

Governor's FY 2016 Budget: Articles

Staff Presentation to the House Finance Committee
April 8, 2015

1

Introduction – Article 11

- Sections 1 and 2 – Enterprise Zone Wage Credit Elimination
- Section 5 – Contingency Fee Contracts
- Section 9 – Managed Audits
- Section 7 – Commercial Utilities Sales Tax Exemption Phase-In
- Sections 13 and 14 – Outpatient Facilities Surcharge Phase-Out

2

Article 11, Sec. 1 & 2 – Enterprise Zone Wage Credit

- Current law - Tax credit for job growth within Enterprise Zones
 - Defined by state using census blocks & tracts, specified boundaries are streets
- Tax credit earned for minimum wage and job growth of new or additional jobs within Enterprise Zone
 - 20+ Employee Companies – 5% growth
 - <20 Employee Companies – 1 new job

3

Article 11, Sec. 1 & 2 – Enterprise Zone Wage Credit

- Currently 10 zones in 13 municipalities

Enterprise Zones	
1. Cranston	6. Portsmouth/Tiverton
2. Central Falls/Cumberland	7. Providence II
3. East Providence	8. Warren/Bristol
4. Pawtucket/Lincoln	9. West Warwick
5. Port of Providence	10. Woonsocket/Cumberland

4

Article 11, Sec. 1 & 2 – Enterprise Zone Wage Credit

- To qualify as growth:
 - New/additional jobs must begin and end day/shift within zone
 - New employees must be full-time
 - New employees must be employed certification or recertification and stay employed after Dec 31st
 - Employees hired & terminated in same certification period are not considered growth
 - Rhode Island residents

5

Article 11, Sec. 1 & 2 – Enterprise Zone Wage Credit

- Credit equal to half the total wages on the new jobs
 - Or 75% if employees are residents of distressed area
 - Capped at \$2,500 for 50% credit or \$5,000 for 75% credit
- No wage standard for credit
 - No requirement per employee, per hour
 - Total wage bill of \$1.00 more than previous year

6

Article 11, Sec. 1 & 2 – Enterprise Zone Wage Credit

Fiscal Year	Qualifying Entities	Credit Value
2014	4	\$ (191,188)
2013	7	(383,503)
2012*	20	(701,936)
2011	38	(875,575)
2010	40	(715,187)
2009	58	(1,066,997)
2008	88	(1,626,658)

*Final year credits could be taken against Personal Income Tax

7

Article 11, Sec. 1 & 2 – Enterprise Zone Wage Credit

- FY 2016 Proposal – Eliminates credit, effective July 1, 2015
- Credits earned prior to Tax Year 2015 expire
 - No carry-forward
- FY 2016 budget assumes \$0.4 million

8

Article 11, Sec. 5 – Contingency Fee Contracts

- 2008 – Division of Taxation implemented data warehouse project
 - Operations modernization
 - Electronic storage of filer and return data
 - Automation of some compliance functions
 - Data-driven audit process
- Division does not have technical expertise to use the data warehouse as effectively as possible

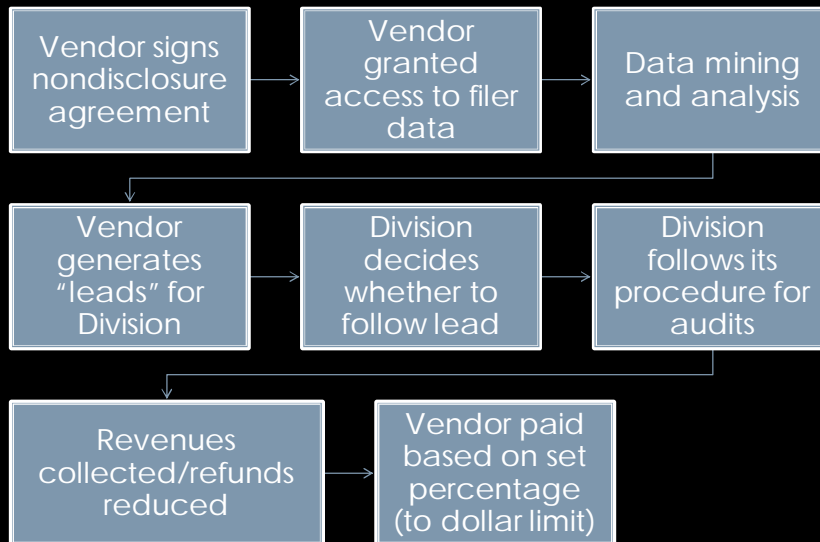
9

Article 11, Sec. 5 – Contingency Fee Contracts

- FY 2016 Proposal – Authorize Division to enter into contingency fee contracts
 - Between taxing authority and third party (vendor)
 - Vendor reviews data and records
 - Sole purpose – determine if additional taxes, interest, or penalties are owed (or if refunds were too large)
 - Vendor paid percentage of collections

10

Article 11, Sec. 5 – Contingency Fee Contracts



11

Article 11, Sec. 5 – Contingency Fee Contracts

- Vendor explicitly prohibited from direct contact with filers
 - Cannot conduct audits
 - Does not generate notices to filers
- FY 2016 Budget assumes \$1.8 million from additional collections, interest, and penalties
 - Includes 2.0 new positions to support

12

Article 11, Sec. 9 – Managed Self-Audits

- FY 2016 Proposal – Authorize Division of Taxation to allow Managed Self Audits
- Managed/Self Audit agreement - between taxing authority and filers
 - Filers review own records to determine additional taxes owed
 - Typically for collection of sales and use taxes

13

Article 11, Sec. 9 – Managed Self-Audits

- Filer performs self-audit under review of Division staff
- Successful programs include:
 - Eligibility requirements
 - Specific auditing period
 - Specific transactions for review
 - Record-keeping and reporting standards

14

Article 11, Sec. 9 – Managed Self-Audits

- Benefits to Division:
 - Resource savings
 - Lower likelihood of taxpayer protest
- Benefits to filers:
 - If all taxes owed are paid, receive reduced interest and no penalties
- FY 2016 Budget assumes \$0.5 million
 - Includes 1.0 new position to support

15

Article 11, Sec. 7 – Commercial Utilities Sales Tax Exemption

- Current law – Purchase of heating fuels, electricity, and gas subject to sales tax, unless
 - For residential use
 - For use in manufacturing processes
- FY 2016 Proposal – Phase in exemption of purchases by all other consumers (commercial users)
 - Exemption phased in via 20% increments over 5 years
 - 100% exempt, effective July 1, 2019

16

Article 11, Sec. 7 – Commercial Utilities Sales Tax Exemption

Sales Tax Collected					
Fiscal Year	Electricity	Natural Gas	Heating Fuel	Total	
2012	\$ 15.2	\$ 4.1	\$ 1.1	\$ 20.4	
2013	14.9	4.6	1.1	20.6	
2014	17.2	5.7	1.2	24.1	
Total	\$ 47.3	\$ 14.4	\$ 3.4	\$ 65.1	
Avg.	\$ 15.8	\$ 4.8	\$ 1.1	\$ 21.7	

In millions

17

Article 11, Sec. 7 – Commercial Utilities Sales Tax Exemption

- FY 2016 Budget assumes loss of \$4.9 million
 - Five-year forecast assumes growing losses

Fiscal Year	Exemption	Estimated Impact*
2016	20.0%	\$ (4.9)
2017	40.0%	\$ (9.9)
2018	60.0%	\$ (15.3)
2019	80.0%	\$ (20.7)
2020	100%	\$ (26.2)

**In millions*

18

Article 11, Sec. 13 & 14 – Outpatient Facilities Surcharge

- Current law – 2.0% Surcharge on outpatient facilities' net patient services revenue
 - Imaging Services Facilities (35)
 - Outpatient Surgical Facilities (11)
 - Net patient revenue – revenues collected for patient care services, minus charges for charity care, bad debt, and contractual allowances

19

Article 11, Sec. 13 & 14 – Outpatient Facilities Surcharge

- FY 2016 Proposal – Phase out surcharge
 - Surcharge phased out via 0.5% increments over 4 years
 - 1.5% surcharge effective July 1, 2015
 - 0% surcharge effective July 1, 2018

20

Article 11, Sec. 13 & 14 – Outpatient Facilities Surcharge

Revenues Collected				
Fiscal Year	Imaging Services	Outpatient Surgical Centers	Total	
2010	\$ 2.1	\$ 0.8	\$ 2.8	
2011	2.0	0.8	2.8	
2012	2.2	0.9	3.0	
2013	1.8	0.8	2.6	
2014	1.7	0.8	2.5	
Total	\$ 9.7	\$ 4.1	\$ 13.8	
Avg.	\$ 1.9	\$ 0.8	\$ 2.8	

In millions

21

Article 11, Sec. 13 & 14 – Outpatient Facilities Surcharge

- FY 2016 Budget assumes loss of \$0.6 million
 - Five-year forecast assumes growing losses

Fiscal Year	Imaging Services	Outpatient Surgical Centers	Estimated Impact
2016	\$ (0.3)	\$ (0.2)	\$ (0.6)
2017	(0.8)	(0.4)	\$ (1.1)
2018	(1.1)	(0.6)	\$ (1.7)
2019	(1.5)	(0.7)	\$ (2.2)
2020	(1.5)	(0.7)	\$ (2.3)

In millions

22

Governor's FY 2016 Budget: Articles

Staff Presentation to the House Finance Committee
April 8, 2015