

State of Rhode Island
Department of Administration
Division of Taxation

**TAX EXPENDITURES
REPORT**

OCTOBER, 1989

CONTENTS

	<u>Page</u>
Letter of Transmittal	i
Table of Contents	ii
Executive Summary	1
Introduction and Methodology	9
Personal Income Tax	16
Sales and Use Tax	29
Business Corporation Tax	53
All Other Taxes	68
Appendices	
A. Personal Income Tax Forms	
B. Sales and Use Tax Form	
C. Business Corporation Tax Form	

TAX EXPENDITURE REPORT

EXECUTIVE SUMMARY

Overview:

This portion of the Tax Expenditure Report provides 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 1988 legislative session, Chapter 126, Article 12, Section 1 of the Public Laws, the Tax Administrator was charged with the responsibility of preparing a pilot tax expenditure report. This report includes a list of all the tax preference items in effect in the Rhode Island tax laws as of the end of the June 30, 1989 fiscal year. Additionally, the charge to the Tax Administrator was to provide an estimate of revenue loss for each tax preference item for which sufficient data was available to make an estimate. A final requirement of the report was that it include a recommendation as to the nature and scope of a permanent tax expenditure report.

Report Basics

Tax preference items for the purposes of the report are generally those provisions within the various tax laws which, when animated by circumstances, transactions, or time cause the revenue from that tax to be reduced as it flows into the general fund. Some of the more common tax preference items are exemptions, exclusions, modifications, deductions, credits and refunds.

Why a Report

Like our sister states, Rhode Island's tax expenditure report reflects prudent administrative concern about revenues. Historically, Rhode Island has derived more than 85% of its operational revenue from taxes of various kinds. It is, therefore, only logical that anything which reduces these revenue bases should be looked at periodically. Tax expenditure items decrease revenues just as surely as though actual checks had been written.

On June 30, 1989, the Division of Taxation was responsible for the administration and collection of 23 separate taxes. Of these 23, the vast majority of revenue comes from (in order of collection amount) the personal income tax, sales and use tax and business corporation tax. (Please refer to the bar graph in this section).

Because of the overriding importance of these 3 taxes, the report is structured for both these taxes' significance and effectiveness of resource use. It is only practical to put the greatest emphasis of limited personnel and resources into the analysis of the greatest concerns. Because of the constraints of both time and resources, it was felt that this first report would concentrate on the "Big Three".

For the purposes of this report, the remaining 20 taxes are addressed only to the extent of identifying each tax and listing its tax preference items. These other taxes and their preference items could be considerations for subsequent reports. The basic information and lists of tax preference items are contained in the other taxes section of the report.

Report Structure

This executive summary is 1 of the 7 parts into which the report is divided. The other 6 are, briefly: the introduction and the methodology section; the personal income tax section; the sales and use section; the business corporation tax section; the other taxes section; and the appendix section.

As information aids, each 1 of the 3 tax areas is prefixed with both a pie chart (to graphically show the reader how much the current tax revenue dollar is brought

in by the tax) and a 5-year bar chart (a historical summary of the revenues brought in by that tax for the last 5 fiscal years).

Resources and data

In performing the review, research, and analysis necessary to complete this report, the lack of reliable data was an important issue. Tax systems are not structured for data collection; and further, data, even if collected, is subject to certain practical realities such as the cost of retention and retrieval. When operational costs (particularly computer costs) are a priority, the theoretical, statistical trail loses out to more pragmatic concerns about costs.

This report was prepared from the best data available at the time and the report's sole function is to give general understanding about tax preference items and how they reduce the tax revenues of the state.

Some of the tax preference items were not able to be given an estimate of revenue loss. Many of these lacked reliable, underlying data. Others were not able to be evaluated for revenue loss, due not only to their underlying data but also due to the resource constraints under which this report was prepared. Simplistic comparisons for those items would not have yielded trustworthy estimates and elaborate modeling would have required the expenditure of additional resources and the efforts of additional personnel; neither of which was available to prepare this report.

Results Summary

In total for the 23 taxes for which the Division of Taxation was responsible, there were 192 tax preference items. For the 3 major taxes which this report covered in detail, there were 122 tax preference items. For 100 of these, reliable data was not available to make an estimate. For the remaining 22 tax preference items for the 3 major taxes, the total revenue loss able to be estimated for the fiscal year ended June 30, 1989 totaled \$351,018,000. The remaining 70 tax preference items belong to the 20 taxes which were not addressed in detail due to the time and resource constraints present in this report's preparation.

As a summary, a master comparison graph is included as part of this section. This graph compares actual revenues as collected by the Division of Taxation with estimates of revenue loss for those tax expenditure items for which reliable data were available to prepare an estimate.

Personal Income Tax Summary

As the largest of the 3 taxes studied in detail, this tax generated \$419,477,000.00 in revenue for the 1989 fiscal year. Research and review of its tax preference items revealed 20 tax preference items. For 14 of these 20, sufficient data was not available to make a reliable estimate.

The remaining 6 tax preference items are shown as follows (some items are grouped):

1. Political contributions checkoff	\$ 148,000.
2. Credit for taxes paid to other states	21,128,000.
3. Investment tax credit	127,000.
4. Property tax relief	545,000.
5. Energy credits (2 items)	76,000.
Total (6 items)	<u>\$22,024,000.</u>

Sales and Use Summary

As the second largest of the 3 taxes, this tax generated \$391,485,000.00 in revenue for the 1989 fiscal year. Research and review revealed 73 tax preference taxes. For 60 of these tax preference items, sufficient data was not available to make a reliable estimate.

The remaining 13 tax preference items are shown as follows (some items are grouped):

1. Sales for Resale	\$172,119,000.
2. Periodical	4,302,000.
3. Governments and Exempt Institutions (3 items)	23,813,000.
4. Cigarettes	4,033,000.
5. Gasoline and Exempt Fuels (2 items)	31,394,000.
6. Food	48,566,000.
7. Medicines and Drugs	8,628,000.
8. Trade-in of a Motor Vehicle	7,512,000.
9. Clothing and Footwear	22,857,000.
10. Energy Systems Refund	4,000.
Total (13 items)	<u>\$323,228,000.</u>

Business Corporation Tax

As the third largest of the 3 taxes, this tax generated \$63,782,000.00 in revenue for the 1989 fiscal year. Research and review revealed 29 tax preference taxes. For 26 of these tax preference items, sufficient data was not available to make a reliable estimate.

The remaining 3 tax preference items are shown in detail as follows:

1. Net operating loss deduction	\$3,262,000.
2. Investment Credit	2,504,000.
3. Juvenile restitution credit (de minimis)	- 0 -
Total (3 items)	<u>\$5,766,000.</u>

Other Taxes' Summary

For June 30, 1989, the remaining 20 taxes administered by the Division of Taxation accounted for \$252,855,000. or about 22% of the revenue the Division of Taxation brought in. Within these 20 taxes, there are a total of 70 tax preference items available in various forms.

Please refer to the individual sections covering these taxes within this report for the details of both the taxes and their tax preference items.

RECOMMENDATIONS

Part of the charge to the Tax Administrator is to submit as a portion of this report, recommendations for the nature and scope of a permanent tax expenditure act.

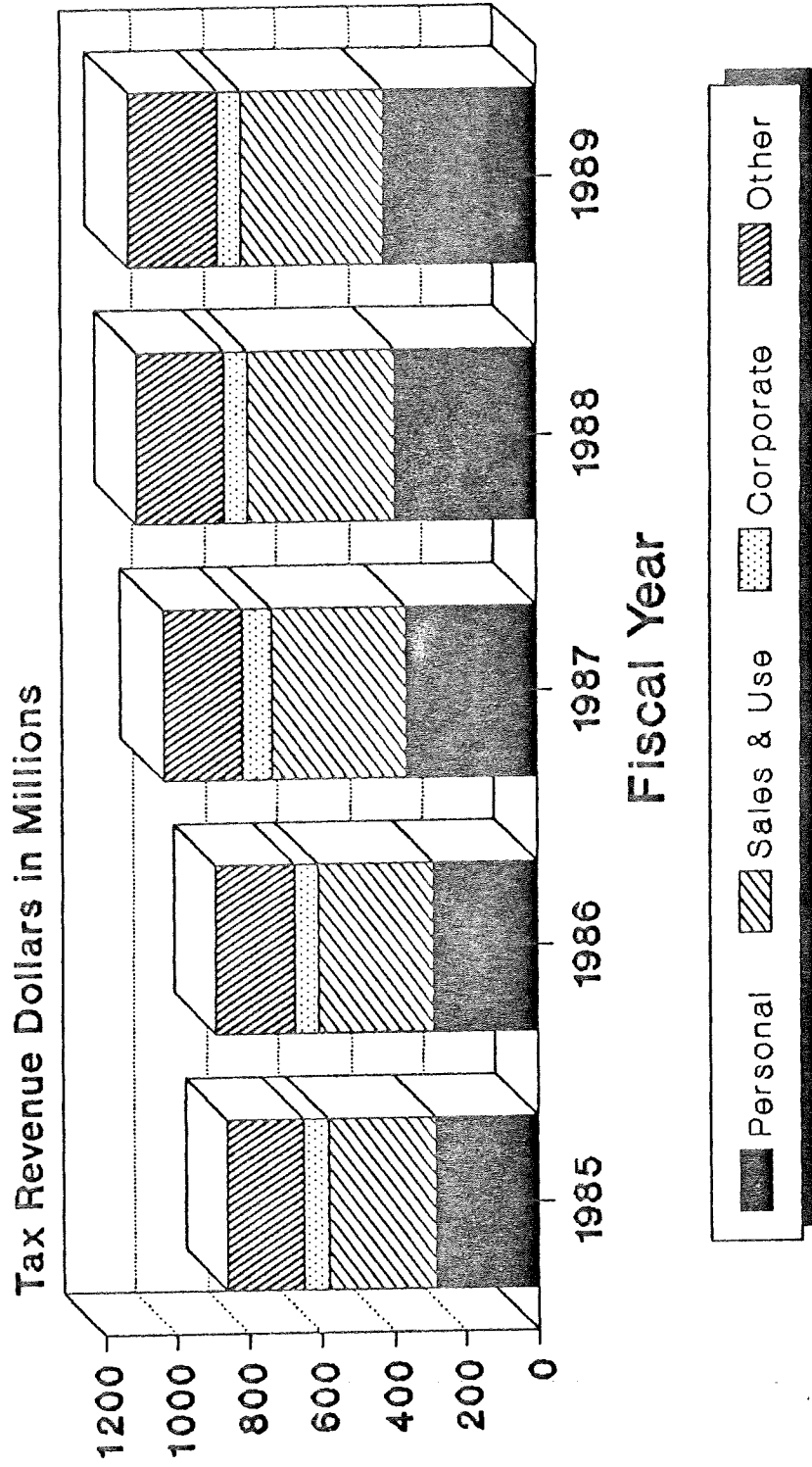
If this report is found useful to the Executive and Legislative branches, then I would recommend that its scope be broadened through an allocation of necessary resources and that it become a permanent, annual tax expenditure report.

It is not possible to broaden the scope of the report without resources; otherwise, it would mean taking staff away from our revenue producing function, which I cannot do.

Staff Credits:

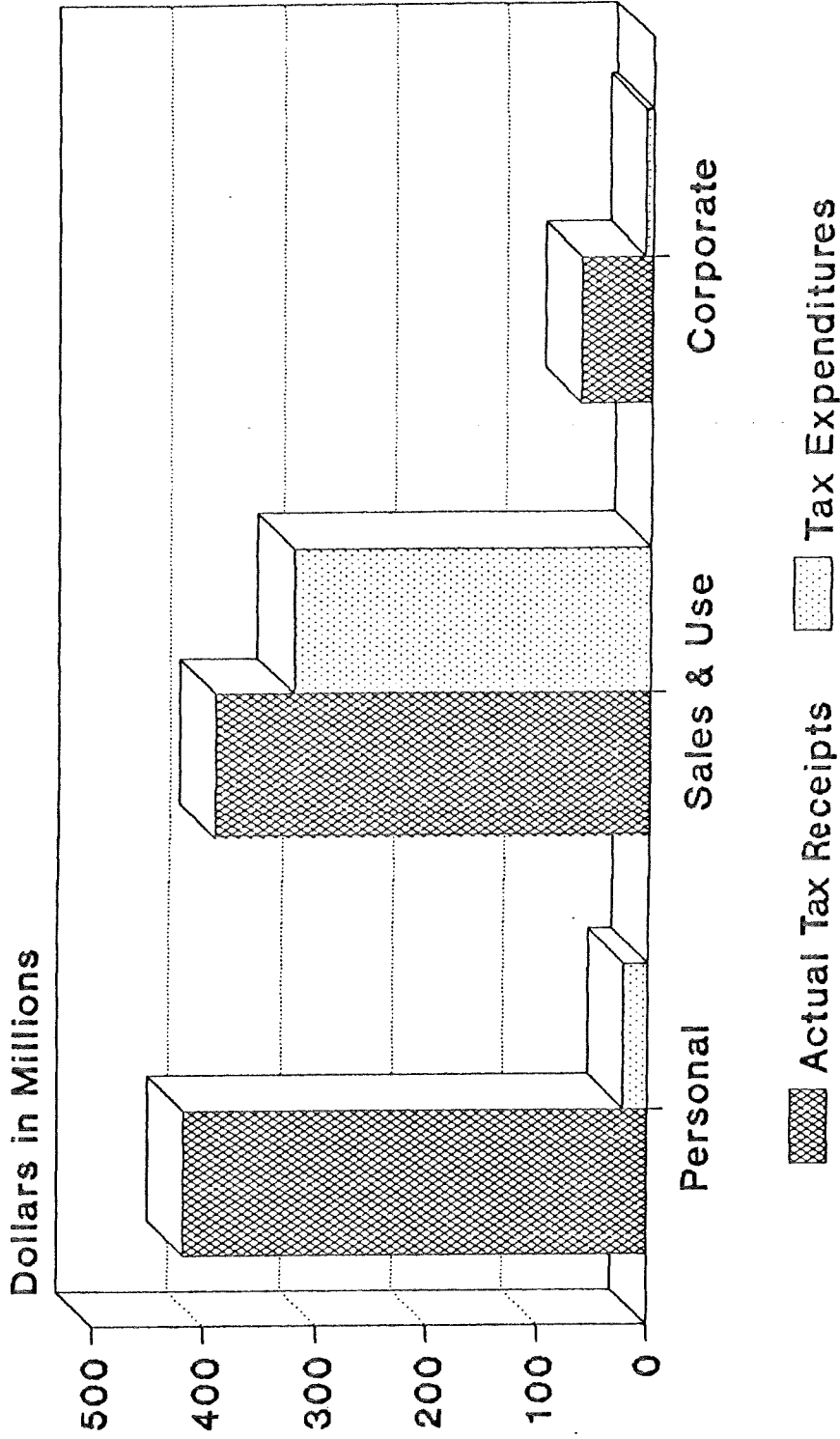
This report was prepared by Virginia R. Gifford, C.P.A. (Chief Revenue Agent - Research and Taxpayer Assistance).

REVENUE COMPARISON FIVE YEAR HISTORY



Source : 1985-88 Fiscal Facts
and 1989 Actual Cash Receipts

MASTER COMPARISON ACTUAL REVENUES AND TAX EXPENDITURES



Source: Actual 1989 Revenues
and Estimated Tax Expenditures

TAX EXPENDITURES REPORT

INTRODUCTION AND METHODOLOGY

OVERVIEW:

This part of the Tax Expenditures report gives the reader the basic information needed to understand certain concepts and terms used in the report.

INTRODUCTION

WHY A REPORT?

As part of the 1988 Legislative Session, Chapter 126, article 12, Section 1 of the Public Laws was enacted. This chapter, entitled "Tax Expenditure Pilot Project", provides as follows:

"On October 1, 1989 the state tax administrator shall deliver a pilot tax expenditure report to the governor, to the chairman of the house finance committee and to the chairman of the senate finance committee. The report shall include a listing of all tax preferences in effect under the tax laws of the state of Rhode Island as of June 30, 1989 and the revenue loss resulting from each such tax preference for which sufficient data is available to make an estimate. The report shall also include a recommendation as to the nature and scope of a permanent tax expenditure act."

Why a report? There is only one simple answer - because tax preference items of all kinds reduce the tax revenue the state receives.

Historically, the State of Rhode Island has derived more than 85% of its operational revenue from taxes. For the last five years, the three largest taxes studied in this report have provided the vast majority of the operating revenue of the state. It is, therefore, only logical that anything which reduces these revenue bases should be looked at periodically.

WHAT ARE TAX EXPENDITURES?

In order to understand the basic concepts used to determine what tax preference items are for the purposes of this report, the definition of tax preference items generally includes exemptions, exclusions, modifications, deductions, credits, and refunds from each tax for which the Division is responsible.

ITEMS NOT INCLUDED AS TAX EXPENDITURES

The following provisions found in the tax system are not considered tax preference items for the purposes of the Tax Expenditures project:

- 1. A reduction generally in the overall rate of tax, such as found in the Telecommunications Corporations under the Public Service Corporate Tax, or a gradual phase out of the tax itself, such as found in the Estate Tax.
- 2. Conditions under which certain types of licenses are not required, such as the Sales Tax provisions pertaining to casual sales and yearly sales.
- 3. Exclusion from the requirements to make estimated payments, such as those found in both the Personal Income Tax at Title 44, Chapter 30, Section 84 (b) and within the chapter pertaining to estimated payment requirements, Title 44, Chapter 26.

Exclusion from the requirement to make estimated payments is not a tax preference item, since it

does not exempt the taxpayer from paying the tax. It merely provides for short deferrals of the payment of the tax which will be paid later.

4. Reductions in the revenue received by the Division due to discounts allowed for the applications from indicia, such as the discounts allowed under the Real Estate Conveyance Tax and under the Cigarette Tax.
5. Checkoffs of the amounts which would initially be paid to a taxpayer as part of the Personal Income Tax refund process. These checkoffs, since they depend on the refund due the taxpayer, are merely vehicles for his or her donation and are not tax preference items.
6. Provisions which tie the tax base, key definitions, or calculation to another law. Good examples of these kinds of provisions include the definition of "net income" under the Business Corporation Tax law (44-11-11); and the various provisions in the Personal Income Tax law which anchor the Rhode Island treatment of income, deductions and other items in both resident and nonresident individuals, estates, and trusts in the corresponding parts of the Federal Income Tax laws.
7. Areas of administrative discretion, such as waivers of penalty, or adjustments made under the Sales and Use Tax provisions under 44-18-30 (S) for autos, which are valued at less than the book value.
8. Additional time allowed to file tax returns is a common item in most of the taxes for which the Division is responsible. This time is granted for the taxpayer to file; it is not time granted for the taxpayer to pay.
9. Special timeframes, other than the extension noted above, are allowed to Military Personnel or others who are out of the country. It is not a tax preference item, since the minimal time extension to file does not extend the time to pay the tax.

Structure of the Report

To orient the reader to the body of the study, each of the three main generating taxes is prefaced by summaries of the tax revenue generated at June 30, 1989 (according to the Tax Division), of the number of tax preference items found in the study, of the number of tax preference items for which estimates of revenue loss could not be made, and the total revenue loss from the tax preference items for which estimates could be made.

As information aids, each one of the three main tax areas is prefaced with both a pie chart (to graphically show the reader how much of the current tax revenue dollar is brought in by that tax) and a five-year bar chart (a historical summary of the revenues brought in by that tax for the last five fiscal years).

Following the summary, a statistical section gives information about the data and specific statistical approaches used for each of the three large revenue generators.

METHODOLOGY

The methodology section of this report describes the analysis of Rhode Island's tax laws; the process to retrieve and evaluate data as well as to make estimates of revenue losses where data was available.

Three of the twenty-three

For the last five years, the Personal Income Tax, Sales and Use Tax and Business Corporation Tax have generated the vast majority of the revenue received by the Division of Taxation; and consequently, the majority of revenues received by the State of Rhode Island. In addition to these three taxes, the Division was responsible for the administration and collection of 20 other taxes of June 30, 1989.

Because of the overriding importance of these 3 of the 23 taxes, the report is structured both for these taxes' significance and effectiveness of resource use. It is only practical to put the greatest efforts of limited personnel and resources into the analysis of the greatest concerns.

The perpetual dilemma

In evaluating both the various taxes and the data available about these taxes, the perpetual dilemma of researchers is evident. Tax systems are structured for the efficient assessment and collection of revenue; not to collect data. Data is only available if taxpayers put the information on their tax returns.

The classic example of this was found in the evaluation of information for the oldest of the three taxes - Sales and Use Tax. There is no penalty for retailers not to fill-in the deductions portion on the back of their monthly returns. Consequently, many of the retailers for Sales and Use Tax fill-out the front only.

Data is collected (when submitted) periodically and used for various executive and administrative processes and for Sales and Use Tax research. In making estimates of revenue loss for the tax preference items, the lack of data, which was reliable and able to be "abstracted" from records pertaining to the June 30, 1989, was a professional frustration.

It has been said that there is a constant tension between tax analysts and tax administration as to the practical results of how much data to collect and how much of it to save for future use.

When operational costs (especially computer costs) are a priority, frequently the theoretical, statistical trail loses out to practical cost concerns.

For both the Business Corporation Tax and the Personal Income Tax, data appearing on returns may be used temporarily in the review for the mathematical accuracy and completeness of the return. Once that is done, only selected items of data are a permanent part of the computer record because storage of all the items would not be cost efficient. Also, the storage could so overburden computer storage that other needed functions would be delayed or a larger, and more costly, computer structure would be needed. The analyst's dilemma comes down to an evaluation of "How often do you use it?" versus "How much does it cost to get it and save it?".

Underlying assumptions

In preparing this report, several assumptions were used:

1. Evaluations of data and estimates of revenue loss for each tax preference were made assuming that taxpayers would not make drastic changes in policy or operations if the tax preference item were changed or deleted.

Good examples of this might be that manufacturers would still continue to build or renovate manufacturing plants in Rhode Island even if our Investment Credit were changed or deleted; and that individuals in Rhode Island would still install renewable energy systems in their homes to reduce dependence on oil and other fossil fuels even if our Energy Credit for these renewable energy systems were changed or deleted.

2. Evaluations of data and estimates of revenue loss for each tax preference item were made wholly independent of each other both within the same tax and within the Rhode Island tax structure as a whole. One of the best descriptions of this assumption is that the estimates were prepared without any consideration for what the tax preference items effect would be if it were coupled with other tax expenditure items available to the same organization.

For example, no consideration was given in the calculation of revenue loss for the Investment Credit for the fact that many of the same items which qualify under its provisions are also exempt from the Sales and Use tax. While the manufacturing sector of Rhode Island's economy would, in the practical sense, consider both in making its financial commitment, there is no practical, analytical method to reliably estimate the "multiplier effect" that could exist.

3. Evaluations of data and estimates of revenue loss for each tax preference item were made for tax revenue losses only and did not include any estimates of additional costs to process, audit, collect or otherwise administer each tax preference item. While these additional costs do decrease the net revenue the state eventually receives, the effect is felt on the expense rather than on the revenue side of the issue.

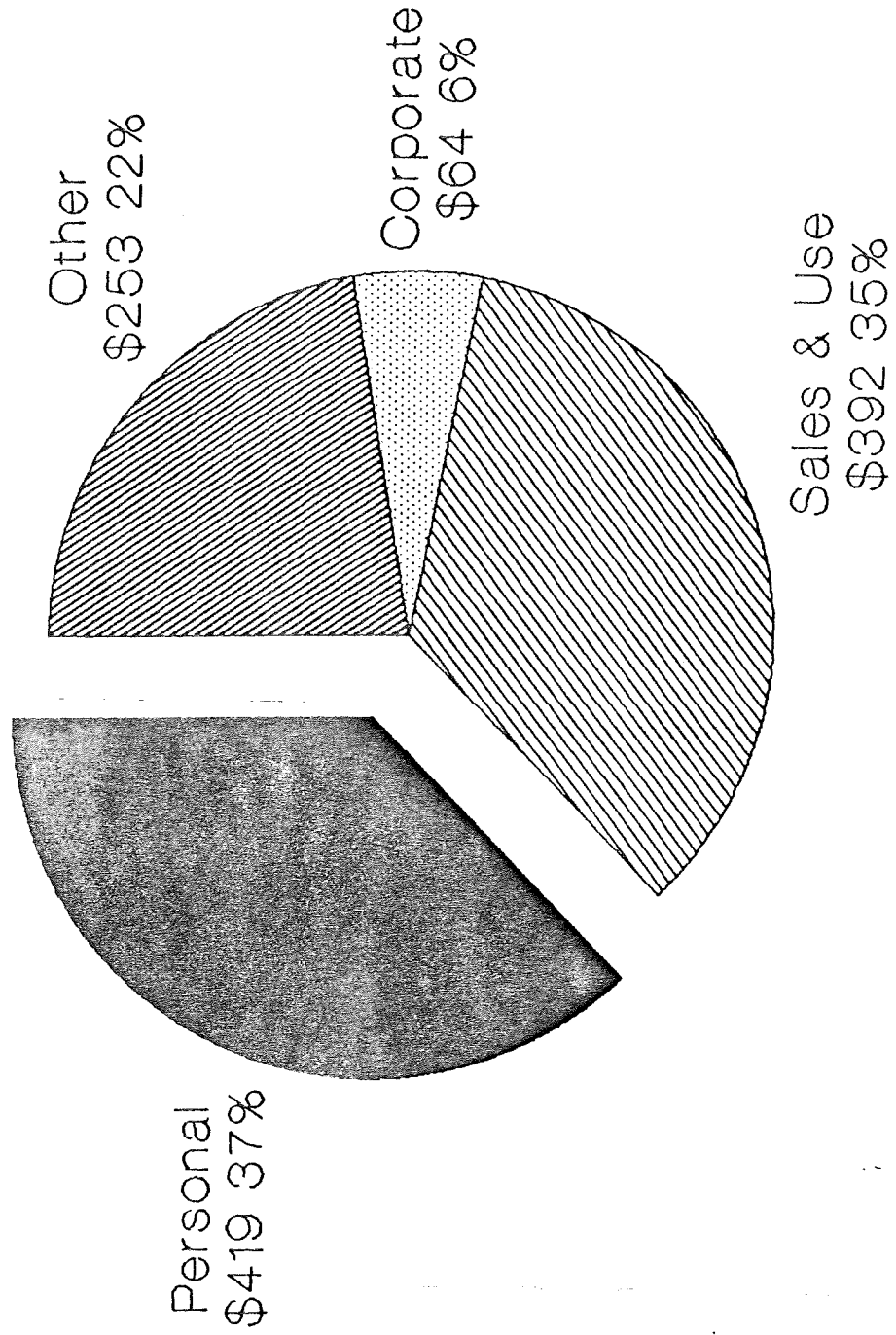
A good example of this would be any of the credit provisions analyzed in this report. The implementation of each of them normally called for a new form to be drawn and printed as well as for some change to the computer system for the taxes to which the credit could be applied and to the additional audit time required to review the credit if taken. The estimates of revenue loss made for the credits took into account only the actual amount of the credits; not the additional costs they required in administration.

4. Evaluations of data and estimates of revenue loss for each tax preference item were made for tax revenue losses only and did not include any considerations for the disruption which might be caused by the change or deletion of any item.

The most effective example of this would be seen in what would happen if the Sales and Use Tax exemption for food items purchased with U.S. Government Food Stamps (see 44-18-30(RR)) were changed or deleted. Because of the underlying federal law, if Rhode Island taxed items purchased with Food Stamps, the state would be ineligible to participate in the important federal program.

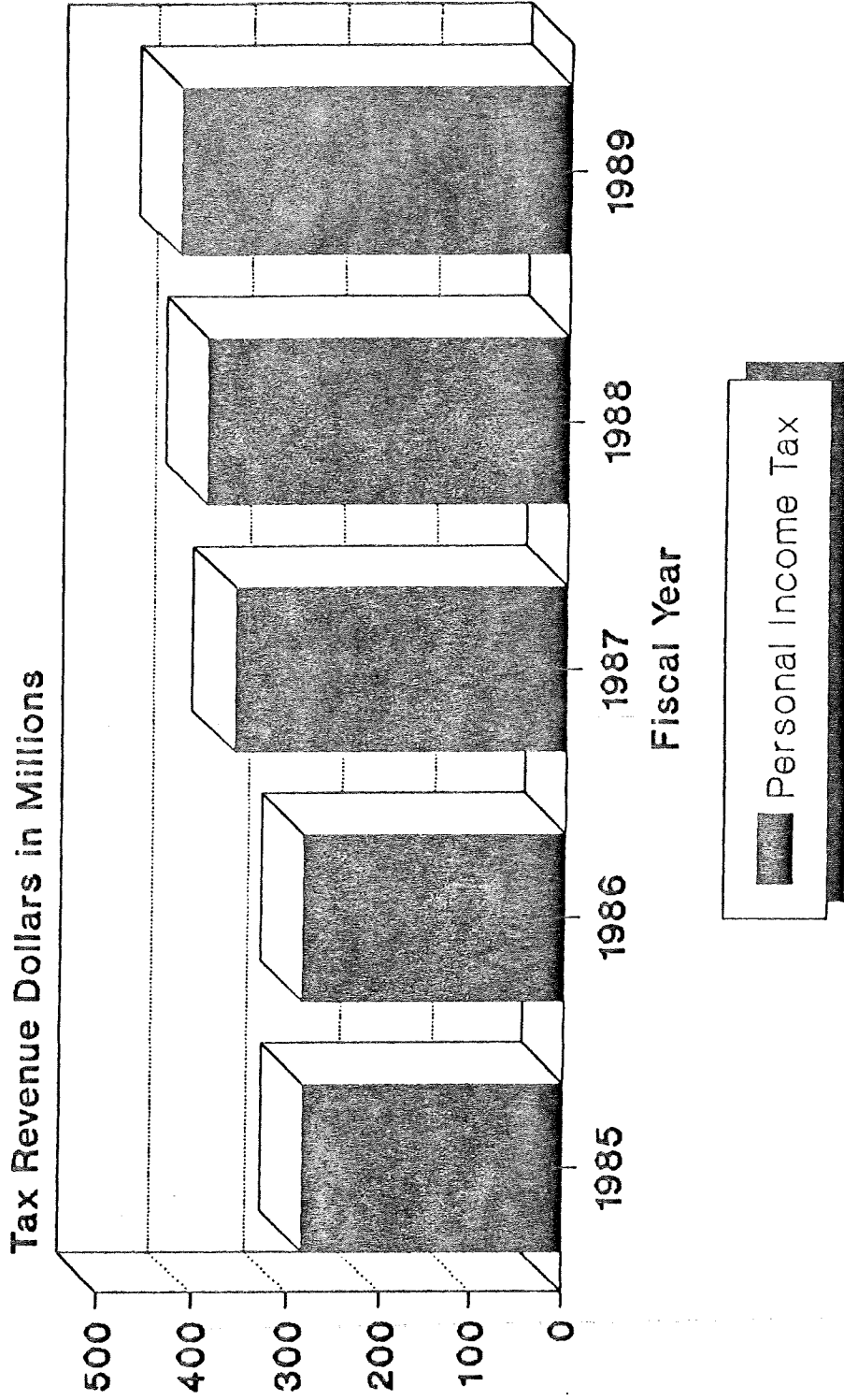
5. Evaluations of data and estimates of revenue loss for each tax preference item were made for revenue losses for the fiscal year ended June 30, 1989 only and did not include any attempt to forecast future events or to create scenarios of combinations which would have meant the expenditure of staff time and resources, both of which were limited in the production of this report.

REVENUE COMPOSITION PERSONAL INCOME TAX



Source : Actual Cash Receipts
June 30, 1989 Dollars in Millions

REVENUE COMPARISON FIVE YEAR HISTORY



Source : 1985-88 Fiscal Facts
and 1989 Actual Cash Receipts

TAX EXPENDITURES REPORT

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

SUMMARY

At June 30, 1989, the personal income tax generated \$419,477,000. 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 20 available tax preference items of various types. For 14 of these tax preference items reliable data was not available to make estimates of revenue loss. For the remaining 6 tax preference items, the total revenue loss able to be estimated for the fiscal year ended June 30, 1989 totaled \$ 22,024,000.

DESCRIPTION OF TAX

The following is a brief overview of the personal income tax. This is for the reader's benefit and is not intended to be all inclusive or take the place of the law.

Who Is Subject to the Tax

For the fiscal year ended June 30, 1989 the personal income tax was imposed on the Rhode Island income of every individual, estate and trust at 22.96% of the taxpayer's federal income tax liability.

Returns

A personal income tax return must be computed and filed on or before the 15th day of the fourth month after the close of the taxable year.

Residents and nonresidents are required to pay the proper amounts of estimated tax due if the tax can reasonably be expected to be \$100 or more in excess of allowable credits.

Resident and Nonresident Individuals

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.

STATISTICS

Statistics About the Tax:

In order to assist the reader in understanding the tax generally, the information presented in the report and the volume of data used in providing or evaluating the statistics shown below, the following is information about the personal income tax and its taxpayers:

For June 30, 1989, about 437,000 tax returns were filed. Of these, 336,000 were short form resident filings; 55,000 were long form resident filings; 42,000 were nonresident filings; 3,000 were for property tax relief credits filed alone and 1,000 were for fiduciaries (estates and trusts). Samples of the resident tax forms are included in the appendix part of the report.

Other than payments made by individuals toward their taxes, the largest single payment source comes in from the withholding part of the tax. By withholding from salaries and wages, tax revenue comes in on the "pay-as-you-go" basis. For fiscal 1989, about 32,000 employers withheld personal income taxes from their employees' wages. Of these, 17,000 file monthly and pay with the Division of Taxation; 11,000 file and pay quarterly and 4,000 file and pay on a quarter-monthly basis.

Statistics Used in the Report:

This portion of the tax expenditures report for personal income tax is intended to give the reader basic information about the statistics used; their retrieval, timeliness, presentation information and results of the estimations of revenue loss (where reliable data was available to make an estimate) for the fiscal year ended June 30, 1989.

The role of data and records

Some of the tax preference items were not able to be given an estimate of revenue loss. Many of these lacked reliable, underlying data. Others were not able to be evaluated for revenue loss, due not only to their underlying data but also due to the resource constraints under which this report was prepared.

Simplistic comparisons for those items would not have yielded trustworthy estimates and elaborate modeling would have required the expenditure of additional support resources and the efforts of additional personnel, neither of which was available to prepare this report.

In evaluating the data available, it must be remembered that tax laws are structured for the efficient assessment of revenue and not to collect data. Data for personal income tax, like the other taxes for which this

report is concerned, is only available if retained; and further, it can only be retained if taxpayers included it on their returns.

For personal income tax purposes, this is particularly true of items of information which should appear on the the Rhode Island short forms. Examples of these information items are the amount of the Federal adjusted gross income from the taxpayer's Federal return and the number of exemptions claimed for Federal purposes. Since there is no penalty for not including the information items on the return and since more than 336,000 people use the short form, data on which estimates could be made by using computer models had understandable shortcomings. For reference purposes, copies of personal income tax forms are included in the Appendix part of the report.

Even when required data is entered on the return, certain portions are stored only temporarily and used to review mathematical accuracy and the basic components of the return. Once that is done, only certain selected items of data become a permanent part of a taxpayer's record. This is done primarily because retention of all data would outstrip our computer storage capacity.

The role of assumptions

In making estimates of revenue loss for personal income tax preference items, the same five, basic, underlying assumptions were used as were present in the estimates of revenue loss for the other two major taxes covered by this report.

The assumptions under which estimates of revenue loss were made for tax preference items are presented in detail in the introduction and methodology portion of this report.

Statistical results summary

As the result of data able to be evaluated for tax preference items in the personal income tax, the following is a summary of the estimates of revenue loss in rounded thousand dollar amounts for the each tax preference item.

Some of the items are grouped due to the computer record's structure. (Detailed descriptions of each tax preference item appear in the tax preference items section below.)

1. Political contributions checkoff	\$ 148,000.
2. Credit for taxes paid to other states	21,128,000.
3. Investment tax credit	127,000.
4. Property Tax Relief	545,000.
5. Energy Credits (2 items)	<u>76,000.</u>
Total (6 items)	<u>\$22,024,000.</u>

TAX PREFERENCE ITEMS

INTRODUCTION

In the same manner as the other two taxes covered by this report, the following are the details of the tax preference items. The details also include a legal citation to the personal income tax, a brief description of the tax preference item (its kind or type) and a reference either to a specific tax expenditure amount for the fiscal year ended June 30, 1989, to a description of where the grand total is found, or an explanation as to why an amount could not be shown for the particular tax preference item.

DETAILS

1. Checkoff for political contributions 44-30-2(d):

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

Tax Expenditure Amount: Based on the best information available, the amount for June 30, 1989 is \$148,000.

2. Amortization of air and water pollution control facilities: 44-30-7: 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.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate. From the most authoritative personal income tax information, this tax preference item was not used during the fiscal year ended June 30, 1989.

3. Rhode Island resident modifications for interest on federal obligations 44-30-12 (c): 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.

Tax Expenditure Amount: This item is presented for completeness only since its amendment or removal would have major constitutional consequences.

4. Credit for income tax of other states 44-30-18: 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.

Tax Expenditure Amount: Based on the best available information, at June 30, 1989, 31,178 credits were claimed for taxes paid to other states. These credits totaled \$21,128,000. Caution is advised in the review of this tax preference item since its change or deletion would raise constitutional "double taxation" issues.

5. Credit to trust beneficiary receiving accumulation distribution 44-30-19: This credit applies to a resident beneficiary whose Rhode Island income includes an accumulation distribution for which the trust paid tax.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

6. Tax credit for installation cost (hydroelectric power developers) 44-30-22: 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.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate; however, according to the best information available from the Income Tax Section, this highly unusual credit was not used during the year ended June 30, 1989.

7. Credit for artwork exhibition 44-30-24: 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.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate; however, according to the best information available from the Income Tax Section, this highly unusual credit was not used during the year ended June 30, 1989.

8. Nonresident individuals' military pay 44-30-32(d): This tax preference item excludes compensation for Armed Forces service personnel if they are not domiciled in Rhode Island.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate. Caution is advised regarding amendment or deletion of this item since such would conflict with the federal provisions found in the Soldiers' and Sailors' Relief Act.

9. Nonresident partners' partnership income 44-30-34: This item provides methods by which a nonresident partner's Rhode Island source income is determined.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate. Caution is advised in the amendment or deletion of this tax preference item since such would raise constitutional issues of double taxation.

10. Credit for trust beneficiary: 44-30-37 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.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

11. Investment Credit 44-31: 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 2% of the cost or other basis used for Federal Income Tax purposes. The credit is not allowed on rented or leased property.

Tax Expenditure Amount: Based on the best information available, the tax expenditure amount for this item for June 30, 1989 was \$127,000.

12. Property tax relief credit 44-33: 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.

Tax Expenditure Amount: Based on the best available information, the tax expenditure amount for this item at June 30, 1989 was \$545,000.

13. Credits for energy conservation items in residential rental property 44-36: A credit is available for the purchase and installation of qualified, specific, energy-saving items by the owner in Rhode Island residential rental property. The credit is 20% of the amounts paid, excluding the owner's own labor, to a maximum of \$500 per structure and a maximum total credit of \$5,000. No more than \$1,000 in credit may be taken in any tax year. Unused credits may be carried forward five years.

Tax Expenditure Amount: The amount of tax expenditure for this item is included in the amount shown for energy credits in the statistical section above. Reliable data was not available to make an estimate for this item separately.

14. Credits for renewable energy systems 44-39: A credit is available for the purchase and installation of qualifying renewable energy systems. The credit is 10% of the amounts paid, excluding the owner's own labor, to a maximum of \$1,000. Unused credits may be carried forward.

Tax Expenditure Amount: The amount of tax expenditure for this item is included in the amount shown for energy credits in the statistical section above. Reliable data was not available to make an estimate for this item separately.

15. Small business capital development modification 44-43-2(e): A modification for the amount of investment in a certified venture capital partnership or a qualified business entity is allowed reducing federal adjusted gross income in the year the taxpayer first makes the investment.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate; however, according to the best information available, this highly unusual modification was not used during the year ended June 30, 1989.

16. Small business capital development wage credit:
44-43-3 This tax preference item is available to the entrepreneur-taxpayer in an amount equal to 3% of the wages in excess of \$50,000 paid by the qualifying business entity computed after the deduction of wages paid to the owner and to employees not employed principally in Rhode Island.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate; however, according to the best information available, this highly unusual credit was not used during the year ended June 30, 1989.

17. Small business capital development capital gains exemption 44-43-5: This tax preference item allows the taxpayer to exclude any amount of long term capital gain which was included federally if the gain was from the taxpayer's sale of an interest in a certified venture capital partnership; from the distributive share of the certified venture capital partnership's sale of a qualifying business entity; or from the taxpayer's sale of an interest in a qualifying business entity.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate; however, according to the best information available, this highly unusual item was not used during the year ended June 30, 1989.

18. Adult education credit 44-46: This tax preference item allows an employer in this state a credit of 10% of the costs incurred solely and directly for enumerated, worksite-based adult education programs limited to a maximum of \$200 per year. Amounts of credit not deductible in one tax year may not be carried over to the following year.

Tax Expenditure Amount: Evaluation of available statistics indicate no use of this tax preference item for the fiscal year ended June 30, 1989; and consequently, no tax expenditure amount is available.

19. Credits for child daycare assistance and development: 44-47 Credits are passed through from employers or commercial landlords which are partnerships,

joint ventures or "Subchapter S" electing corporations. 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. For purchased daycare, the 30% credit is limited to 60% of the actual cost of daycare purchased for each child, the maximum annual credit is \$30,000 and amounts of unused credit may not be carried forward. For daycare facilities and rents/lease foregone, the maximum total credit is \$30,000 and amounts of unused credit may be carried forward for 5 years.

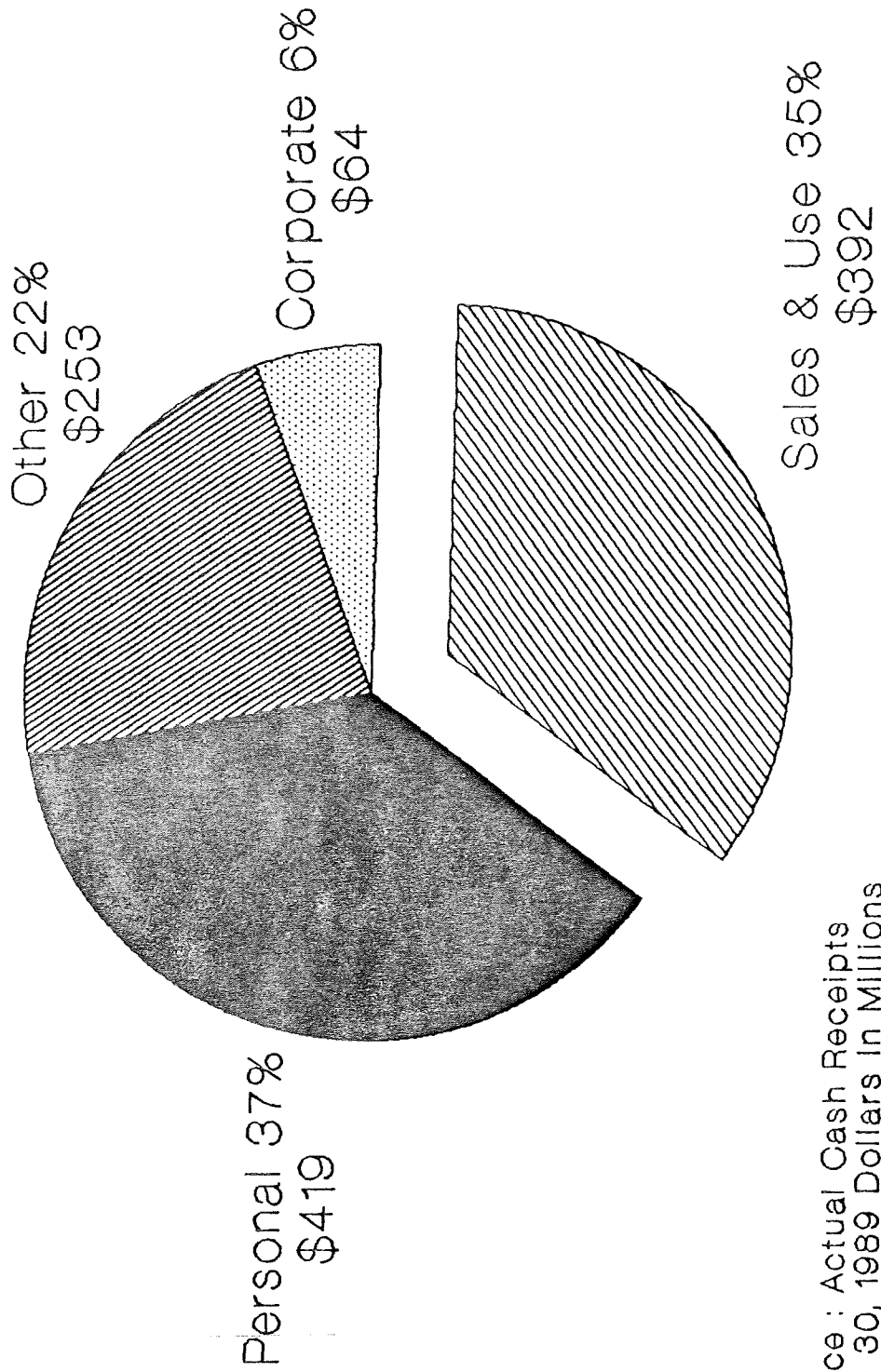
Tax Expenditure Amount: Evaluation of available statistics indicate no use of this tax preference item for the fiscal year ended June 30, 1989; and consequently, no tax expenditure amount

20. Juvenile restitution credit 14-1-22.1: 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.

Tax Expenditure Amount: Evaluation of available statistics indicate no use of this tax preference item for the fiscal year ended June 30, 1989; and consequently, no tax expenditure amount.

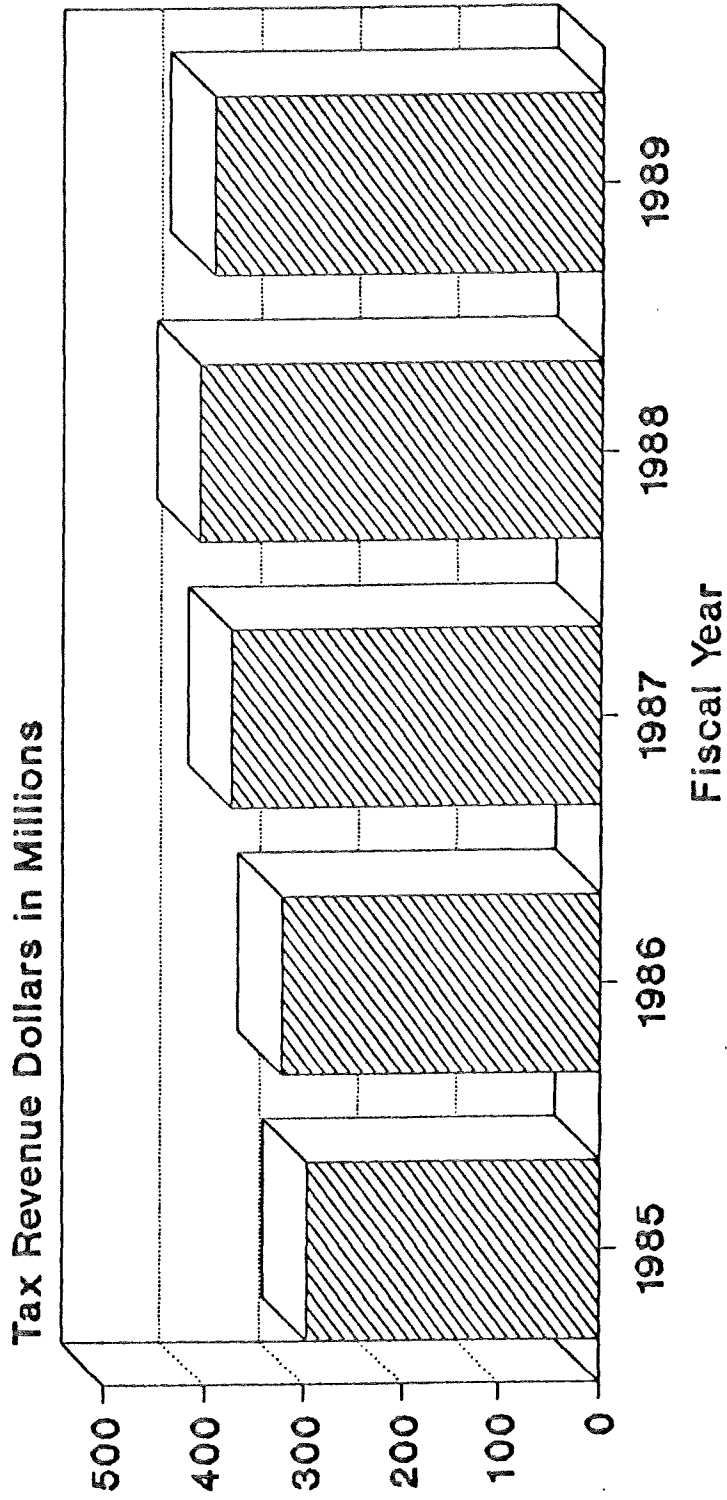
REVENUE COMPOSITION

SALES AND USE TAX



Source : Actual Cash Receipts
June 30, 1989 Dollars In Millions

REVENUE COMPARISON FIVE YEAR HISTORY



Source : 1985-88 Fiscal Facts
and 1989 Actual Cash Receipts

TAX EXPENDITURES REPORT

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

SUMMARY

At June 30, 1989, the sales and use tax generated \$391,485,000 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 73 available tax preference items of various types. For 60 of these tax preference items, reliable data was not available to make estimates of revenue loss. For the 13 remaining tax preference items, the total revenue loss able to be estimated for the fiscal year ended June 30, 1989 totaled \$323,228,000.

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 6% 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 6% on the storage, use or other consumption in this state of all tangible personalty (unless exempted), including a motor vehicle, boat, 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 as part of the registration process, the motor vehicle is taxable whether registered or not.

STATISTICS

Statistics About the Tax: In order to assist the reader in understanding the tax generally, the information presented in the report and the volume of data used in providing or evaluating the statistics shown above, the following is information about the sales and use tax and its taxpayers:

For the fiscal year ended June 30, 1989, most of the sales and use tax revenue came from tax charged, collected and remitted by retailers. There are about 37,000 retailers who have permits to charge and collect the tax. Of these, 31,000 remit on a monthly basis and 6,000 remit on a quarterly basis. Samples of these forms are included in the Appendix part of the report.

The next largest area of revenue receipt is from use tax charged and collected as part of the registration process. For the year ended June 30, 1989, these collections totaled about \$66,893,000 and involved more than 40,000 transactions per month on the average.

Statistics Used in This Report:

This portion of the tax expenditures report for sales and use tax is intended to give the reader basic information about the statistics used; their retrieval, timeliness, presentation information and results of the estimations of revenue loss (where reliable data was available to make an estimate) for the fiscal year ended June 30, 1989.

The role of data and records

Some of the tax preference items were not able to be given an estimate of revenue loss. Many of these lacked reliable, underlying data. Others were not able to be evaluated for revenue loss, due not only to their underlying data but also due to the resource constraints under which this report was prepared.

Simplistic comparisons for those items would not have yielded trustworthy estimates and elaborate modeling would have required the expenditure of additional support resources and the efforts of additional personnel, neither of which was available to prepare this report.

In evaluating the data available, it must be remembered that tax laws are structured for the efficient assessment of revenue and not to collect data. Data for sales and use tax, like the other taxes for which this report is concerned, is only available if retained; and further, it can only be retained if taxpayers included it on their returns.

For sales and use tax purposes, this is particularly true of items of information which should appear on the reverse side of the retailers' sales tax forms. Many of the retailers do not fill out the gross and deductions information on the back of the form. These informational entries, when provided, give valuable information about the kinds of exemptions and deductions the retailers use. Examples of these information items are the detailed lines for the sales of food, sales for resale, sales to

governments and to exempt institutions, sales of publications, and sales of items taxed under other Rhode Island statutes such as motor fuel and cigarettes.

Without the provision of the data from retailers, important information for research and evaluation purposes is both time-consuming and expensive to obtain.

While the retailers are subject to audit during which any deductions taken are reviewed, the ability to regenerate all the needed information for all the database solely from audit results is both impractical and unreliable.

Even when required data is entered on the return, certain portions are stored only temporarily and used to review mathematical accuracy and the basic components of the return. Once that is done, only certain selected items of data become a permanent part of a taxpayer's record. This is done primarily because retention of all data would outstrip our computer storage capacity.

The role of assumptions

In making estimates of revenue loss for sales and use tax preference items, the same five, basic, underlying assumptions were used as were present in the estimates of revenue loss for the other two major taxes covered by this report. These assumptions are presented in detail in the introduction and methodology portion of this report.

Statistical results summary

As the result of data able to be evaluated for tax preference items in the sales and use tax, the following is a summary of the estimates of revenue loss in rounded thousand dollar amounts for each tax preference item. Some of the items are grouped due to the computer record's structure. (Detailed descriptions of each tax preference item appear in the tax preference items section below).

1. Sales for Resale	\$172,119,000.
2. Periodicals	4,302,000.
3. Governments and Exempt Institutions (3 items)	23,813,000.
4. Cigarettes	4,033,000.
5. Gasoline and exempt fuels (2 items)	31,394,000.
6. Food	48,566,000.
7. Medicines and Drugs	8,628,000.
8. Trade-in of Motor Vehicles	7,512,000.
9. Clothing and Footwear	22,857,000.
10. Refund for Renewable Energy Systems	4,000.
Total (13 items)	<u>\$323,228,000.</u>

TAX PREFERENCE ITEMS

INTRODUCTION:

In the same manner as the other two 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 reference either to a specific tax expenditure amount for the fiscal year ended June 30, 1989, to a description of where the grand total is found or to an explanation as to why an amount is not shown.

DETAILS

1. Cash Discounts: 44-18-12 (2)(A) This tax preference item excludes the amount of cash discounts allowed and taken from the sales price on which the sales tax is levied.

Tax Expenditures Amount: This tax preference item is an exclusion and reliable data was not available to make an estimate.

2. Refunded within 120 days: 44-18-12 (2)(B) 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.

Tax Expenditures Amount: Reliable data was not available to make an estimate.

3. Installation labor stated separately: 44-18-12 (2)(C) This exclusion applies to the amount for labor or services separately stated for installing or applying the property sold or for altering wearing apparel.

Tax Expenditures Amount: Reliable data for this tax preference item was not available to make an estimate.

4. Federal taxes: 44-18-12 (2)(D) This tax preference item excludes from the sale price the taxes imposed by the U.S. Government (but not manufacturers' and employers' excise taxes).

Tax Expenditures Amount: Reliable data for this tax preference item was not available to make an estimate.

5. Transportation charges stated separately: 44-18-12 (2)(E) This tax preference item excludes transportation charges if stated separately and if the transportation happens after the property is purchased.

Tax Expenditures Amount: Reliable data for this tax preference item was not available to make an estimate.

6. Transfers between family members: 44-18-20 (4)(a) 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.

Tax Expenditures Amount: Reliable data for this tax preference item was not available to make an estimate.

7. Transfers in business organization, reorganization, dissolution or partial liquidation: 44-18-20 (4)(b) 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.

Tax Expenditures Amount: Reliable data for this tax preference item was not available to make an estimate.

8. Sale or transfer of residence trailer:

44-18-20 (4)(c) 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.

Tax Expenditures Amount: Reliable data for this tax preference item was not available to make an estimate.

9. Transferee is exempt: 44-18-20 (4)(d) 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.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

10. Casual sales: 44-18-20 (7) This tax preference item gives an exclusion for up to 5 casual sales in any 12-month period.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

11. 120 days total loss or destruction: 44-18-21(c) 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.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

12. Sales for Resale: 44-18-25 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.

Tax Expenditure Amount: The amount of tax expenditures for this item is shown as \$172,119,000 in the statistics section above.

13. Demonstration boats: 44-18-26.1 This tax preference item excludes boats which are used for "demonstration purposes" as defined in the law.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

14. Sales and use beyond state constitutional power: 44-18-30 (A) 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.

Tax Expenditure Amount: This sales tax exemption is presented for completeness only since its amendment or removal would have major constitutional consequences.

15. Periodicals: 44-18-30 (B) This exemption covers publications issued regularly at intervals not exceeding 3 months.

Tax Expenditure Amount: The amount of tax expenditures for this item is shown as \$4,302,000 from the statistics section above.

16. School meals: 44-18-30 (C) 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.

Tax Expenditure Amount: Reliable data for the amount of this tax preference item was not available.

17. Containers: 44-18-30 (D) 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.

Tax Expenditure Amount: Reliable statistical for the amount of this tax preference item is not available.

18. Charitable, educational, and religious organizations: 44-18-30 (E) 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 Americas (DECA); Future Business Leaders of America/Phi Beta Lamda (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.

Tax Expenditure Amount: The amount of tax expenditure for this item is included in the amount for governments and exempt institutions shown in the statistics section above. Reliable data for this tax preference item was not available to make an estimate separately.

19. Cigarettes: 44-18-30 (F) This exemption applies to cigarettes which are taxed under Title 44, Chapter 20. (See information on the cigarette tax in this report).

Tax Expenditure Amount: The amount of tax expenditure for this item is shown as \$4,033,000. in the statistics above.

20. Gasoline: 44-18-30 (G) This exemption applies to gasoline and other fuels taxed under Title 31, Chapter 36 of the Rhode Island General Laws. (See information on the gasoline tax in this report).

Tax Expenditure Amount: The amount of tax expenditure for this item is shown as \$31,394,000. in the statistics above.

21. Purchase for manufacturing purposes: 44-18-30 (H) 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 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.

Tax Expenditure Amount: Reliable data for this tax preference item's amount was not available to make an estimate.

22. State and political subdivisions: 44-18-30 (I) 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.

Tax Expenditure Amount: The amount of tax expenditure for this item is included in the amount for governments and exempt institutions shown in the statistics section above. Reliable data for this tax preference item was not available to make an estimate separately.

23. Food products: 44-18-30 (J) 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.

Tax Expenditure Amount: The amount of tax expenditures for this item is shown as \$48,566,000. in the statistics section above.

24. Medicines and drugs: 44-18-30 (K) 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.

Tax Expenditure Amount: The amount of tax expenditures for this item is shown as \$8,628,000. in the statistics section above.

25. Prosthetic and orthopedic appliances: 44-18-30 (L) This exemption for sales and use tax applies to such things such as crutches, artificial limbs, dentures, eyeglasses, hearing aids and other prosthesis.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

26. Coffins, caskets, and burial garments: 44-18-30 (M) This exemption applies to coffins, caskets, shrouds and other burial garments ordinarily sold by a funeral director.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

27. Motor vehicles sold to nonresidents: 44-18-30 (N) 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.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

28. Sales in public buildings by blind people:
44-18-30 (O) 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.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

29. Air and water pollution control facilities:
44-18-30 (P) 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.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

30. Camps: 44-18-30 (Q) 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.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

31. Institutions: 44-18-30 (R) 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.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

32. Educational institutions: 44-18-30(S) This exemption applies to the rental charges by educational institutions for living quarters for students or teachers whose attendance is necessary.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

33. Motor vehicle purchases by paraplegics: 44-18-30(T) 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.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

34. Heating fuels: 44-18-30 (U) This exemption applies to every type of fuel used in both homes and residential premises.

Tax Expenditure Amount: Except to the extent that these fuels' sales were included in the line for gasoline and other exempt fuels in the statistics above, no reliable data was available to make a separate estimate of revenue loss for this item.

35. Electricity and gas: 44-18-30 (V) This exemption applies to all electricity and gas furnished for domestic use by the occupants of residential premises.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

36. Manufacturing machinery and equipment: 44-18-30(W) 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.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

37. Trade-in value of a motor vehicle: 44-18-30(X) 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.

Tax Expenditure Amount Based on the best information available for the trade in portion alone from the Excise Tax Section, the estimate of revenue loss is \$4,500,000. Additionally, the estimate of revenue loss due to the insurance proceeds is \$3,012,000; thus making a total estimate of loss at \$7,512,000.

38. Precious metal bullion: 44-18-30(Y) 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.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

39. Sales by the bicentennial commission: 44-18-30(Z) The exemption applies both to purchases by the Bicentennial Commission and also to its sales.

Tax Expenditure Amount: The exemption for this 1976 commission has not been used in several years.

40. Commercial vessels (50 tons): 44-18-30 (AA) 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.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

41. Commercial fishing vessels (5 tons): 44-18-30(BB) 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.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

42. Clothing and footwear: 44-18-30 (CC) This tax preference item 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.

Tax Expenditure Amount: The amount of tax expenditure for this item is shown as \$22,857,000 in the statistics section above.

43. Water for residential use: 44-18-30 (DD) This exemption applies to water furnished for domestic use by the occupants of residential premises.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

44. Offshore exploration equipment: 44-18-30(EE) This exemption applies to property for use or rental in exploration and production outside the territorial limits of the state.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

45. Transportation to offshore exploration sites:
44-18-30 (FF) This tax preference item applies to helicopters, ships, barges, or other vessels exclusively used to transport tangible personal property and people to locations offshore.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

46. Twelve meter America's Cup yachts: 44-18-30(GG) This tax preference item applies to the sale, rental, repair, or redesign of twelve meter yachts used exclusively in America's Cup sailing competition. It also applies to equipment used in fitting, refitting, maintenance, or repair of these yachts.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

47. Bibles: 44-18-30(HH) This tax preference item exempts any canonized scriptures of tax exempt, nonprofit religious organizations. This includes the Old and New Testament versions.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

48. Boats bought by nonresidents: 44-18-30(II) This tax exemption is for the sale of a boat to a bona fide nonresident who does not register or document the boat in Rhode Island. The nonresident has to transport the boat outside the state within 30 days after delivery.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

49. \$3 Sales of certain nonprofits: 44-18-30(JJ) This exemption applies to the sale of items for not more than \$3.00 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.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

50. Farm equipment: 44-18-30 (KK) This tax exemption applies to machinery and equipment used directly by a qualified farmer for commercial farming and agricultural production.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

51. Compressed air: 44-18-30 (LL) This exemption applies to compressed air.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

52. Flags: 44-18-30(MM) This tax exemption applies to the sale or use of flags of the United States or of the State of Rhode Island.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

53. Amputee veterans' motor vehicles and equipment: 44-18-30(NN) 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.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

54. Textbooks: 44-18-30 (OO) 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.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

55. Items and supplies used in hazardous waste treatment: 44-18-30(PP) 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.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

56. Literature of boat manufacturers: 44-18-30(QQ) 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.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

57. Food stamp items: 44-18-30(RR) 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).

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

58. Custom computer software and services: 44-18-30(SS) This tax exemption applies to custom computer software and to incidental services.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

59. Transportation charges: 44-18-30(TT) 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.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

60. Trade-in value of boats: 44-18-30(UU) 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.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

61. Equipment used for research and development:

44-18-30(VV) 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.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

62. Coins: 44-18-30(WW) This tax exemption applies to coins which have numismatic or investment value.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

63. Farm structure construction materials: 44-18-30(XX)
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.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

64. Taxes paid elsewhere: 44-18-30-A(a) 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.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

65. Taxes paid on motor vehicles of armed forces personnel: 44-18-30-A(b) 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.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

66. Sales to Federal Government: 44-18-31 This tax preference item excludes gross sales of tangible personalty to the United States Government, its agencies and instrumentalities.

Tax Expenditure Amount: The amount of tax expenditure for this item is included in the line for governmental and exempt institutions shown in the statistics section above.

67. Sales to common carriers: 44-18-33 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.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

68. Use tax exemption if subject to sales tax: 44-18-34 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.

Tax Expenditure Amount: This exemption is included for completeness only. No estimate of loss was logical since this item's change or deletion would raise constitutional double taxation issues.

69. Property purchased from Federal Government: 44-18-35 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.

Tax Expenditure Amount: This tax preference item is included for completeness only since its change or deletion could have major constitutional consequences.

70. Prior to July 1, 1947, purchase by user while a nonresident: 44-18-36(A) This exemption provides relief for items bought by a nonresident user prior to the sales and use tax law's imposition.

Tax Expenditure Amount: This exemption is included for completeness only. No estimate of loss was practical since this exemption's change or deletion would raise issues of taxation made retroactively to the law's enactment.

71. Property bought elsewhere by nonresident: 44-18-36(B) 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.

Tax Expenditure Amount: This tax preference item is included for completeness only since its change or deletion could have major constitutional consequences.

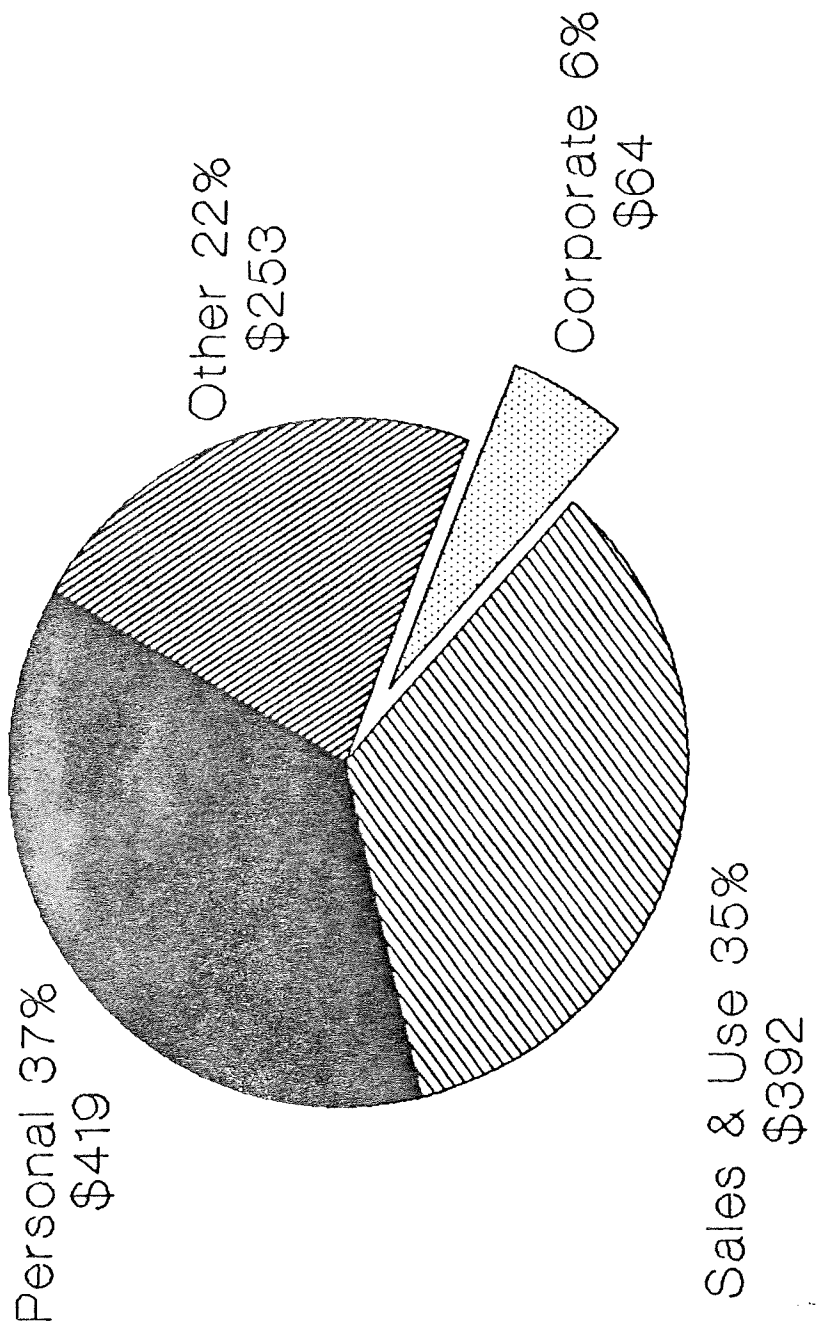
72. Property otherwise exempted from sales tax: 44-18-36(C) This exemption applies to purchases of property for which the purchaser would have been expressly exempt if the sale was taxable.

Tax Expenditure Amount: 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.

73. Sales tax refund on qualifying renewable energy systems: 44-18-39 This tax preference item is a refund of R.I. sales taxes paid if the purchaser has bought a renewable energy system (such as solar) used to heat or cool a structure in Rhode Island. The refund also applies to component parts.

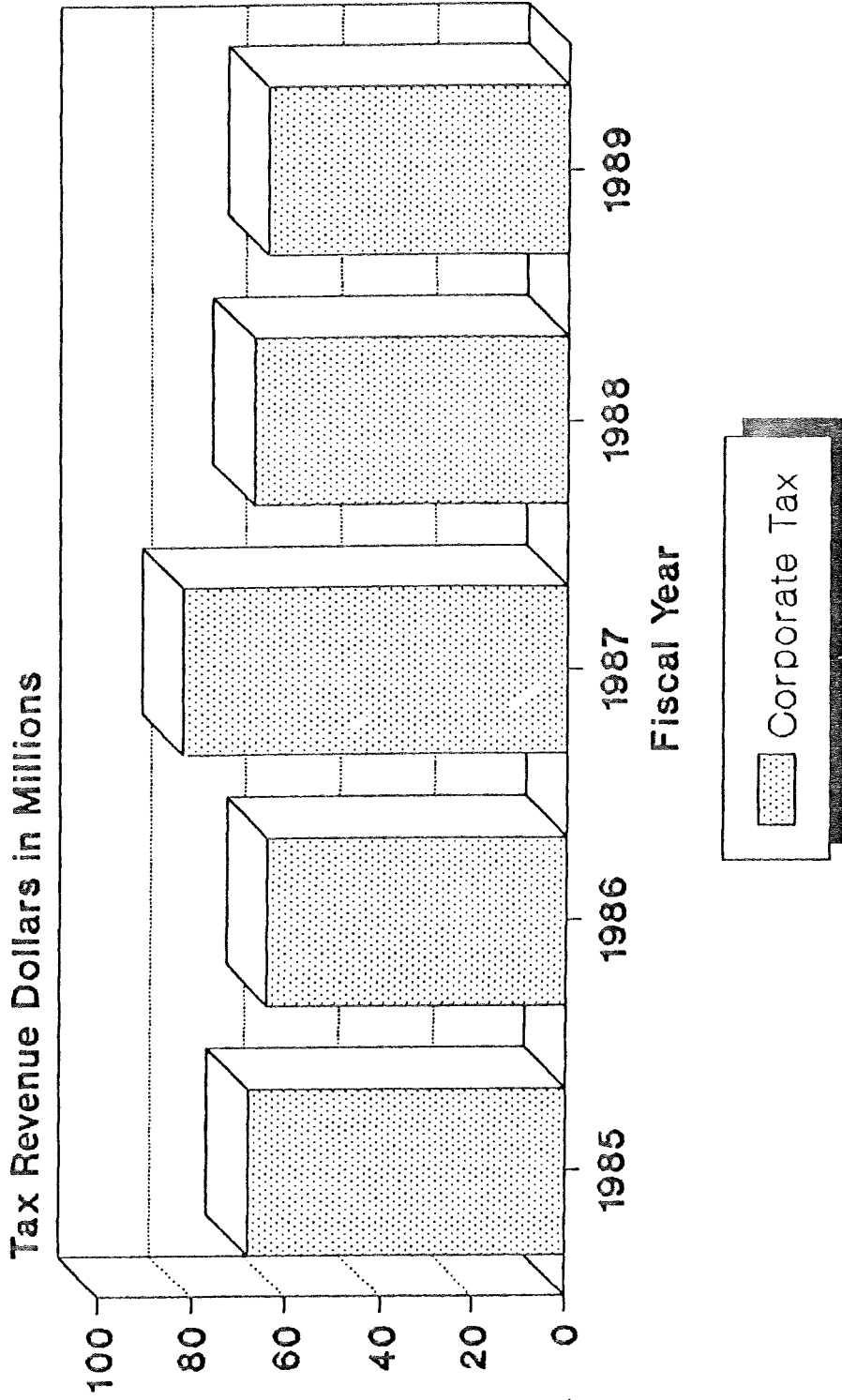
Tax Expenditure Amount: Based on the best information available from Excise Tax records, there were 11 claims totaling \$ 3,990. in refunds made during the fiscal year ended June 30, 1989.

REVENUE COMPOSITION BUSINESS CORPORATION TAX



Source : Actual Cash Receipts
June 30, 1989 Dollars in Millions

REVENUE COMPARISON FIVE YEAR HISTORY



Source : 1985-88 Fiscal Facts
and 1989 Actual Cash Receipts

TAX EXPENDITURES REPORT

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

SUMMARY

At June 30, 1989, the business corporation tax generated \$63,782,000 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 shows that there were 29 available tax preference items of various types. For 26 of these tax preference items, reliable data was not available to make estimates of revenue loss. For the remaining 3 tax preference items, the total revenue loss able to be estimated for the fiscal year ended June 30, 1989 totaled \$ 5,766,000.

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

For the year ended June 30, 1989, 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 8% of net income as reported to

the Federal Government and apportioned to Rhode Island. The minimum business corporation tax is \$100.

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.

STATISTICS

Statistics About the Tax:

In order to assist the reader in understanding the tax generally, the information presented in the report and the volume of data used in providing or evaluating the statistics shown below, the following is information about the business corporation tax and its taxpayers.

For June 30, 1989, about 26,000 tax returns were filed, and of this number, about 8,000 taxpayers were required to make estimated payments. A sample of the business corporation tax return is included in the appendix part of this report.

Some of the special tax treatments available to corporations include 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.

From the best available information, about 20 corporations utilize the domestic, international sales corporations' provisions; 150 corporations file on a consolidated basis; and more than 5,600 corporations have elected 1120 S status. Of the latter group, the number of corporations electing Subchapter S status has increased from 2,000 for corporations whose year endings occurred in 1987 to 5,600 for those corporations whose year endings occurred in 1988.

Statistics Used in The Report:

This portion of the tax expenditures report for business corporation tax is intended to give the reader basic information about the statistics used; their retrieval, timeliness, presentation information and results of the estimations of revenue loss (where reliable data was available to make an estimate) for the fiscal year ended June 30, 1989.

The role of data and records

Some of the tax preference items were not able to be given an estimate of revenue loss. Many of these lacked reliable, underlying data. Others were not able to be evaluated for revenue loss, due not only to their underlying data but also to the resource constraints under which this report was prepared.

Simplistic comparisons for those items would not have yielded trustworthy estimates and elaborate modeling would have required the expenditure of additional support resources and the efforts of additional personnel, neither of which was available to prepare this report.

In evaluating the data available, it must be remembered that tax laws are structured for the efficient assessment of revenue and not to collect data. Data for business corporation tax, like the other taxes for which this report is concerned, is only available if retained; and further, it can only be retained if taxpayers included it on their returns.

For business corporation tax purposes, this is particularly true of items of information which should appear on the federal schedules attached to the Rhode Island forms. For reference purposes, a copy of the business corporation tax form is included in the appendix part of the report.

Even when required data is entered on the return, certain portions are stored only temporarily and used to review mathematical accuracy and the basic components of the return. Once that is done, only certain selected items of data become a permanent part of a taxpayer's record. This is done primarily because retention of all data would outstrip our computer storage capacity.

The role of assumptions

In making estimates of revenue loss for business corporation tax preference items, the same five, basic, underlying assumptions were used as were present in the estimates of revenue loss for the other two major taxes covered by this report.

The assumptions under which estimates of revenue loss were made for tax preference items are presented in detail in the introduction and methodology portion of this report.

Statistical results summary

As the result of data able to be evaluated for tax preference items in the business corporation tax, the following is a summary of the estimates of revenue loss in rounded thousand dollar amounts for each tax preference item.

(Detailed descriptions of each tax preference item appear in the tax preference items section below.)

1. Net operating loss deduction	\$3,262,000.
2. Investment credit	2,504,000.
3. Juvenile Restitution credits (de minimis)	0
	<hr/>
Total	\$5,766,000.

TAX PREFERENCE ITEMS

INTRODUCTION:

In the same manner as the other two taxes covered by this report, 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, a brief description of the tax preference item (its kind or type) and a comment about the tax expenditure amount for the fiscal year ended June 30, 1989.

DETAILS:

1. Financial institutions 44-11-1(a)(1): This tax preference item is an exclusion and excludes from the definition of a corporation (and therefore from this tax) financial institutions such as banks, (both federal and state), building and loan associations, credit unions and loan and investment companies. These financial institutions are taxable under other chapters of the General Laws.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

2. Public service companies 44-11-1(a)(2): 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.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

3. Insurance companies 44-11-1(a)(3): This tax preference item excludes insurance and surety companies from being taxed under the business corporation tax since they are taxed under 44-17, the Insurance Premiums Tax.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

4. Nonprofits 44-11-1(a)(4): 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.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

5. Fraternal benefit societies 44-11-1(a)(5): This section of the business corporation tax excludes fraternal benefit societies in Title 27, Chapter 25, Section 1 from being taxed as a business corporation.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

6. Specific charter exemption 44-11-1(a)(6): 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 with specific provisions to prevent the business corporation tax from being applied.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

7. Security companies 44-11-2(b): This tax preference item gives a different 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. 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.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

8. Investment companies 44-11-2(c): 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.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

9. Subchapter S corporations 44-11-2(d): 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 and pay their taxes.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

10. Consolidation 44-11-4: This area of the business corporation tax allows an affiliated group of corporations to file a Rhode Island consolidated return providing that certain technical criteria are met.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

11. Interest on Federal and Other Obligations 44-11-11(a)(4): 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.

Tax Expenditure Amount: This exclusion is presented for completeness only since its amendment or removal would raise major constitutional challenges.

12. Net operating loss deduction 44-11-11(b): 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.

Tax Expenditure Amount: Based on the best available data, the net operating loss deductions allowed reduced business corporation tax revenue for the fiscal year ended June 30, 1989 by \$3,262,000.

13. DISC's 44-11-11(c): 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.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

14. FSC's 44-11-11(d): 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.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

15. Amortization of air and water pollution control facilities 44-11-11.1: 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.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate. From the most authoritative corporate information, this tax preference item was not used during the fiscal year ended June 30, 1989.

16. Bank shares' dividends exclusion 44-11-12(a): 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.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

17. Local company shares' dividends exclusion

44-11-12(b): 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.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

18. Utility interest and dividends exclusion 44-11-12(c):

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.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

19. Apportionment 44-11-14: This tax preference item allows a corporations with a regular place of business outside Rhode Island to apportion its 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.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

20. Hydroelectric power development credit 44-30-22:

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

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate; however, according to the Corporations Section's best information, this highly unusual credit was not used during the fiscal year ended June 30, 1989.

21. Investment credit 44-31: This credit is allowed for tangible personalty and other tangible property (including buildings) in this state if the property is principally used by the taxpayer in the production of goods by manufacturing, processing or assembling. The credit is computed at 2% of the cost or other basis used for federal income tax purposes. The credit is not allowed on rented or leased property and may not reduce the tax to less than \$100. Excess credits may be carried forward for 7 years.

Tax Expenditure Amount: Based on the best available information, the amount of tax expenditures for the fiscal year ended June 30, 1989 is \$ 2,504,000.

22. Elective deduction for new research and development facilities 44-32: This tax preference item is a modification and provides that a one year, rapid writeoff is allowed for expenditures paid or incurred during the taxable year for construction, reconstruction, erection or acquisition of any property used or to be used for research and development in the experimental or laboratory sense.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate; however, according to the Corporations Section's best information, this tax preference item was not used for the fiscal year ended June 30, 1989.

23. Credits for renewable energy systems 44-39: This credit is available for the installation of qualifying renewable energy systems. The credit is 10% of the amounts paid, excluding the owner's own labor, to a maximum of \$1,000. The credit against the business corporation tax is 10% of the cost of the qualifying system, excluding the owner's labor, to a maximum of \$1,500 and cannot reduce the tax to less than \$100. Unused credits are not refundable but may be carried forward.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate.

24. Education assistance and development credit 44-42:
This chapter provides a credit of 8% of the contribution in excess of \$10,000 made to a Rhode Island institution of higher education if the contribution is for the establishment or maintenance of programs of scientific research or education. "Contributions" include the cost or other basis (for federal income tax purposes) in excess of \$10,000 of tangible personalty excluding sale discounts and sale-gift arrangements concerning the purchase of equipment. Amounts of unused credit may be carried over for 5 years and documentation of the credit requires a written statement from the institution.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate; however, according to the Corporations Section's best information, this tax preference item was not used for the fiscal year ended June 30, 1989.

25. Small business capital development deduction 44-43-2(a): A deduction for the amount of investment in a certified venture capital partnership or a qualified business entity is allowed in the computation of net income in the year the taxpayer first makes the investment.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate; however, according to the best information, this tax preference item was not used for the fiscal year ended June 30, 1989.

26. Small business capital development capital gains exemption 44-43-5: This tax preference item allows the taxpayer to exclude any amount of long term capital gain which was included federally if the gain was from the taxpayer's sale of an interest in a certified venture capital partnership; from the distributive share of the certified venture capital partnership's sale of a qualifying business entity; or from the taxpayer's sale of an interest in a qualifying business entity.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate; however, according to the best information, this tax preference item was not used for the fiscal year ended June 30, 1989.

27. Adult education tax credit 44-46: An employer in Rhode Island is allowed a credit of 10% of the costs incurred solely and directly for enumerated, worksite-based adult education programs. The credit is limited to a maximum of \$200 per year. Amounts of credit not deductible in one tax year may not be carried over to the following year and may not reduce the tax to less than \$100.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate; however, according to the Corporations Section's best information, this tax preference item was not used for the fiscal year ended June 30, 1989.

28. Child daycare assistance and development credits 44-47: Credits are available 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 by 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. For purchased daycare, the 30% credit is limited to 60% of the actual cost of daycare purchased for each child; the maximum annual credit is \$30,000 and amounts of unused

credit may not be carried forward. For daycare facilities and rents/lease foregone, the maximum total credit is \$30,000 and amounts of unused credit may be carried forward for 5 years.

Tax Expenditure Amount: Reliable data for this tax preference item was not available to make an estimate; however, according to the Corporations Section's best information, this tax preference item was not used for the fiscal year ended June 30, 1989.

29. Juvenile Restitution Credit 14-1-32.1: 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.

Tax Expenditure Amount: Evaluation of available statistics indicate that a single credit was claimed under this specialized provision but that that claim was for \$101. which, when rounded to the nearest \$1,000. has a de minimis tax expenditure amount for the fiscal year ended June 30, 1989.

RHODE ISLAND DIVISION OF TAXATION
TAXES NOT COVERED BY THIS REPORT
BRIEF DESCRIPTIONS AND TAX PREFERENCE LIST

INTRODUCTION:

To give the reader a better understanding of the taxes not described elsewhere in this report, the following are brief summaries and listings of the tax preferences.

For each of these taxes, a list of tax preference items is given with a legal citation for the reader's use. For a definition of tax preferences for this report, please refer to the Introduction and Methodology section.

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 20 other taxes. As of June 30, 1989, these taxes accounted for \$ 252,855,000. or about 22% of the revenue the Division brought in. In these taxes, there are a total of 70 tax preferences available in various forms.

DETAILS:

1. Admissions Tax to Racing Events: (44-29, RIGL)

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.

2. Alcoholic Beverages Tax: (3-10, RIGL)

This tax is collected on all alcoholic beverages manufactured, rectified, blended or reduced for sale in this state. Any person seeking to import beverages from outside this state must order them through the Liquor Control Administrator and pay a reasonable service charge.

The tax rates and service charges shown below are those in effect for the fiscal year ended June 30, 1989.

<u>Beverage</u>	<u>Tax or Service Charge</u>
Beer	\$2.00 per 31 gallons
Still wines (made entirely from fruit grown in this state)	.20 per gallon
Still wines	.40 per gallon
Sparkling wines	.50 per gallon
Cordials (regardless of proof)	2.50 per gallon
Whiskey, Rum and Gin	2.50 per gallon
Ethyl alcohol (beverage)	5.00 per gallon
Ethyl alcohol (nonbeverage use)	.05 per gallon

Tax Preferences:

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

3. Bank Deposits Tax: (44-15, RIGL)

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 from the last business day of August through the last business day of November.

The tax imposed on every credit union with total deposits in excess of \$150,000,000 is .065 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 .060 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. Deposits used as collateral for realty mortgages
Cite: 44-15-1(B)(2)
2. Deposits used as collateral for loans
Cite: 44-15-1(B)(3)
3. Out of state deposits
Cite: 44-15-1(B)(3) and 44-15-1.1(B)(2)
4. Percentage deposits for loans to members
Cite: 44-15-1.1(B)(1)
5. Percentage deposits for U.S. Government obligations
Cite: 44-15-1.1(B)(1) and 44-15-2
6. Percentage deposits in other credit unions
Cite: 44-15-1.1 (B)(1)
7. Credit for franchise tax paid
Cite: 44-15-4
8. Employment tax credit
Cite: 44-39.1

4. Bank Excise Tax: (44-14, RIGL)

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. 8% 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
2. Gains and losses from securities
Cite: 44-14-12
3. Business expenses.
Cite: 44-14-13
4. Security losses writedowns
Cite: 44-14-14
5. Dividend exclusions
Cite: 44-14-15(1), (2), and (3)
6. Employment tax credit
Cite: 44-39.1
7. Education assistance and development tax credit
Cite: 44-42
8. Small business capital investment deduction
Cite: 44-43-2(c)
9. Long term capital gain exemption
Cite: 44-43-5
10. Daycare credits
Cite: 44-47

5. Beverage Container Tax: (44-44, RIGL)

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 fiscal year ended June 30, 1989.

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

6. Cigarette Tax: (44-20, RIGL)

For the fiscal year ended June 30, 1989, this tax is 13 1/2 mills for each cigarette (27 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. Three packages of out of state cigarettes
Cite: 44-20-16
2. Holding period for unstamped cigarettes
Cite: 44-20-33

7. Estate Tax: (44-22 and 44-23, RIGL)

This tax is levied on the full and fair cash value of property (in excess of the marital deduction, exemptions and exclusions, if part of the gross estate) transferred by will or by laws of descent or during lifetime in contemplation of death, jointly held property (excepting such part as surviving joint tenant can show was acquired through his or her individual contribution or ownership), life insurance, and transfers by exercise of or failure to exercise power of appointment. The returns must be filed and paid within 10 months of the date of death.

TAX RATE SCHEDULE

If Net Taxable Estate is:	From:	To:	Estate Tax Tax plus is:	%	On Excess Over:			
\$	0	\$	25,000	\$	0	2%	\$	0
	25,000		50,000		500	3%		25,000
	50,000		100,000		1,250	4%		50,000
	100,000		250,000		3,250	5%		100,000
	250,000		500,000		10,750	6%		250,000
	500,000		750,000		25,750	7%		500,000
	750,000		1,000,000		43,250	8%		750,000
	1,000,000 (or over)				63,250	9%		1,000,000

The estate tax is presently undergoing an orderly phaseout and the current rates are 60% for deaths from January 1, 1988 to December 31, 1988; 40% for deaths from January 1, 1989 to December 31, 1989; and 20% for deaths from January 1, 1990 to December 31, 1990. For deaths on or after January 1, 1991, the tax will be in accordance with 44-22-1.1 or an amount equal to the federal credit.

Tax Preferences:

1. General estate exemption (\$25,000)
Cite: 44-22-1(b) and 44-22-2
2. Legacies to charitable and tax-exempt organizations
Cite: 44-22-1(c)
3. U.S. civil and federal military service annuities
Cite: 44-22-1(d)
4. Marital deduction
Cite: 44-22-1(e)
5. Orphan's deduction
Cite: 44-22-1(f)
6. Out of state estate property
Cite: 44-22-1.1(b)
7. Claims against the estate
Cite: 44-22-3

8. Franchise Tax: (44-12, RIGL)

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
2. Corporations specifically exempted
Cite: 44-12-11

9. Gasoline Tax: (31-36, RIGL)

For the fiscal year ended June 30, 1989, 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 13 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 2 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)
2. Federal and state excise taxes excluded from "wholesale selling price".
Cite: 31-36-7(d)
3. Sales to the United States government
Cite: 31-36-13
4. Railroad transportation equipment
Cite: 31-36-13
5. Refunds for special uses
Cite: 31-36-15

10. Generation Skipping Transfer Tax: (44-40 RIGL)

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

11. Hotel Tax: (44-18-36.1 RIGL)

This tax is collected and remitted monthly by all hotels, motels, tourist homes, tourist camps, lodging houses and inns offering transient lodging accommodations. The 4% 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 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 collectedand unless otherwise provided to the contrary in this chapter, all the administration, collection, and other provisions of chapters 18 and 19 of this title shall apply..."

Accordingly all the tax preferences found in the Sales and Use Tax law are applicable, at least in theory, to the Hotel Tax. Please refer to the portion of this report which outlines those tax preferences.

12. Insurance Premiums Tax: (44-17, RIGL)

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.

Tax Preferences:

1. Ocean marine insurance company exclusion
Cite: 44-17-1
2. Fraternal benefit society exclusion
Cite: 44-17-1
3. Premiums returned and reinsurance assumed
Cite: 44-17-2
4. Employment tax credit
Cite: 44-39.1
5. Education assistance and development tax credit
Cite: 44-42
6. Small business capital investment deduction
Cite: 44-43-2(d)
7. Daycare credits
Cite: 44-47

13. Jai Alai Betting and Breakage Taxes: (41-7, RIGL)

This tax is levied on each licensee conducting jai alai events, and is: (1) a tax equal to 5% 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

14. Litter Participation and Permit Fees: (44-44, RIGL)

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)
2. Constitutional exemption
Cite: 44-44-3.6

15. Motor Carrier Fuel Use Tax: (31-36.1, RIGL)

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. These motor vehicles include trucks, (not buses or recreational vehicles) having an empty weight of 7,500 lbs. or over, or having a fuel tank exceeding thirty (30) gallons which is connected to the engine used to propel the trucks.

For fuel purchased instate, the tax is paid to the Rhode Island dealer or retailer at the time of purchase. The tax, on fuel purchased outside Rhode Island, must be paid with quarterly reports filed on or before the last day of April, July, October and January. An annual filing is permissible if the estimated fuel use tax due for a quarter is less than \$50.

One door decal must be displayed on the left side of each covered motor vehicle. The fee for each decal is ten dollars (\$10) annually. Each carrier is required to obtain a motor carrier license from the Tax Administrator and pay a license fee of ten dollars (\$10).

A temporary (10 day) permit may be obtained by an unlicensed motor carrier which authorizes one vehicle to be operated without compliance with the other provisions of this tax. Temporary permits are available through servicing companies authorized by the Division of Taxation.

Tax Preferences:

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

16. Pari-Mutuel Betting and Breakage Taxes: (41-3.1, RIGL)

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

17. Public Utilities' Gross Earnings Taxes: (44-13, RIGL)

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%
- (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, 1989.

The minimum tax payable is \$100.

Tax Preferences:

1. Narragansett Pier Railroad
Cite: 44-13-1(a)
2. Subject to Business Corporation Tax
Cite: 44-13-1(b)
3. Carrier access fees
Cite: 44-13-1(b)
4. Electricity sold for resale
Cite: 44-13-4(b)
5. Telecommunications companies nonvoice services
Cite: 44-13-4(d)
6. Merchandise sales
Cite: 44-13-5
7. Apportionment
Cite: 44-13-10
8. Employment tax credit
Cite: 44-39.1
9. Education assistance and development tax credit
Cite: 44-42
10. Small business capital investment deduction
Cite: 44-43-2(b)
11. Long term capital gain exemption
Cite: 44-43-5
12. Daycare credits
Cite: 44-47

18. Railroad Corporation Tax: (44-13.1, RIGL)

This tax requires a payment by railroad corporations (in lieu of property taxes and corporate taxes). The payment is to be made within 30 days after each June 30.