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Rhode Island Governor's Budget Proposal Includes Business Tax Overhaul; Combined Reporting Bill Introduced

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Rhode Island Governor Lincoln Chafee's proposed budget legislation would adopt combined reporting, reduce the corporate income tax rate, broaden the sales tax base while lowering the general rate, and provide for the phase-out of certain income tax credits, among other changes. [H. 5894, introduced and referred to House Finance, 3/9/11]. In a separate action, Rhode Island lawmakers introduced legislation requiring combined reporting for certain corporate income taxpayers. [H. 5738, introduced and referred to House Finance, 3/3/11].

Combined Reporting. Under the Governor's budget proposal, combined reporting would be required for any corporation subject to the state's corporate income tax that is part of a unitary business. A "unitary business" means the activities of a group of two or more corporations under common ownership that are sufficiently interdependent, integrated or interrelated through their activities so as to provide mutual benefit and produce a significant sharing or exchange of value among them or a significant flow of value between the separate parts. The proposal would include a water's edge election and would be effective for tax years beginning on or after January 1, 2012. [H. 5894]. In a separate stand alone bill similar combined reporting legislation was introduced one week prior to the Governor's proposal. [H. 5738].

Other Corporate Tax Provisions. In addition to requiring combined reporting, the Governor's budget proposal includes several measures aimed at reforming the state's corporate income tax system, including:

- a phased-in incremental reduction of the corporate income tax rate, from the current 9% to 7.5% in 2014;
- a phase-out of the jobs development tax credit and the repeal of the film tax credit;
- an expansion of the minimum tax to limited partnerships and limited liability partnerships; and

- a restructuring of the minimum tax to a tiered rate structure based on Rhode Island gross receipts.

Sales and Use Tax. The budget proposal includes a sales and use tax overhaul estimated to generate a net revenue increase of $164.9 million. The legislation would decrease the sales tax rate from 7% to 6% and expand the sales tax base to include previously exempt goods and services, including, but not limited to, newspapers, non-prescription drugs, and maintenance and repair services.

In addition, the legislation would establish a separate 1% sales tax for certain currently-exempt items such as clothing, footwear and charitable sales. The new tax is expected to increase net revenue by $85 million. The imposition of this new tax would trigger non-compliance with the Streamlined Sales and Use Tax Agreement. However, the 1% tax would sunset if federal legislation requiring taxation of internet and catalogue purchases were to become law.

For more information on PricewaterhouseCoopers' state legislative tracking service, click here.

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