



Summary of Legislative Changes

Rhode Island Department of Revenue
Division of Taxation
July 22, 2015

Following is a summary of tax law changes in the FY 2016 budget bill enacted June 30, 2015.¹

SECTION 1: BUSINESS-RELATED TAXES

Outpatient health care facility surcharge -- repealed

The surcharge on outpatient health care facilities is repealed. The tax, which was enacted in 2007, applied to free-standing ambulatory surgery centers. It was equal to 2 percent of net patient revenue. Under the new law, it is repealed effective July 1, 2015.

Effective: July 1, 2015
Citation: RIGL § 44-64-3

Imaging services surcharge -- repealed

The surcharge on imaging services is repealed. The tax, which was enacted in 2007, generally applied to providers of imaging services – including x-rays, ultrasounds, CT scans, and magnetic resonance imaging (MRI). The surcharge was equal to 2 percent of net patient services. Under the new law, the surcharge is repealed effective July 1, 2015.

Effective: July 1, 2015
Citation: RIGL § 44-65-3

Sales tax exemption: heating fuel

Effective July 1, 2015, gross receipts from the sale – and from the storage, use, or other consumption – of every type of heating fuel are exempt from Rhode Island's 7 percent sales and use tax. Under prior law, the exemption applied to heating fuel used in the heating of homes and residential premises, and to heating fuel used in the manufacturing process.

¹ This publication is an informal summary of recently enacted legislation (H 5900Aaa) and is for general information purposes only. It is not a substitute for Rhode Island General Laws, or for Rhode Island Division of Taxation regulations, rulings, or notices.

Under the new law, the exemption applies to heating fuel in any type of use, including any type of business use. Thus, effective July 1, 2015, all sales of heating fuels are exempt from sales and use tax.

- › The exemption applies to all heating fuels, including, but not limited to, gas, oil firewood, heat pellets, and propane.

Effective: July 1, 2015
Citation: RIGL § 44-18-30

Sales tax exemption: electricity and gas

Effective July 1, 2015, gross receipts from the sale – and from the storage, use, or other consumption – of electricity and gas are exempt from the 7 percent sales and use tax. Under prior law, the exemption applied only to electricity and gas furnished for domestic use by occupants of residential premises, and to electricity and gas used in the manufacturing process.

Under the new law, the exemption applies to electricity and any type of gas furnished for any type of use, including business use. Thus, effective July 1, 2015, all sales of electricity and gas are exempt from sales and use tax. Every type of electricity and gas is exempt from sales and use tax, no matter how it is used.

- › Thus, for example, gross receipts from the sale – and from the storage, use, or other consumption – of natural gas, propane, and other gases are all exempt.

Effective: July 1, 2015
Citation: RIGL § 44-18-30

Corporate minimum tax: 10% reduction

The annual corporate minimum tax will be reduced by 10 percent. The tax, under Rhode Island General Laws (RIGL) § 44-11-2(e), has been set at \$500 since 2004. However, effective for tax years beginning on or after January 1, 2016, the tax will drop to \$450.

The tax reduction will apply to the following:

- entities treated as C corporations for federal income tax purposes;
- entities treated as subchapter S corporations under the Internal Revenue Code;
- limited liability companies, limited partnerships, limited liability partnerships, and other such entities that are treated as pass-through entities for federal income tax purposes. (For pass-through entities, the tax under RIGL § 44-11-2(e) is known as an annual charge, annual filing fee, or annual fee.)

Effective: Tax years beginning on or after January 1, 2016
Citation: RIGL § 44-11-2(e)

Real estate conveyance tax

In general, the real estate conveyance tax applies when real estate changes hands. The tax is equal to \$2.30 for each \$500 (or fractional part thereof) which is paid for the purchase of real estate.

The new law extends the real estate conveyance tax to the transfer of a controlling interest in a limited liability company (LLC), corporation, partnership, or other entity that owns real estate in Rhode Island.

› For example, suppose that Providence LLC, which owns real estate in Rhode Island, is owned 75 percent by Able and 25 percent by Baker. If Able sells to Charlie the 75 percent interest in Providence LLC, the conveyance tax applies. (Under prior law, the conveyance tax would not have applied in this example.)

Specifically, the new law says that the conveyance tax applies to the sale or other transfer of an interest in an acquired real estate company. The new law defines “real estate company” as a corporation, LLC, partnership, or other legal entity which meets certain conditions. An “acquired real estate company” is defined as a real estate company that has undergone a change of ownership interest.

› Notice must be given to the Division of Taxation at least five days before the grant, transfer, assignment, or conveyance of real estate. The notice must list the price, terms, and conditions of the transfer, as well as the character and location of all of the real estate assets held by the real estate company.

Effective: July 1, 2015
Citation: RIGL § 44-25-1

SECTION 2: CREDITS AND INCENTIVES FOR JOB CREATION

The new law contains a package of tax credits and other incentives that are intended to help expand existing jobs, stimulate the creation of new jobs, attract new business and industry to the state, stimulate growth in real estate developments, and aid businesses that are prepared to invest in and foster job creation in the state.

Following is a summary of the tax credits and related incentives of the package, as well as some related matters.

■ ‘Rebuild Rhode Island’ tax credit

Program: In general, this program offers tax credits for certain commercial developments that have a financing gap.

Summary: The project cost must be at least \$5 million.

The maximum credit is the lesser of:

- 30 percent of the total project cost, or
- the amount needed to close a project financing gap.

Overall, the maximum credit is \$15 million per project. The credits may be used against the corporate income tax, the public service corporation tax, the tax on banks, and the tax on insurance companies. It also may be used against the personal income tax by owners of pass-through entities.

Credits can be carried forward for a certain number of years. The credits may also be assigned or sold. Upon request of the taxpayer, and subject to annual appropriation, the State will redeem a credit in whole or in part for 90 percent of the value of the tax credit.

From an applicant's standpoint, requirements include all of the following:

- The applicant must have at least 20 percent of the equity in a project.
- The project is not likely to be accomplished by private enterprise without the tax credits.
- The applicant must obtain a tax stabilization agreement with the city or town where the project is located.

The program is administered by the Rhode Island Commerce Corporation. Projects eligible for the tax credit may, at the discretion of the Commerce Corporation, be exempt from sales and use tax on certain items used in the project, such as furniture, fixtures, equipment, and construction materials.

Sunset: No credits can be authorized to be reserved after December 31, 2018.

Effective: June 30, 2015

Citation: RIGL § 42-64.20-1 *et seq.*

■ Tax increment financing (TIF)

Program: The new law requires the Commerce Corporation to establish a tax increment financing program to encourage qualified development projects in qualifying areas.

Summary: The Division of Taxation must certify the "revenue increment base" – in other words, in general, the amounts of all eligible revenues from sources within certain areas named by the Commerce Corporation.

The Division of Taxation also must pay to a developer the incremental state revenues that are directly realized from projects or businesses operating in a qualifying TIF area from the taxes assessed and collected under certain chapters of RIGL Title 44 – or realized from venue ticket sales or parking taxes.

Sunset: The Commerce Corporation cannot enter into a TIF agreement after December 31, 2018.

Effective: June 30, 2015

Citation: RIGL § 42-64.21-1 *et seq.*

■ ‘Stay Invested in RI Wavemaker Fellowship’

Program: The tax credits under this program are intended to serve as an incentive to keep educated individuals in the state. The credits will go to qualifying applicants to help them pay their higher education loans. The credits are for application against the Rhode Island personal income tax. The credit amount cannot exceed the applicant’s education loan expenses during a certain period.

Summary: Upon receipt of a proper application from an applicant who meets all of the eligibility requirements, the Commerce Corporation will select applicants on a competitive basis to receive tax credits for up to a maximum of:

- \$1,000 for an associate’s degree holder;
- \$4,000 for a bachelor’s degree holder, and
- \$6,000 for a graduate degree holder.

An applicant must be a full-time employee with a Rhode Island-based employer located in this state. The applicant’s employment must be for work in one of more of the following covered fields: life, natural, or environmental sciences; computer, information, or software technology; advanced mathematics or finance; engineering; industrial design or other commercially related design field; or medicine or medical device technology. At the taxpayer’s request, the Division of Taxation must redeem the credits in whole or in part for 100 percent of the value of the credit.

Sunset: No incentives or credits under the program can be authorized after December 31, 2018.

Effective: June 30, 2015

Citation: RIGL § 42-64.26-1 *et seq.*

■ ‘Anchor Institution’ credit

Program: The “Anchor Institution Tax Credit” program is intended to attract businesses to locate in Rhode Island and give existing Rhode Island businesses an incentive to get their service providers, customers, and supply chain businesses to relocate to Rhode Island.

Summary: Under the program, to be administered by the Commerce Corporation, a Rhode Island business may be allowed a credit for having played “a substantial role in the decision of a qualified business to relocate a minimum number of jobs” to Rhode Island, according to the statute. For the years 2015 through 2018, the minimum is 10 employees to Rhode Island. For the years 2019 through 2020, the minimum is 25 employees Rhode Island.

A Rhode Island business qualifying for the credit cannot receive a credit in excess of 75 percent of the amount appropriated in the fiscal year in which the tax credits are issued.

The tax credit can be used against the corporate income tax, public service corporation tax, the tax on banks, and the tax on insurance companies. The Rhode Island business may – before assigning the credit or transferring it to a third party – file a request with the Division of Taxation to redeem the credit in whole or in part.

Sunset: No credits under the program may be reserved after December 31, 2018.

Effective: June 30, 2015

Citation: RIGL § 42-64.30-1 *et seq.*

■ Jobs incentive credit

Program: Under the “Rhode Island Qualified Jobs Incentive Act of 2015”, a qualifying business may receive a tax credit whose base amount is up to \$2,500 a year for each new full-time job. The credit can rise to \$7,500 a year if the business meets certain criteria.

Summary: Administered by the Commerce Corporation, the program may provide tax credits to eligible businesses for an eligibility period of up to 10 years. The credit may be used against the corporate income tax, the public service corporation tax, the bank tax, and the insurance tax. It may also be used against the personal income tax by owners or shareholders of pass-through entities.

The minimum number of new full-time jobs required to be eligible for a tax credit under the program depends in part on how many full-time workers the business has on the date of application for the credit:

- For a business in a targeted industry that employs 100 or fewer full-time workers, it is 10 new full-time jobs in Rhode Island.
- For a business in a targeted industry that employs more than 100 full-time workers, the number is either at least 10 percent of the current full-time workforce or 100 new full-time jobs in Rhode Island.
- For a business in a non-targeted industry that employs 200 or fewer full-time workers, it is 20 new full-time jobs in Rhode Island.
- For a business in a non-targeted industry that employs more than 200 full-time workers, the number is either at least 10 percent of the current full-time workforce or the creation of at least 100 new full-time jobs in Rhode Island.

(A “targeted industry” means any industry identified in the state’s long-term economic development policy under RIGL § 42-64.17-1, or an industry identified by the Commerce Corporation.)

The program includes a credit carryforward provision; a provision involving credit assignment, transfer, or conveyance; and clawback provisions. Further, the Division of Taxation must stand ready to redeem credits, at the business’s request, for up to 90 percent of the value of the credit. Also, the tax rate reduction allowed under the Jobs Development Act is discontinued as of July 1, 2015 (see below).

Sunset: No credit can be authorized to be reserved after December 31, 2018.

Effective: June 30, 2015

Citation: RIGL § 44-48.3-1 *et seq.*

■ Guidance, reporting, and analysis

The Commerce Corporation and the Division of Taxation intend to develop regulations that will provide guidance on various tax credits and incentives under the new law. In addition, the new law requires that the various tax credits and incentives be tracked and reported on by the

Commerce Corporation and the Division of Taxation; a number of the reports are to be made public at established intervals.

Furthermore, certain new tax credit/incentive programs must be included in the state's systematic and comprehensive analysis of economic development tax incentives as spelled out in the "Rhode Island Economic Development Tax Incentives Evaluation Act of 2013" under RIGL Chapter 44-48.2.

Effective: June 30, 2015
Citation: H 5900Aaa, art. 19

■ Jobs Development Act

The tax rate reduction provision allowed under the Jobs Development Act (RIGL Chapter 42-64.5) is discontinued as of July 1, 2015. However, any company that has qualified for a rate reduction under the Jobs Development Act before July 1, 2015, will be allowed to maintain the rate reduction in effect as of June 30, 2015, although no additional rate reduction under the program will be allowed.

Effective: July 1, 2015
Citation: RIGL Chapter 42-64.5

■ Enterprise zone tax credit

No new tax credits under the Rhode Island Distressed Areas Economic Revitalization Act ("enterprise zone" tax credits) will be issued on or after July 1, 2015.

However, under a grandfather provision, new credits will be allowed for a business that has received certification from the State Enterprise Zone Council prior to July 1, 2015. Furthermore, unused credits from before July 1, 2015, may continue to be carried forward for a period of three years under the conditions set for in RIGL § 42-64.3-6.

The credit program was enacted in 1982 as experimental program to stimulate economic revitalization, promote employment opportunities, and encourage business development and expansion in distressed areas of the state. In general, the maximum credit is either \$2,500 or \$5,000 per employee, depending on the circumstances. In fiscal year 2014, four entities claimed the credit for a total of \$191,188.

Effective: July 1, 2015
Citation: RIGL Chapter 42-64.3

SECTION 3: PERSONAL INCOME TAX

Earned income credit

Eligible taxpayers may claim a federal earned income credit and a Rhode Island earned income credit. (The credit is sometimes referred to as the earned income tax credit, or EITC.) In essence, for tax year 2015, the Rhode Island credit is equal to 10 percent of the federal credit. Also, the Rhode Island credit is fully refundable (in other words, 100 percent of the amount by which the Rhode Island earned income credit exceeds the taxpayer's Rhode Island income tax).

Under the new law, effective for tax years beginning on or after January 1, 2016, an eligible taxpayer's Rhode Island earned income credit will equal 12.5 percent of the federal earned income credit; the Rhode Island credit will continue to be fully refundable.

Effective: Tax years beginning on or after January 1, 2016

Citation: RIGL § 44-30-2.6

Credits against personal income tax

Three new Rhode Island tax credits will be allowed against the personal income tax:

- the "Stay Invested in RI Wavemaker Fellowship" credit under RIGL § 42-64.26-1 *et seq.*;
- the "Rebuild Rhode Island" credit under RIGL § 42-64.20-1 *et seq.*; and
- the "Rhode Island Qualified Jobs Incentive Program" credit under RIGL § 44-48.3-1 *et seq.*

Effective: July 1, 2015

Citation: RIGL § 44-30-2.6

Modification for taxable Social Security benefits

The computation of Rhode Island's personal income tax begins with federal adjusted gross income (AGI). Modifications to federal AGI for Rhode Island purposes may result in an increase or decrease in federal AGI.

For tax years beginning on or after January 1, 2016, a modification will be allowed for certain beneficiaries of the federal Social Security program – for residents and nonresidents. You are eligible if:

- You (or your spouse, if married and filing jointly) receive any of the following types of Social Security benefits: old-age benefits (sometimes called retirement benefits); wife's benefits; husband's benefits; widow's benefits; or widower's benefits;
- Your Social Security benefits are taxed at the federal level;
- You (or your spouse, if married and filing jointly) have reached full retirement age as defined by Social Security Administration regulation; and
- Your federal AGI falls below a certain threshold (please see table below). The income thresholds will be adjusted annually for inflation.

You may qualify for the modification for taxable Social Security income	
If you are:	and your federal AGI is less than:
single, head of household, or married filing separately	less than \$80,000
a married individual filing jointly, or a qualifying widow, or a qualifying widower	less than \$100,000
<small>Note: First column refers to filing status on your Rhode Island personal income tax return. For a married couple filing a joint Rhode Island return, income threshold applies to couple's combined federal AGI.</small>	

If you clear all of those hurdles, the amount of your income that will be taxed by Rhode Island will be reduced by the amount of your Social Security benefits taxed at the federal level.

› For example, suppose that your federal AGI is \$50,000, which includes \$10,000 of taxable Social Security benefits. Ordinarily, the entire \$50,000 would be subject to Rhode Island personal income tax. However, if you qualify for the modification, only \$40,000 of your federal AGI will end up being taxed by Rhode Island. Thus, assuming you are in the 3.75 percent Rhode Island tax bracket, you could save \$375 in Rhode Island personal income tax in this example. (For convenience, this example does not take into account other factors for Rhode Island personal income tax purposes, such as other modifications that could decrease or increase your income; the Rhode Island standard deduction; personal exemptions; tax credits; and use tax.)

Effective: Tax years beginning on or after January 1, 2016
Citation: RIGL § 44-30-12

SECTION 4: SHORT-TERM RESIDENTIAL RENTALS

Sales and hotel tax on short-term residential rentals

The new law makes a number of changes involving the application of the 7 percent sales and use tax, the 5 percent statewide hotel tax, and the 1 percent local hotel tax to short-term residential rentals. Which taxes apply depends, in part, on the type of rental and the rental period. A summary follows.

■ Vacation homes and other such accommodations

SHORT-TERM RENTAL

Effective on and after July 1, 2015, if you rent out an entire house, an entire cottage, an entire condo, an entire apartment, or other such accommodation in its entirety for a period of 30 days or less, you must:

- register for a sales permit with the Division of Taxation;

- pay the \$10 annual sales permit fee;
- charge the 7 percent sales tax and 1 percent local hotel tax, for a total of 8 percent, on the transaction; and
- send the tax you collect to the Rhode Island Division of Taxation.

The following exception applies only for 2015: If you rent out an accommodation as described above, but you and the tenant signed a written contract for the rental before July 1, 2015, for occupancy in 2015, the tax provisions do not apply. No sales or hotel tax applies on that transaction – no matter when the tenants paid or will pay you for the rental.

LONGER-TERM RENTAL

Effective on and after July 1, 2015, if you rent out an entire house, an entire cottage, an entire condo, an entire apartment, or other such accommodation in its entirety for a period of more than 30 days, or for an entire calendar month or more, and you have written documentation (such as a signed lease), the transaction is exempt from the 7 percent sales and use tax and exempt from the 1 percent local hotel tax.

■ Residential room rental

SHORT-TERM RESIDENTIAL ROOM RENTAL

Starting July 1, 2015, if you rent out a room for 30 days or less, you must:

- register for a sales permit with the Division of Taxation;
- pay the \$10 annual sales permit fee;
- charge the 7 percent sales tax, the 5 percent statewide hotel tax, and the 1 percent local hotel tax on the transaction, for a total of 13 percent; and
- send the tax you collect to the Rhode Island Division of Taxation.

The following exception applies only for 2015: If you rent out a room as described above, but you and the tenant signed a written contract for the rental before July 1, 2015, for occupancy in 2015, the tax provisions do not apply. No sales or hotel tax applies on that transaction – no matter when the tenants paid or will pay you for the rental.

LONGER-TERM RESIDENTIAL ROOM RENTAL

Starting July 1, 2015, if you rent out a room for a period of more than 30 days, or for an entire calendar month or more, and you have written documentation (such as a signed lease), the transaction is exempt from the sales tax and the hotel taxes.

DAMAGE DEPOSITS

(WHETHER RENTAL IS FOR ENTIRE DWELLING OR JUST A ROOM)

The taxes described above apply to the gross receipts of the transaction. However, if a damage deposit is required as part of the transaction, is separately stated, and is refundable, the taxes do not apply to the refunded portion of the damage deposit.

REAL ESTATE PROFESSIONALS
(WHETHER RENTAL IS FOR ENTIRE DWELLING OR JUST A ROOM)

If a real estate professional (such as an agent or broker) lists a rental on behalf of the property's owners – whether it be a rental of an entire accommodation (such as a vacation home or beach cottage), or simply a single room in a dwelling – and collects the rental amount, the real estate professional must register with the Division of Taxation, pay the \$10 annual sales permit fee, charge and collect the applicable sales and hotel taxes on the transaction, and remit those taxes to the Division of Taxation. The taxes apply to the gross receipts of the transaction – including any commissions and fees. (However, if a damage deposit is required, separately stated, and refundable, the taxes do not apply to the refunded portion of the damage deposit.)

■ **Room reseller**

Effective on and after July 1, 2015, the Rhode Island sales and use tax, statewide hotel tax, and local hotel tax, all apply to room resellers, which are sometimes called online travel companies, OTCs, room remarketers, or travel websites. Room resellers must register with the Division of Taxation and collect and pay to the Tax Administrator all sales and use taxes and statewide and local hotel taxes.

In general, room resellers buy rooms from hotels at a discount and resell them to customers at a markup. Under the new law, a reseller must charge the occupant of the room Rhode Island's 7 percent sales and use tax, 5 percent statewide hotel tax, and 1 percent local hotel tax, for a total of 13 percent, on the entire sale. However, the room reseller may, in effect, claim a credit for the amount it was charged by the hotel in Rhode Island for the 7 percent sales and use tax, 5 percent statewide hotel tax, and 1 percent local hotel tax. (Room resellers are not allowed by statute to present a resale certificate to the hotel.)

› For example, suppose a hotel charges a room reseller \$100.00 for a room plus Rhode Island sales tax of \$7.00, statewide hotel tax of \$5.00, and local hotel tax of \$1.00. The tax totals \$13.00.

The room reseller then arranges for the transfer of occupancy to an occupant and charges the occupant \$150.00 for the room, plus Rhode Island sales tax of \$10.50, statewide hotel tax of \$7.50, and local hotel tax of \$1.50, for a total of \$19.50 in tax.

In this example, the hotel will remit to Rhode Island a total of \$13.00 in tax, while the room reseller will remit to Rhode Island a total of \$6.50 in tax. (This is because the room reseller, after computing the gross tax of \$19.50, gets a credit for the \$13.00 in total taxes that the hotel paid.)

■ **Bed and Breakfast (B&B)**

Under prior law, a bed and breakfast (B&B) was subject to sales tax and hotel tax if it had three or more rooms. Under the new law, effective for July 1, 2015, the room threshold is reduced so that sales and hotel taxes apply if a B&B has one or more rooms available for rental.

The definition of “hotel” includes B&Bs. Therefore, the tax rules that apply to a hotel also apply to a B&B.

› Thus, for example, if someone rents a room in a B&B for 35 consecutive days, the first 30 days are subject to the 7 percent sales tax, 5 percent statewide hotel tax, and 1 percent local hotel tax; for the remaining five consecutive days, none of the taxes applies.

■ Travel and tour packages

Effective for July 1, 2015, and thereafter, if a travel or tour package offers a “bundled” package – including a rental or fee for room occupancy, and other items, such as airfare and meals – and the travel agent has nexus in Rhode Island and the items in the package are not separately stated on the invoice, the cost of the entire package will be subject to Rhode Island’s 7 percent sales and use tax, 5 percent hotel tax, and 1 percent local hotel tax.

If a travel or tour package offers a “bundled” package from a travel agent with Rhode Island nexus and the items in the bundle are not separately stated, and a tour guide is actively involved for five or more consecutive days, no tax applies to the bundled package price – regardless of whether the items in the package are stated separately or not. That is because, with a tour guide actively involved, the package becomes a nontaxable tour operator package. In such a case, the tour packaging company must pay the applicable tax on each sub-item in the package.

■ Hosting platforms

A “hosting platform” typically means a website through which a person rents out a room in a house, apartment, or condo – or one’s entire dwelling.

Under the new law, no city or town in Rhode Island can prohibit a person from offering a room, house, or other such residential unit through a hosting platform.

The new law also says that no city or town in Rhode Island can prohibit a hosting platform from providing a person or entity the means to rent, pay for, or otherwise reserve a residential unit.

Furthermore, the new law says that all hosting platforms that collect money from renters for short-term residential rentals must register with the Division of Taxation, charge and collect sales and hotel taxes on transactions, and remit the tax to the Division of Taxation.

Effective: July 1, 2015
Citation: H. 5900Aaa, Art. 11

SECTION 5: ALCOHOL AND CIGARETTE TAXES

Sales tax exemption: alcoholic beverages

Legislation enacted on July 3, 2013, temporarily exempted -- from Rhode Island sales and use tax -- wine and spirits sold at liquor stores ("Class A" licensees under RIGL Title 3). The exemption was for a 16-month period – from December 1, 2013, through March 31, 2015.

Legislation enacted on June 19, 2014, extended the exemption for three months, through June 30, 2015. Thus, the exemption remained in place for all of fiscal year 2015.

Under the new law, the exemption is now permanent. (Beer and other malt beverages will continue to be subject to the sales and use tax.)

Effective: July 1, 2015

Citation: RIGL Title 3, RIGL § 44-18-30

Alcoholic beverages excise tax

Legislation enacted on July 3, 2013, temporarily increased excise taxes on a number of categories of alcoholic beverages – effective July 1, 2013, through March 31, 2015. Among the categories affected by the increase were malt beverages (including beer), a number of still wines, and spirits such as whiskey, gin, rum, and brandy containing alcohol measuring more than 30 proof.

Legislation enacted on June 19, 2014, extended the increases through June 30, 2015; the old tax rates were to take effect July 1, 2015. However, under the new law, the increases are now permanent. (Please see following table for all tax rates in effect July 1, 2015, and thereafter.)

Excise tax per gallon on wholesalers/distributors and manufacturers	
	Tax rate
Still wines	\$ 1.40
Still wines (Rhode Island fruit)	0.30
Sparkling wines	0.75
Whiskey, other distilled spirits	5.40
Low proof distilled spirits	1.10
Ethyl alcohol (for beverage purposes)	7.50
Ethyl alcohol (for non-beverage use)	0.08
Malt beverages, including beer	3.30

- All taxes are per gallon, except tax on malt beverages, which is per barrel (a barrel equals 31 gallons).
- "Low proof" spirits contain alcohol measuring 30 proof or less.
- Tax applies to manufacturers; wholesalers/distributors pay fee equal to applicable tax rate.
- Beer brewed in-state and meeting certain other conditions may qualify for limited tax exemption.

Effective: July 1, 2015

Citation: RIGL § 3-10-1

Tax on cigarettes

The cigarette excise tax increases by 25 cents a pack of 20 cigarettes, to \$3.75, up from \$3.50, effective August 1, 2015.

In addition, a tax will apply to the cigarette inventory of each cigarette retailer in the state. The tax – known as a “floor tax” – will be measured by the number of cigarettes held by the retailer as of 12:01 a.m. on August 1, 2015. The tax rate will be \$0.0125 per cigarette, or 25 cents per pack of 20 cigarettes.

Similarly, a tax will apply to the inventory of cigarette tax stamps – whether affixed or not – that are held by each distributor as of 12:01 a.m. on August 1, 2015. The floor tax on cigarette tax stamps will be computed at a rate of \$0.0125 per cigarette, or 25 cents per pack of 20 cigarettes.

All wholesalers and retailers of cigarettes must file a return related to the floor tax with the Tax Administrator, and pay the tax due, on or before midnight on August 17, 2015.²

Effective: August 1, 2015

Citation: RIGL §§ 44-20-12, 44-20-13, and 44-20-12.5

SECTION 6: HEALTH AND HOSPITALS

Hospital licensing fee

For all hospitals except those located in Washington County, Rhode Island, the hospital licensing fee rate will be 5.745 percent (the rate formerly was 5.703 percent) of the net patient services revenue based on the hospital's first fiscal year ending on or after January 1, 2013. The license fee for all hospitals located in Washington County, Rhode Island, is discounted by 37 percent. Every hospital must pay the licensing fee to the Division of Taxation on or before July 13, 2015.

For all hospitals except those located in Washington County, Rhode Island, the hospital licensing fee rate will be 5.862 percent of the net patient services revenue based on the hospital's first fiscal year ending on or after January 1, 2014. The license fee for all hospitals located in Washington County, Rhode Island, is discounted by 37 percent. Every hospital must pay the licensing fee to the Division of Taxation on or before July 11, 2016.

The licensing fee is administered and collected by the Tax Administrator within the Division of Taxation.

Effective: Upon passage

Citation: RIGL § 23-17-38.1

² Under the statute, the deadline is August 15, but that falls on a Saturday this year, so the deadline is the next business day.

Health plan assessment

The new law formally authorizes the Department of Administration to establish the Rhode Island health benefit exchange, known as HealthSource RI (resulting from the federal Patient Protection and Affordable Care Act), retroactively to January 1, 2015. To help pay for the state-operated health insurance exchange, the new law authorizes the Department of Administration to levy an assessment on insurers that offer qualified health plans and qualified dental plans. The assessment will be established in accordance and conformity with the federal government's assessment on insurers that offer products on the federal health benefit exchange.

Effective: January 1, 2015

Citation: RIGL § 42-157-1 *et seq*

SECTION 7: TAX ADMINISTRATION

Managed audits

Under the new law, the Tax Administrator may enter into a written agreement with a taxpayer authorizing the taxpayer to conduct a managed audit – sometimes called a self-audit – regarding Rhode Island sales and use tax obligations.

Unless the managed audit or information reviewed by the Tax Administrator discloses fraud or willful evasion of the tax, the Tax Administrator may not assess a penalty and may waive all or a part of the interest that would otherwise accrue on any amount identified as due in a managed audit. Thus, in a sense, a managed audit is a kind of voluntary disclosure agreement.

Under the new law, the term “managed audit” means the taxpayer’s own review and analysis of its invoices, checks, accounting records, or other documents or information to determine the correct amount of sales and use tax.

Such an audit may include the following categories of liability, including sales and/or use tax on:

- Sales of one or more types of taxable items.
- Purchases of assets.
- Purchases of expense items.
- Purchases under a direct payment permit.
- Any other category specified in an agreement authorized by statute.

It will be up to the Tax Administrator to decide whether to authorize a particular managed audit and to determine exactly which categories of liability will be included in a particular taxpayer’s managed audit. In determining whether to authorize a managed audit, the Tax Administrator may consider any of the following (in addition to other facts the Tax Administrator may consider relevant):

- The taxpayer’s history of tax compliance.
- The amount of time and resources the taxpayer has available to dedicate to the managed audit.
- The extent and availability of the taxpayer’s records.
- The taxpayer’s ability to pay any expected liability.

Furthermore, the Tax Administrator may examine records and perform reviews before the managed audit is finalized to verify the results of the managed audit.

The Division of Taxation intends to post in a timely manner a summary of the terms and conditions of the new managed audit program, including restrictions.

Effective: July 1, 2015
Citation: RIGL § 44-19-43

Benefits-based contracts

Effective July 1, 2015, the Division of Taxation may enter into contracts with third parties, on a contingent fee basis, under which the vendor provides services involving the collection of taxes, interest, or penalty – or the reduction of refunds claimed.

- The contingent fee will be based on the actual amount of taxes, interest, and/or penalties collected – and/or the amount by which the refund claim is reduced.
 - The Division of Taxation must publish an annual report showing the number of contracts entered into, the amount collected, and the percentage of the contingency fee arrangement of each contract.
 - The Division of Taxation may not enter into a contingent fee contract under which the third party directly conducts a field audit.
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- **Effective:** July 1, 2015
 - **Citation:** RIGL § 44-1-36
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Refund offset

The new law requires the transfer of all of the functions and programs of the Rhode Island Higher Education Assistance Authority (RIHEAA) to the Rhode Island Division of Higher Education Assistance and the Office of the General Treasurer.

Prior law authorized the Division of Taxation to offset the personal income tax refund of someone who was delinquent on certain payments, including obligations owed to RIHEAA or to RIHEAA acting as agent for the U.S. Department of Education or other student loan guarantee agencies in other states with reciprocal arrangements with RIHEAA for the setoff of refunds of personal income taxes against defaulted loan obligations.

Under the new law, effective July 1, 2015, the Rhode Island Division of Higher Education Assistance will stand in place of RIHEAA for purposes of the Division of Taxation's refund offset program.

Effective: July 1, 2015
Citation: RIGL § 44-30.1-1



This publication is an informal summary of recently enacted legislation (H 5900Aaa) and is for general information purposes only. It is not a substitute for Rhode Island General Laws, or for Rhode Island Division of Taxation regulations, rulings, or notices. Citations listed in this document are from the original legislative text and are subject to revision.

-- David M. Sullivan
Rhode Island Tax Administrator