STRATEGIC TAX POLICY WORKGROUP

MEETING OF THE STRATEGIC TAX POLICY WORKGROUP

Thursday, August 14, 2008 at 8:00 a.m. – 9:30 a.m.
Conference Room C, Department of Administration
One Capitol Hill, Providence, RI 02908

MEETING AGENDA

I. Meeting Overview

II. Presentation by Scott Peterson:
Streamline Sales Tax

III. Reports from Sub-Groups

IV. Next Steps

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Tax Policy Workgroup

BUSINESS TAX SUB-GROUP

1. **Compared Rhode Island's Corporate Income Tax to Massachusetts and Connecticut:**

   Scenario:

   - Resident corporation operating in multiple states
   - Federal Taxable Income $300,000
   - Apportionment Factors:

	Sales	Property	Salaries
In State	100,000	500,000	500,000
Total	1,000,000	1,000,000	1,000,000

Scenario Results:

Non-Manufacturing:

	Rhode Island	Connecticut	Massachusetts
Federal Taxable Income	300,000	300,000	300,000
Apportionment Percentage	37%	10%	30%
Taxable Income	111,000	30,000	90,000
Tax Rate	9.0%	7.5%	9.5%
Total Tax	9,990	2,250	8,550

Manufacturing:

	Rhode Island	Connecticut	Massachusetts
Federal Taxable Income	300,000	300,000	300,000
Apportionment Percentage	30%	10%	30%
Taxable Income	90,000	30,000	90,000
Tax Rate	9.0%	7.5%	9.5%
Total Tax	8,100	2,250	8,550

2. **Reviewed Rhode Island's Business Tax Credits:**

Credit	Tax Year 2004 (millions)	Tax Year 2005 (millions)	Tax Year 2006 (millions)	Tax Year 2007 (millions)
Investment Tax Credit	7.68	8.59	6.49	2.13
Daycare Tax Credit	0.05	0.02	0.05	0.01
SBA Tax Credit	0.01	0.00	0.00	0.00
R&D Prop Tax Credit	0.44	0.02	0.53	0.44
R&D EXP Tax Credit	0.70	0.90	1.29	0.27
ISO Tax Credit	0.00	0.00	0.00	0.00
Enterprise Zone Tax Credit	0.62	0.94	0.74	0.81
Job Training Tax Credit	0.62	0.53	1.24	0.17
Job Development Tax Credit	4.80	7.60	11.40	11.50
Tuition Tax Credit	0.00	0.00	0.00	0.09
Motion Picture Tax Credit	0.00	0.01	0.90	0.00
Historic Tax Credit	3.73	8.50	2.03	1.24
Total	**18.65**	**27.11**	**24.67**	**16.66**

3. **Next Steps:**

- **Review Cost/Benefit of Business Tax Credits**
- **Review Combined Reporting for Corporate Income Tax – past legislation has brought Rhode Island closer to combined reporting**
- **Review alternative ways to tax of businesses**

STATE INDIVIDUAL TAXATION SUBGROUP

GOVERNOR'S UPDATE

AUGUST 13, 2008

ATTACHMENTS

I. INDIVIDUAL STATE INCOME TAX PROVISIONS (2 PAGES)

II. TAXPAYER PROFILES AND INCIDENCE RESULTS (2 PAGES)

III. PROPOSED PARAMETERS OF A REFORMED RHODE ISLAND PERSONAL INCOME TAX SYSTEM (2 PAGES)

IV. RHODE ISLAND ALLOWABLE FEDERAL AND STATE ENACTED INDIVIDUAL INCOME TAX CREDITS (3 PAGES)

STATE INDIVIDUAL INCOME TAX PROVISIONS

Summary of Various Provisions

(Tax Year 2005)

Item of Interest	Number of States	Percentage of Total
Taxable Income Base		
State Adjusted Gross Income	4	9.1%
Other State Income Measure	2	4.5%
Federal Adjusted Gross Income	30	68.2%
Federal Taxable Income	6	13.6%
Interest and Dividends	2	4.5%
Marginal Tax Rates		
Lowest Tax Rate less than or equal to 2.0%	19	52.8%
Lowest Tax Rate > 2.0% but < 4.0%	11	30.6%
Lowest Tax Rate greater than or equal to 4.0%	6	16.7%
Average Lowest Tax Rate: 2.425%		
Median Lowest Tax Rate: 2.000%		
Highest Tax Rate less than or equal to 5.0%	4	11.1%
Highest Tax Rate > 5.0% but < 8.0%	21	58.3%
Highest Tax Rate greater than or equal to 8.0%	11	30.6%
Average Highest Tax Rate: 7.121%		
Median Highest Tax Rate: 6.950%		
Flat Tax Rate less than or equal to 4.0%	4	50.0%
Flat Tax Rate greater than 4.0%	4	50.0%
Average Flat Tax Rate: 4.288%		
Median Flat Tax Rate: 4.265%		
Number of Brackets		
Flat Rate	8	18.2%
Less than or equal to 3 brackets	8	18.2%
Greater than or equal to 4 but less than or equal to 7 brackets	21	47.7%
Greater than 7 brackets	7	15.9%
Mode Number of Brackets: 3		
Median Number of Brackets: 5		
Income at Which Top Marginal Tax Rate Begins		
Single Filers: Less than or equal to $10,000	6	16.7%
Single Filers: Greater than $10,000 but less than or equal to $75,000	20	55.6%
Single Filers: Greater than $75,000 but less than or equal to $200,000	4	11.1%
Single Filers: Greater than $200,000	6	16.7%
Single Filers: Average Income at Which Top Rate Begins: $91.416		
Single Filers: Median Income at Which Top Rate Begins: $29,601		
Married-J Filers: Less than or equal to $10,000	4	11.1%
Married-J Filers: Greater than $10,000 but less than or equal to $75,000	19	52.8%
Married-J Filers: Greater than $75,000 but less than or equal to $200,000	5	13.9%
Married-J Filers: Greater than $200,000	8	22.2%
Married J Filers: Average Income at Which Top Rate Begins: $107,110		
Married J Filers: Median Income at Which Top Rate Begins: $48,376		
Head of HH Filers: Less than or equal to $10,000	4	11.1%
Head of HH Filers: Greater than $10,000 but less than or equal to $75,000	21	58.3%
Head of HH Filers: Greater than $75,000 but less than or equal to $200,000	4	11.1%
Head of HH Filers: Greater than $200,000	7	19.4%
Head of HH Filers: Average Income at Which Top Rate Begins: $100,598		
Head of HH Filers: Median Income at Which Top Rate Begins: $32,501		

STATE INDIVIDUAL INCOME TAX PROVISIONS

Summary of Various Provisions

(Tax Year 2005)

Item of Interest	Number of States	Percentage of Total
Personal Exemptions/Credits		
Credit	8	18.2%
Exemption	34	77.3%
Both	1	2.3%
None	1	2.3%
State determined amount	36	81.8%
Federal determined amount	8	18.2%
Elderly	23	52.3%
Dependent	39	88.6%
Handicapped Dependent	12	27.3%
Blind	20	45.5%
Deaf	3	6.8%
Disabled	7	15.9%
Standard Deductions		
Percentage of AGI subject to a maximum amount	4	9.1%
State flat amount	23	52.3%
Federal flat amount	11	25.0%
None	10	22.7%
Itemized Deductions		
Yes	33	75.0%
No	11	25.0%
State Income and Sales Taxes: Federal schedule	7	15.9%
State Income and Sales Taxes: Sales taxes only federal schedule	9	20.5%
State Income and Sales Taxes: None	28	63.6%
Other taxes: Federal schedule	16	36.4%
Other Taxes: State schedule	13	29.5%
Other Taxes: None	15	34.1%
Interest Expenses: Federal schedule	30	68.2%
Interest Expenses: State schedule	2	4.5%
Interest Expenses: None	12	27.3%
Medical Expenses: Federal schedule	25	56.8%
Medical Expenses: State schedule	8	18.2%
Medical Expenses: None	11	25.0%
Charitable Contributions: Federal schedule	27	61.4%
Charitable Contributions: State schedule	5	11.4%
Charitable Contributions: None	12	27.3%
Miscellaneous & Other Deductions: Federal schedule	20	45.5%
Miscellaneous & Other Deductions: State schedule	12	27.3%
Miscellaneous & Other Deductions: None	12	27.3%

STATE INDIVIDUAL INCOME TAX PROVISIONS

Summary of Various Provisions

(Tax Year 2005)

Item of Interest	Number of States	Percentage of Total
Retirement Income		
Private Pension: No exemption	16	36.4%
Private Pension: Partial exemption	24	54.5%
Private Pension: Full exemption	4	9.1%
State and Local Pension: No exemption	8	18.2%
State and Local Pension: Partial exemption	26	59.1%
State and Local Pension: Full exemption	10	22.7%
Federal Civilian Pension: No Exemption	8	18.2%
Federal Civilian Pension: Partial Exemption	24	54.5%
Federal Civilian Pension: Full Exemption	12	27.3%
Military: No exemption	8	18.2%
Military: Partial exemption	22	50.0%
Military: Full exemption	14	31.8%
Social Security Benefits: Taxable federal schedule	11	25.0%
Social Security Benefits: Taxable state schedule	4	9.1%
Social Security Benefits: Full exemption	29	65.9%
Alternative Minimum Tax (Tax Year 2008)		
Yes	8	18.2%
No	34	77.3%
State minimum tax calculation	2	4.5%

TAXPAYER PROFILES
Assumptions about Income, Exemptions, Deductions, etc.

Assumptions	Minimum Wage Worker	Married Retired Working Class	Dual Minimum Wage Workers	Single Professional	Married Working Class	Married Retired Professionals	Married Professionals	Married Executive	Married Small Business Owner	Married Senior Executive
Income										
Wages-Taxpayer	$ 15,392	$ -	$ 15,392	$ 45,000	$ 45,000	$ -	$ 90,000	$ 180,000	$ 300,000	$ 1,000,000
Wages-Spouse	$ -	$ -	$ 15,392	$ -	$ 30,000	$ -	$ 60,000	$ -	$ -	$ -
Pension Income	$ -	$ 8,000	$ -	$ -	$ -	$ 45,000	$ -	$ -	$ -	$ -
Social Security Income	$ -	$ 15,000	$ -	$ -	$ -	$ 24,000	$ -	$ -	$ -	$ -
Interest Income	$ -	$ 520	$ -	$ 50	$ 100	$ 1,050	$ 500	$ 2,000	$ 3,000	$ 15,000
Dividend Income	$ -	$ 300	$ -	$ 150	$ 50	$ 1,150	$ 1,150	$ 2,300	$ 10,000	$ 23,000
Short-Term Capital Gains Income	$ -	$ 200	$ -	$ 215	$ 350	$ 2,000	$ 200	$ 2,000	$ 15,000	$ 35,000
Long-Term Capital Gains Income	$ -	$ -	$ -	$ -	$ -	$ 20,000	$ 600	$ 4,200	$ 25,000	$ 100,000
Total Income	**$ 15,392**	**$ 24,020**	**$ 30,784**	**$ 45,415**	**$ 75,500**	**$ 93,200**	**$ 152,450**	**$ 190,500**	**$ 353,000**	**$ 1,173,000**
Dependents	2	-	3	-	2	-	2	4	4	3
Filing Status	HoH	MFJ	MFJ	S	MFJ	MFJ	MFJ	MFJ	MFS	MFJ
Personal Exemptions										
Taxpayer										
Spouse										
Dependents										
65 or Over										
Standard Deduction	Yes	Yes	Yes	Yes	Maybe	Maybe	No	No	No	No
Itemized Deductions	No	No	No	No	Maybe	Maybe	Yes	Yes	Yes	Yes
State Income & Sales Taxes					$ 2,349.22	$ 3,733.03	$ 6,822.59	$ 9,624.27	$ 25,721.21	$ 85,470.20
Real Estate Taxes					$ 2,684.82	$ 3,487.93	$ 5,306.46	$ 6,971.91	$ 7,311.35	$ 24,295.21
Mortgage Interest					$ 6,142.99	$ -	$ 10,612.91	$ 13,261.79	$ 11,992.71	$ 39,851.13
Charitable Contributions					$ 1,284.05	$ 2,828.70	$ 3,214.20	$ 4,016.43	$ 9,836.13	$ 32,684.92
Other					$ 437.74	$ -	$ 879.36	$ 1,098.83	$ 1,525.39	$ 5,068.78
Total Itemized Deductions					$ 12,899	$ 10,049.66	$ 26,835.51	$ 34,973.23	$ 56,386.78	$ 187,370.25
Total Itemized Deductions as a % of Total Income					17.1%	10.8%	17.6%	18.4%	16.0%	16.0%
Credits										
Earned Income Tax Credit (EITC)										
Refundable EITC										
Child Tax Credit										
Child Care Tax Credit										
Other Tax Systems										
Alternative Flat Tax										
Alternative Minimum Tax										
Other Assumptions										
Retired tax filers are assumed to be 65 or over										
Minimum wage workers work full-time, 40 hours a week										
All interest income is taxable for state purposes										
Pension income is non-military but from a public source										

TAXPAYER PROFILES

Estimated Tax Liabilities and Rank

(Tax Year 2007)

State	Minimum Wage Worker			Married Retired Working Class		
	Estimated Liability	Percentage of Total Income	Rank (ascending by liability)	Estimated Liability	Percentage of Total Income	Rank (ascending by liability)
Rhode Island	$ (177)	-1.15%	2	$ -	0.00%	1
Massachusetts	(707)	-4.59%	1	0	0.00%	1
Connecticut	0	0.00%	3	0	0.00%	1
North Carolina	9	0.06%	7	0	0.00%	1
New Jersey	0	0.00%	3	0	0.00%	1
Virginia	0	0.00%	3	0	0.00%	1
Delaware	0	0.00%	3	0	0.00%	1
RI Alternative Flat Tax at 5.5%	$ 847	5.50%	8	$ 1,321	5.50%	8

State	Dual Minimum Wage Workers			Single Professional		
	Estimated Liability	Percentage of Total Income	Rank (ascending by liability)	Estimated Liability	Percentage of Total Income	Rank (ascending by liability)
Rhode Island	$ (56)	-0.18%	1	$ 1,529	3.37%	2
Massachusetts	244	0.79%	5	2,071	4.56%	5
Connecticut	71	0.23%	4	1,864	4.10%	4
North Carolina	0	0.00%	2	2,667	5.87%	8
New Jersey	355	1.15%	6	951	2.09%	1
Virginia	554	1.80%	7	2,129	4.69%	6
Delaware	0	0.00%	2	1,822	4.01%	3
RI Alternative Flat Tax at 5.5%	$ 1,693	5.50%	8	$ 2,498	5.50%	7

State	Married Working Class			Married Retired Professionals		
	Estimated Liability	Percentage of Total Income	Rank (ascending by liability)	Estimated Liability	Percentage of Total Income	Rank (ascending by liability)
Rhode Island	$ 1,834	2.43%	2	2,274	2.44%	4
Massachusetts	2,846	3.77%	4	1,740	1.87%	2
Connecticut	3,036	4.02%	6	3,023	3.24%	6
North Carolina	3,436	4.55%	7	3,219	3.45%	7
New Jersey	1,299	1.72%	1	659	0.71%	1
Virginia	3,012	3.99%	5	2,981	3.20%	5
Delaware	2,629	3.48%	3	1,984	2.13%	3
RI Alternative Flat Tax at 5.5%	$ 4,153	5.50%	8	$ 5,126	5.50%	8

State	Married Professionals			Married Executive		
	Estimated Liability	Percentage of Total Income	Rank (ascending by liability)	Estimated Liability	Percentage of Total Income	Rank (ascending by liability)
Rhode Island	$ 6,108	4.01%	2	$ 8,668	4.55%	4
Massachusetts	6,901	4.53%	5	8,631	4.53%	3
Connecticut	7,223	4.74%	6	9,125	4.79%	6
North Carolina	8,681	5.69%	8	10,945	5.75%	8
New Jersey	5,264	3.45%	1	7,188	3.77%	1
Virginia	6,892	4.52%	4	8,874	4.66%	5
Delaware	6,262	4.11%	3	7,383	3.88%	2
RI Alternative Flat Tax at 5.5%	$ 8,385	5.50%	7	$ 10,478	5.50%	7

State	Married Small Business Owner			Married Senior Executive		
	Estimated Liability	Percentage of Total Income	Rank (ascending by liability)	Estimated Liability	Percentage of Total Income	Rank (ascending by liability)
Rhode Island	$ 20,751	5.88%	7	$ 80,798	6.89%	7
Massachusetts	15,452	4.38%	2	53,930	4.60%	1
Connecticut	17,250	4.89%	4	58,250	4.97%	3
North Carolina	24,150	6.84%	8	84,844	7.23%	8
New Jersey	15,386	4.36%	1	75,483	6.44%	6
Virginia	17,830	5.05%	5	61,446	5.24%	4
Delaware	15,852	4.49%	3	57,934	4.94%	2
RI Alternative Flat Tax at 5.5%	$ 19,415	5.50%	6	$ 64,515	5.50%	5

GOVERNOR'S TAX POLICY STRATEGY WORKGROUP

STATE INDIVIDUAL TAXATION SUBGROUP

PROPOSED PARAMETERS FOR A REFORMED RI PERSONAL INCOME TAX SYSTEM

The following are the parameters that have been agreed upon by the State Individual Taxation Subgroup with respect to the potential reform of Rhode Island's Personal Income Tax system:

Income Base:

- Federal Adjusted Gross Income with the following modifications:
  - Subtract interest income from obligations of the U.S. government
  - Add interest income from obligations of non-Rhode Island entities
  - Add IRC §199 Qualified Domestic Production Deduction
  - Add IRC §179 Expense Election of Depreciation Deduction
  - Add Bonus Depreciation to the extent it exceeds RI depreciation

Brackets and Rates:

- Consensus was 3 to 4 brackets with maximum marginal tax rate of up to 6.0 percent
- Consensus was that the income ranges of the tax brackets be narrowed such that the top marginal rate would be effective at a lower level of taxable income
- Consensus was to index the tax bracket income ranges to inflation to eliminate bracket creep
- Consensus was to make the income ranges for head of household to be one-and-a-half times that of a single/married filing separately filer and married filing jointly to be two times that of single/married filing separately filer

Standard Deduction:

- Consensus was to make the standard deduction large enough to exempt those taxpayers that are at or below the poverty level from income tax liability

Itemized Deductions:

- Consensus was to eliminate itemized deductions on the state return in exchange for lower marginal tax rates

Exemptions:

- Consensus was to have a state determined exemption amount and index the amount to inflation

Treatment of Investment Income (including Capital Gains):

- Consensus was to return to this item after capital gains taxes discussion

Alternative Minimum Tax:

- Consensus was to eliminate the alternative minimum tax at the state level

Retirement Income:

- Consensus was to tax pension and Social Security income

Earned Income Tax Credit:

- Consensus was to follow federal schedule until taxpayer reaches zero Rhode Island personal income tax liability
- Consensus was to maintain a state refundable earned income tax credit with the refundable portion being state determined

Other Items:

- Consensus was to generally follow federal treatment of other tax items (e.g., incentive stock options) for purposes of simplicity

Issues for Further Consideration

1. Reach consensus on tax credits other than earned income tax credit
2. Accelerated phase-in of the alternative flat tax rate reduction
3. Relationship between income tax structure and use of tax credits
4. Cost/benefit analysis of tax credits

STATE INDIVIDUAL INCOME TAX PROVISIONS

RI Allowable Federal Income Tax Credits by AGI Class

(Tax Year 2006)

State / Federal:	Tax credit:		All Returns	Under $30,000	% of Total	$30,000 Under $50,000	% of Total	$50,000 Under $75,000	% of Total	$75,000 Under $100,000	% of Total	$100,000 Under $200,000	% of Total	$200,000 or More	% of Total
Allowable Federal Earned Income Credits															
Allowable Federal	Earned income														
		Count	69,066	63,364	91.7%	5,698	8.3%	2	0.0%	-	0.0%	2	0.0%	-	0.0%
		Amount	$ 8,198,474	$ 7,534,838	91.9%	$ 663,381	8.1%	$ 151	0.0%	$ -	0.0%	$ 104	0.0%	$ -	0.0%
Allowable Federal	Refundable EIC														
		Count	57,681	56,013	97.1%	1,666	2.9%	1	0.0%	-	0.0%	1	0.0%	-	0.0%
		Amount	$ 4,101,862	$ 4,064,305	99.1%	$ 37,438	0.9%	$ 15	0.0%	$ -	0.0%	$ 104	0.0%	$ -	0.0%
Total Allowable Federal Earned Income Credits															
		Count	69,066	63,364	91.7%	5,698	8.3%	2	0.0%	-	0.0%	2	0.0%	-	0.0%
		Amount	$ 12,300,335	$ 11,599,143	94.3%	$ 700,819	5.7%	$ 166	0.0%	$ -	0.0%	$ 208	0.0%	$ -	0.0%
Identifiable Allowable Federal Credits															
Allowable Federal	Foreign tax														
		Count	24,237	3,180	13.1%	2,770	11.4%	3,711	15.3%	3,278	13.5%	6,564	27.1%	4,734	19.5%
		Amount	$ 2,754,240	$ 31,575	1.1%	$ 41,408	1.5%	$ 69,430	2.5%	$ 84,285	3.1%	$ 333,100	12.1%	$ 2,194,443	79.7%
Allowable Federal	Child and dependent care expenses														
		Count	19,265	3,246	16.8%	3,227	16.8%	3,678	19.1%	3,495	18.1%	4,800	24.9%	819	4.3%
		Amount	$ 2,509,533	$ 374,304	14.9%	$ 446,503	17.8%	$ 462,575	18.4%	$ 466,547	18.6%	$ 645,857	25.7%	$ 113,747	4.5%
Allowable Federal	Adoption tax credit														
		Count	121	2	1.7%	19	15.7%	39	32.2%	36	29.8%	25	20.7%	-	0.0%
		Amount	$ 133,869	$ 214	0.2%	$ 8,669	6.5%	$ 32,371	24.2%	$ 40,795	30.5%	$ 51,820	38.7%	$ -	0.0%
Allowable Federal	Mortgage interest														
		Count	169	15	8.9%	52	30.8%	55	32.5%	31	18.3%	15	8.9%	1	0.6%
		Amount	$ 49,340	$ 1,432	2.9%	$ 16,011	32.5%	$ 14,042	28.5%	$ 10,743	21.8%	$ 6,811	13.8%	$ 300	0.6%
Allowable Federal	Elderly and disabled														
		Count	258	246	95.3%	2	0.8%	3	1.2%	5	1.9%	2	0.8%	-	0.0%
		Amount	$ 10,833	$ 9,562	88.3%	$ 87	0.8%	$ 750	6.9%	$ 271	2.5%	$ 163	1.5%	$ -	0.0%
Other Allowable Federal Credits															
Allowable Federal	Alcohol used as fuel														
Allowable Federal	Certain contributions to community development corporations														
Allowable Federal	Certain employer payroll taxes														
Allowable Federal	Disabled access														
Allowable Federal	Empowerment zone and renewal community employment														
Allowable Federal	Enhanced oil recovery														
Allowable Federal	Federal tax paid on fuels														
Allowable Federal	General business														
Allowable Federal	Increasing research activities														
Allowable Federal	Indian employment														
Allowable Federal	Low-income housing														
Allowable Federal	Prior year alternative minimum tax														
Allowable Federal	Qualified electric vehicle														
Allowable Federal	Renewable electricity production														
Total Other Allowable Federal Credits															
		Count	63	3	4.8%	7	11.1%	11	17.5%	10	15.9%	23	36.5%	9	14.3%
		Amount	$ 297,838	$ 1,196	0.4%	$ 4,830	1.6%	$ 11,463	3.8%	$ 16,192	5.4%	$ 54,904	18.4%	$ 209,253	70.3%
Total Allowable Federal Credits															
		Count	113,179	70,056	61.9%	11,775	10.4%	7,499	6.6%	6,855	6.1%	11,431	10.1%	5,563	4.9%
		Amount	$ 18,055,989	$ 12,017,426	66.6%	$ 1,218,326	6.7%	$ 590,797	3.3%	$ 618,834	3.4%	$ 1,092,862	6.1%	$ 2,517,743	13.9%

STATE INDIVIDUAL INCOME TAX PROVISIONS

RI State Enacted Income Tax Credits by AGI Class

(Tax Year 2006)

State / Federal:	Tax credit:		All Returns	Under $30,000	% of Total	$30,000 Under $50,000	% of Total	$50,000 Under $75,000	% of Total	$75,000 Under $100,000	% of Total	$100,000 Under $200,000	% of Total	$200,000 or More	% of Total
Identifiable State Enacted Credits															
State Enacted	Income tax paid to other states	Count	71,830	15,958	22.2%	15,369	21.4%	14,169	19.7%	10,021	14.0%	12,041	16.8%	4,272	5.9%
		Amount	$ 126,783,548	$ 3,729,249	2.9%	$ 10,290,333	8.1%	$ 15,232,381	12.0%	$ 15,104,641	11.9%	$ 33,791,109	26.7%	$ 48,635,835	38.4%
State Enacted	Historic commercial building	Count	806	8	1.0%	24	3.0%	27	3.3%	36	4.5%	140	17.4%	571	70.8%
		Amount	$ 34,519,437	$ 2,906	0.0%	$ 21,157	0.1%	$ 31,429	0.1%	$ 53,388	0.2%	$ 432,288	1.3%	$ 33,978,269	98.4%
State Enacted	Motion picture production credit	Count	201	-	0.0%	1	0.5%	-	0.0%	2	1.0%	11	5.5%	187	93.0%
		Amount	$ 19,551,483	$ -	0.0%	$ 320	0.0%	$ -	0.0%	$ 2,561	0.0%	$ 77,436	0.4%	$ 19,471,166	99.6%
State Enacted	Property tax relief (circuit breaker)	Count	50,978	50,955	100.0%	12	0.0%	8	0.0%	1	0.0%	2	0.0%	-	0.0%
		Amount	$ 14,090,126	$ 14,086,284	100.0%	$ 2,342	0.0%	$ 900	0.0%	$ 300	0.0%	$ 300	0.0%	$ -	0.0%
State Enacted	Investment tax credit	Count	747	43	5.8%	32	4.3%	41	5.5%	27	3.6%	150	20.1%	454	60.8%
		Amount	$ 4,157,290	$ 16,075	0.4%	$ 20,674	0.5%	$ 23,777	0.6%	$ 24,246	0.6%	$ 235,953	5.7%	$ 3,836,565	92.3%
State Enacted	Research and development expense credit	Count	133	16	12.0%	6	4.5%	6	4.5%	3	2.3%	18	13.5%	84	63.2%
		Amount	$ 1,460,149	$ 16,174	1.1%	$ 5,800	0.4%	$ 2,273	0.2%	$ 1,472	0.1%	$ 36,752	2.5%	$ 1,397,678	95.7%
State Enacted	Enterprise zone wage credit	Count	103	-	0.0%	2	1.9%	5	4.9%	12	11.7%	21	20.4%	63	61.2%
		Amount	$ 674,433	$ -	0.0%	$ 1,322	0.2%	$ 4,460	0.7%	$ 20,734	3.1%	$ 78,256	11.6%	$ 569,660	84.5%
State Enacted	Enterprise zone interest credit* (eliminated in 2004)	Count	33	-	0.0%	2	1.9%	-	0.0%	1	1.0%	7	6.8%	23	22.3%
		Amount	$ 373,392	$ -	0.0%	$ 378	0.1%	$ -	0.0%	$ 125	0.0%	$ 10,831	1.6%	$ 362,057	53.7%
State Enacted	Jobs training expense	Count	69	7	10.1%	6	8.7%	4	5.8%	3	4.3%	11	15.9%	38	55.1%
		Amount	$ 360,905	$ 760	0.2%	$ 1,190	0.3%	$ 833	0.2%	$ 2,213	0.6%	$ 11,564	3.2%	$ 344,345	95.4%
State Enacted	Research and development property credit	Count	12	2	16.7%	-	0.0%	2	16.7%	-	0.0%	1	8.3%	7	58.3%
		Amount	$ 192,812	$ 1,150	0.6%	$ -	0.0%	$ 5	0.0%	$ -	0.0%	$ 14	0.0%	$ 191,643	99.4%
State Enacted	Residential lead abatement	Count	36	10	27.8%	4	11.1%	5	13.9%	5	13.9%	8	22.2%	4	11.1%
		Amount	$ 110,273	$ 36,804	33.4%	$ 6,516	5.9%	$ 6,801	6.2%	$ 15,652	14.2%	$ 23,500	21.3%	$ 21,000	19.0%
State Enacted	Qualfied widow (er)	Count	2	2	100.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
		Amount	$ 147	$ 147	100.0%	$ -	0.0%	$ -	0.0%	$ -	0.0%	$ -	0.0%	$ -	0.0%
State Enacted	Apprenticeship credit	Count	-	-	n/a	-	n/a	-	n/a	-	n/a	-	n/a	-	n/a
		Amount	$ -	$ -	n/a	$ -	n/a	$ -	n/a	$ -	n/a	$ -	n/a	$ -	n/a

STATE INDIVIDUAL INCOME TAX PROVISIONS

RI State Enacted Income Tax Credits by AGI Class

(Tax Year 2006)

State / Federal:	Tax credit:		All Returns	Under $30,000	% of Total	$30,000 Under $50,000	% of Total	$50,000 Under $75,000	% of Total	$75,000 Under $100,000	% of Total	$100,000 Under $200,000	% of Total	$200,000 or More	% of Total
Other State Enacted Credits															
State Enacted	Adult education credit														
State Enacted	Biotechnology investment tax credit														
State Enacted	Building rehabilitation investment tax credit														
State Enacted	Child daycare assistance and development														
State Enacted	Credit for accommodations under ADA														
State Enacted	Credit for artwork exhibition														
State Enacted	Credit for fees to the affordable energy fund														
State Enacted	Credit for trust beneficiary														
State Enacted	Credit to trust beneficiary for distribution														
State Enacted	Farm to school income tax credit														
State Enacted	Historic residence														
State Enacted	Hydroelectric power credit														
State Enacted	Innovation and growth tax credit														
State Enacted	Juvenile restitution credit														
State Enacted	Residential renewable energy system														
State Enacted	Tax credit for contributions to scholarship organizations														
Total Other State Enacted Credits		Count	69	3	4.3%	8	11.6%	11	15.9%	11	15.9%	25	36.2%	11	15.9%
		Amount	$ 309,988	$ 1,196	0.4%	$ 5,403	1.7%	$ 11,463	3.7%	$ 16,405	5.3%	$ 60,208	19.4%	$ 215,313	69.5%
Total State Enacted Credits		Count	125,019	67,004	53.6%	15,466	12.4%	14,278	11.4%	10,122	8.1%	12,435	9.9%	5,714	4.6%
		Amount	$ 202,583,983	$ 17,890,744	8.8%	$ 10,355,435	5.1%	$ 15,314,323	7.6%	$ 15,241,738	7.5%	$ 34,758,211	17.2%	$ 109,023,532	53.8%
Total State Enacted Credits (w/out Income tax paid to other states)		Count	53,189	51,046	96.0%	97	0.2%	109	0.2%	101	0.2%	394	0.7%	1,442	2.7%
		Amount	$ 75,800,435	$ 14,161,495	18.7%	$ 65,102	0.1%	$ 81,942	0.1%	$ 137,097	0.2%	$ 967,102	1.3%	$ 60,387,697	79.7%

FIRST REPORT
PROPERTY TAX SUBGROUP

The Property Tax Subgroup has developed and reviewed the following information:

1. The Constitutional and statutory basis of the property tax;

2. A summary of the assessed value of property and the tax levy in each municipality. The residential, commercial, personal property and motor vehicle components in each municipality were summarized. The data showed that while residential real property represented almost 79% of assessed value, the resulting tax levy was less than 67% of the total property tax levy as higher tax rates on commercial property or homestead exemptions reduced the residential tax burden relative to the commercial tax levy;

3. A review of the property tax cap and disclosure process which noted that the property tax levy supporting FY 2008 was $1.89 billion with a cap for the following year of $1.98 billion;

4. A review of property tax rates in each city or town including information on the average single family residential rate in each locality;

5. A review of personal exemptions including the variation in magnitude of the exemption, age eligibility, income limitations, and length of residency required to qualify for the exemption;

6. A of statutory exemptions with a focus on those municipalities with substantial tax exempt property like Providence (colleges and hospitals), Newport (navy), and Warwick (airport);

7. A review of stabilized tax agreements including the statutory basis, the frequency of utilization, and municipalities which have offered such agreements;

8. A report on the state mandated revaluation cycle; and

9. Issue:
   - ✓ Composition of sub-group
   - ✓ Uniform administration of the property tax.

STRATEGIC TAX POLICY WORKGROUP

MEETING NUMBER	DATE	BUSINESS SUB-GROUP	PROPERTY TAX SUB-GROUP	INDIVIDUAL SUB-GROUP
1	**Wednesday, June 18, 2008** **8:00 am to 9:30 am**	**Entire Group Meeting** • Governor's Remarks • Work Plan Overview E&Y presentation		
2	Wednesday, July 9, 2008 Thursday, July 10, 2008 8:00 am to 9:30 am Subgroup Only	Overview • Overview of RI Business Taxes • Overview of MA & CT Business Taxes • Review of current tax credits/rates	Overview • Overview of property assessments and tax levies • Real Estate • Tangible Property • Motor Vehicles	Alternative Individual Income Tax Systems and Tax Credits • Review of individual income tax systems nationally • Comparison of RI's individual income tax system with CT & MA
3	Wednesday, July 23, 2008 Thursday, July 24, 2008 8:00 am to 9:30 am Subgroup Only	Alternative Business Taxes • Overview of Gross Receipts/Business Enterprise taxes (NH) • Guest Speaker (Stan Arnold, Former NH Tax Comm.)	Overview • Personal and Statutory Exemptions • Tax Treaties and Stabilized Taxes • Revaluation	Review the Benefits and Costs of Individual Income Tax Credits • Assess each individual income tax credit with respect to the criteria of equity, efficiency, predictability, competitiveness, and transparency • Determine the cost of individual income tax credits and deductions in terms of foregone revenue and find the flat individual income tax rate that would be revenue neutral
4	**Thursday, August 14, 2008** **8:00 am to 9:30 am** **Entire Group**	**Entire Group Meeting** **Subgroup reports** **Guest Speaker (Scott Peterson, Streamline Sales Tax)**		

MEETING NUMBER	DATE	BUSINESS SUB-GROUP	PROPERTY TAX SUB-GROUP	INDIVIDUAL SUB-GROUP
5	Wednesday, August 27, 2008 Thursday, August 28, 2008 8:00 am to 9:30 am Subgroup Only	Combined Reporting • Pros/Cons & Fiscal Impact • Guest Speaker (Richard Pomp, UConn Law and current VT Tax Commissioner)	Property Taxes in MA and CT • Massachusetts Presentation • Connecticut Presentation • State Aid Presentation • How local government is financed	Capital Gains Taxes • Review capital gains tax treatment nationally with respect to holding periods, qualifying assets, and tax rates
6	Wednesday, Sept 10, 2008 Thursday, Sept 11, 2008 8:00 am to 9:30 am Subgroup Only	Pass-Through Entities • Analyze impact on Personal Income Tax • Analyze tax burdens on different organizational structures	Location and Retention Decisions by Firms and Individuals • Residential • Commercial • Relative overall property tax burden • EDC – Relocation specialist • Planning – Kevin Flynn-Land Use	Wealth Taxes • Review the role state estate taxes play in the retention and formation of capital
7	**Thursday, Sept 25, 2008** **8:00 am to 9:30 am** **Entire Group**	**Entire Group Meeting** **Status Update – Sub-group Reports**		
8	Wednesday, Oct 8, 2008 Thursday, Oct 9, 2008 8:00 am to 9:30 am Subgroup Only	Consumption Taxes • Analyze burden of sales tax on B2B transaction • Effect on expanding sales tax base to business services	Recommendations • Standardization • Personal Exemptions • Tax Classification and Homestead Exemptions • Tax Rates on Motor Vehicles and Commercial Property	Household Consumption Taxes • Review combined state and local sales tax rates and sales tax bases nationally • Assess the impact of the use of a household consumption-based tax in place of RI's current general sales tax system

MEETING NUMBER	DATE	BUSINESS SUB-GROUP	PROPERTY TAX SUB-GROUP	INDIVIDUAL SUB-GROUP
9	Wednesday, Oct 22, 2008 Thursday, Oct 23, 2008 8:00 am to 9:30 am Subgroup Only	Outline Recommendations	Recommendations • Reduction in Overall Property Tax Burden • Alternate Revenue Sources Including Taxes and Fees	Policy Options for RI's System of Individual Taxation • Propose options for RI's individual income tax system and the taxation of capital gains and wealth that improves equity, efficiency, predictability, competitiveness, and transparency • Determine the trade-off between a household consumption-based tax system and the individual income tax system in order to improve the equity, efficiency, predictability, competitiveness, and transparency of the overall state taxation of individuals
10	Wednesday, Nov. 5, 2008 Thursday, Nov. 6, 2008 8:00 a.m. to 9:30 am Subgroup Only	Review and Approve Previously Formulated Options	Review and Approve Previously Formulated Options	Review and Approve Previously Formulated Options
11	**Thursday, Nov. 20, 2008** **Entire Group**	**Entire Group Meeting** Subgroup reports		