licensed facility within the state of Rhode Island.

Tax Preferences:

1. Commissions

Cite: 41-11-3

Reliability estimate: 1

25. Tobacco Products Tax:

Cite: _44-20

This is an excise tax imposed on all smokeless tobacco, cigars and pipe tobacco products (hereinafter referred to as "tobacco products") sold or held for sale by distributors in this state. The tax is computed at the rate of twenty percent (20%) of the wholesale cost of tobacco products.

Every distributor engaging in the business of selling "tobacco products" in Rhode Island is required to secure a license from the Tax Administrator. A person presently licensed as a Rhode Island Cigarette Distributor is not required to secure a license for purposes of this law.

The distributor is required to file a monthly "Tobacco Products Tax Return" along with payment on or before the 10th day of each month for the preceding month's tax liabilities. A dealer of "tobacco products" is liable for the payment of tax on all tobacco products in his/her possession at any time, upon which the tax has not been paid by a licensed distributor. An invoice from a licensed distributor(s) will be presumptive evidence that the tax has been paid to the Tax Administrator by such distributor. Any dealer liable for the tax is required to file a monthly "Tobacco Products Tax Return" in the same manner as a distributor.

Tax Preferences: None

26. Retail Tire Fee:

Cite: 23-63

A fee of seventy-five cents (\$0.75) is imposed on each vehicle tire sold at retail. The fee is separately stated and collected by the retailer when making a sale to a consumer. Every tire retailer is required to file a return on or before July 10th of each year with the Tax Administrator and pay the amount of tax due for the previous twelve month period. All fees collected are deposited into the "Tire Remediation Account" and used for purposes specified in 23-63-4.2.

Tax Preferences:

1. Fees deposited into restricted account
Cite: 23-63-4.1
Reliability estimate: 1

27. Rental Vehicle Surcharge:

Cite: 31-34.1

A six percent (6%) surcharge applies to all rentals of private passenger automobiles rented in Rhode Island. The surcharge is applied to the first ten (10) consecutive days only on all rental contracts, regardless of the duration of the rental. The surcharge applies to the total amount of the contract, including charges for gas, insurance, etc., but before adding sales tax. The sales tax is computed on the entire charge, including the surcharge.

Fifty percent (50%) of the surcharge revenue is retained by the rental company and fifty percent (50%) is remitted to the state for deposit in the general fund on a quarterly basis.

Each rental company collecting and retaining surcharge amounts may reimburse itself from the funds retained for the total amount of motor vehicle licensing fees, title fees, registration fees and transfer fees paid to the State of Rhode Island and excise taxes imposed upon the rental companies' motor vehicles during the prior calendar year.

The rental companies are required to file an annual rental surcharge return with the Division of Taxation and remit to the state any amount by which the surcharge collections exceed the amounts paid for allowable fees and excise tax. The return must be filed by February 15 for the previous calendar year.

Tax Preferences:

1. 50% surcharge retained by rental company to offset specific expenses
Cite: 31-34-1.-2 (b)
Reliability estimate: 1

28. Environmental Protection Regulatory Fee:

Cite: 46-12.9

A fee of one cent (\$0.01) is imposed on each gallon of motor fuel sold to owners and/or operators of underground storage tanks. The purpose of this law is to establish a

fund to facilitate the clean-up of leaking underground storage tanks in order to protect the environment, including drinking water supplies and public health.

Tax Preferences:

1. Restricted account
 - Cite: 46-12.9-4(c)
 - Reliability estimate: 1

29. Uniform Oil Response Fee:

Cite: 46-12.7

A uniform oil spill response and prevention fee in an amount not exceeding five cents (\$0.05) for each barrel of petroleum products is imposed upon every person owning petroleum products at the time the petroleum products are received at a marine terminal within Rhode Island by means of a vessel from a point of origin outside this state.

The fee is remitted to the Division of Taxation on the 30th day of each month based upon the number of barrels of petroleum products received during the preceding month.

Every owner of petroleum products is liable for the fee until it has been paid to the state, except that payment to a registered marine terminal operator is sufficient to relieve the owner from further liability for the fee.

Tax Preferences:

1. Restricted fund within the General Fund
 - Cite: 46-12.7-2.1
 - Reliability: 1

30. Conveyance Tax on Mobile or Manufactured Home

Cite: 31-44

A tax is imposed on the conveyance of a mobile or manufactured home when the consideration paid exceeds \$100.

The tax is imposed at the rate of \$1.40 for each \$500 or fractional part thereof paid for the mobile or manufactured home. This does not include modular homes outside of a mobile and/or manufactured home park. Payment of the tax is made to the Recorder of Deeds of the city or town in which the mobile or manufactured is located. Evidence of the tax paid is shown by the Recorder of Deeds

affixing a stamp to the original instrument of conveyance. Unless otherwise agreed, the tax is paid by the grantor.

Tax Preferences:

1. Consideration \$100 or less
Cite: 31-44-16 (a)
Reliability estimate: 3
2. Statement in lieu of consideration
Cite: 31-44-16 (b)
Reliability: 5

31. Taxation of Marijuana and Other Controlled Substances

Cite: 44-49

The law requires dealers of illegal drugs to purchase tax stamps from the Rhode Island Division of Taxation and have them affixed to marijuana or other controlled substance packets, bags, bottles, etc. Dealers of drugs seized without the appropriate tax stamps are subject to an assessment plus a penalty equal to 100% of the tax. The tax rates are as follows:

- | | |
|-----------|---|
| \$ 3.50 | on each gram of marijuana or each portion of a gram |
| \$ 200.00 | on each gram of controlled substance or portion of a gram |
| \$ 400.00 | on each 10 dosage units of a controlled that is not sold by weight or portion thereof |

Tax Preferences: None

32. Healthcare Provider Assessment

Cite: 44-50

This chapter provides an assessment of 6% imposed on residential facilities for the mentally retarded based on gross patient revenues received during the month.

Tax Preferences: none

33. Nursing Facility Provider Assessment

Cite: 44-51

This chapter provides an assessment of 3.75% imposed on nursing facilities based on gross patient revenues received during the month.

Tax Preferences: none

34. Outpatient Health Care Facility Provider Assessment

Cite: 44-52

Although technically enacted, this law was never put into existence because of wording which had a dependency on federal regulations.

Tax Preferences: none

TAX EXPENDITURES REPORT
MISCELLANEOUS TAX PREFERENCE ITEMS

SUMMARY

This portion of the Tax Expenditures Report is devoted to those tax preference items which may be used to reduce more than type of tax. The preferences give a list of those taxes against which the preference item may be claimed; provide a brief description of the tax preference item; and include a reliability estimate for the cost of tax preference item.

TAX PREFERENCE ITEMS

DETAILS

1. Juvenile restitution credit
Cite: 14-1-22.1:
Reliability estimate: 2
Available for: 44-11 and 44-30
Credits are available to Rhode Island taxpayers for 10% of the wages paid to a juvenile employee who is part of the Juvenile Restitution Program set up by the Court System under this subsection. Credits taken may not be more than \$3,000 per year.

2. Enterprise Zone Donation Credit:
Cite: 42-64.3-7.1
Reliability estimate: 2
Available for: 44-11, 44-13, 44-14, 44-17 and 44-30
A taxpayer is allowed a 20% credit against the taxes imposed by 44-11, 44-13, 44-14, 44-17 or 44-30 for donations to public supported improvements in the Zone. the credit has a maximum of \$10,000 per year, has no carryforward and is limited to the donated amount allowed and claimed on the donor's federal tax return.

3. Enterprise Zone Business Tax Credit:

Cite: 42-64.3-6

Reliability estimate: 2

Available for: 44-11, 44-13, 44-14, 44-17 and 44-30

A business which has been certified by the Enterprise Zone Council is allowed a credit against Chapters 44-11, 44-14, 44-17 or 44-30 for 50% of the Rhode Island salaries and wages paid only to those newly hired enterprise jobs workers comprising the employees included in the 5% test used for certification by the council. If the business received Federal or state wage assistance for any of the workers for which the credit is claimed, the business must reduce the worker's wage by that assistance and the maximum credit for each enterprise jobs worker is \$10,000. The credit has no carryforward.

4. Enterprise zone interest credits:

Cite: 42-64.3-8.1

Reliability estimate: 2

Available for: 44-11, 44-13, 44-14, 44-17, and 44-30

Lenders to a certified business may be eligible for credits based on the interest paid by the business. The interest must have been paid by the business and received and treated by the lender as income to qualify. Credits under these provisions have no carryovers. Under the regular interest credit, the credit is 10% of the interest to a maximum credit of \$10,000 per taxpayer. Under the special rehabilitation interest credit, the taxpayer is allowed a 100% credit (\$20,000 maximum) for interest on loans to a qualified business for rehabilitation of a Council-certified industrial or commercial property if the amount of the loan is a minimum of 25% of the business' basis in the real property.

5. Employer's Apprenticeship Credit

Cite: 44-11-41

Reliability estimate: 2

Available for: 44-11 and 44-30 (Subchapter S election)

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 if the number of apprenticeships for which tax credit is allowed exceed the average number of apprenticeships begun in the 5 preceding years. The credit is 50% of the actual wages paid to the apprentice or \$4,800 whichever is less.

6. Tax credit for installation cost (hydroelectric power developers)

Cite: 44-30-22:

Reliability estimate: 1

Available for: 44-11 and 44-30

A hydroelectric power developer is allowed a credit for the installation cost of a small hydroelectric power production facility. The credit is for 10% of the installation costs and is limited to \$500,000 in expenditures for a maximum credit of \$50,000. This nonrefundable credit has a maximum carry forward of 5 years from the tax year in which the credit was first applied at existing dam sites in Rhode Island.

7. Investment Credit

Cite: 44-31:

Reliability estimate: 2

Available for:

A credit is allowed for the purchase, construction, reconstruction or erection of tangible personalty and other tangible property (including buildings) which is in Rhode Island and is principally used by the taxpayer in the production of goods by manufacturing, processing or assembling. The credit is computed at 4% of the cost or other basis used for Federal Income Tax purposes. The credit is not allowed on rented or leased property.

8. Research and Development Credit - Property

Cite: 44-32, Section 2

Reliability estimate: 2

Available for: 44-11 and 44-30

A credit is available for research and development property acquired, constructed, reconstructed or erected after July 1, 1994. the credit is 10% of the cost or other basis of realty or tangible personalty which is depreciable; has a useful life of 3 years or more; was acquired by purchase; has a situs in Rhode Island and is used principally for purposes of research and development in the experimental or laboratory sense. The credit is not available for leased property and unused credit may be carried forward for 7 years.

9. Research and Development Credit - Expenses

Cite: 44-32, Section 3

Reliability estimate: 2

Available for: 44-11 and 44-30

A credit is available for qualified research expenses. The credit is 5% of the excess, if any of the qualified research expenses in the taxable year over the base period

research expenses. The terms "qualified research expenses" and "base period expenses" have the same meaning as defined in the Internal Revenue Code and the expenses must have been incurred in Rhode Island after July 1, 1994.

10. Educational Assistance Development Credit

Cite: 44-42

Reliability Estimate: 2

Available for: 44-1, 44-13, 44-14, and 44-17

This credit offers corporate taxpayers a credit of 8% of the contribution in excess of \$10,000 made to a Rhode Island institution of higher education and the contribution is to be for the establishment or maintenance of programs of scientific research or education. Amounts of unused credit may be carried over for 5 years.

11. Small Business Investment Modification

Cite: 44-43-2

Reliability estimate: 4

Available for: 44-11, 44-13, 44-14, 44-17 and 44-30

A modification or deduction in the amount of the taxpayer's investment is available to the taxpayer in the year of first investment in a certified venture capital partnership or qualifying business entity.

12. Small Business Investment Exemption

Cite: 44-43-5

Reliability Estimate: 4

Available for: 44-11, 44-13, 44-14 or 44-30

An exclusion for certain types of long term capital gains recognized by partners in certified venture capital partnerships and by entrepreneurs in a qualifying business entity.

13. S.B.A. Loan Guaranty Fee Credit

Cite: 44-43.1

Reliability estimate: 2

Available for: 44-11, 44-17 and 44-30

Taxpayers who have paid a loan guaranty fee to the Small Business Administration (S.B.A.) in order to obtain guaranteed financing on which they are the primary obligors may take the amount of the fee as a credit in the year in which the fee was paid.

14. Adult education credit

Cite: 44-46:

Reliability estimate: 4

Available for: 44-11, 44-13, 44-14, 44-15,
44-17 and 44-30

This tax preference item allows an employer in this state a credit of 25% of the costs incurred solely and directly for enumerated, worksite- or non-worksite-based adult education programs limited with a maximum credit per employee of \$200 and a maximum credit per taxable year for each employer of \$1,000. The employee whose adult educational 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 be come eligible for the credit.

15. Credits for daycare assistance and development:

Cite: 44-47

Reliability estimate: 2

Available for: 44-11, 44-13, 44-14, 44-17 and 44-30

These credits are computed generally at 30% of the amount of Rhode Island licensed daycare purchased and 30% of the cost to establish and/or operate a Rhode Island licensed daycare facility whether established and/or operated by the taxpayer alone or in conjunction with others. Purchased daycare must be for the taxpayer's employees' dependent children or for children of the taxpayer's commercial tenants. Daycare facilities must be used primarily by the taxpayer's employees' dependent children or the children of the taxpayer's commercial tenants. Also, a credit of 30% of the amount foregone in rent or lease payments for space dedicated to child daycare services is available. The credit has been extended to include daycare for dependent adults if the facility is certified by the Department of Elderly Affairs.

16. Elective deduction for new research and development facilities:

Cite: 44-32

Reliability estimate: 4

A one-year writeoff is allowed for expenditures paid or incurred during the taxable year for the construction, reconstruction, erection or acquisition of any property which is used or to be used for the purposes of research and development in the experimental or laboratory sense.

17. Welfare employment bonus program credit
Cite: 44-39.1
Reliability estimate: 4
An employer hiring a person under the welfare bonus program under Title 40, chapter 6.3 is eligible for a credit.
18. Jobs development rate reduction
Cite: 42-64.5
Reliability estimate: 2
Available for: 44-11, 44-14 and 44-17
This program offers a rate reduction for employers who increase new employment of eligible workers.
19. Jobs training credit
Cite: 42-64.6
Reliability estimate: 2
Available for: 44-11, 44-13, 44-14, 44-17, and 44-30
A qualifying employer will allowed a credit for the qualifying expenses of offering training and or retraining to qualifying employees.