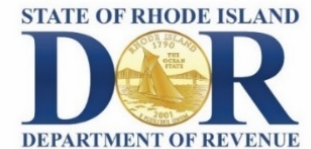


SENATE COMMITTEE ON FINANCE HEARING

H7171 Article 8, Section 2–Hotel Tax

H7171 Article 8, Section 3–US Treasury State Reciprocal Tax Offset Program

July 7, 2020



H7171 Article 8, Section 2- Hotel Tax

State Hotel Rate Increase to 6%

- Proposal expected to raise \$2.2M, down \$2.5M, in FY '21
- This section amends R.I. Gen. Laws §§ 42-63.1-3 and 42-63.1-12 to:
 - Increase the state hotel tax rate from 5% to 6%; and
 - Create a new distribution for state hotel tax revenues that incorporates a transfer to general revenues;
- The current taxation of lodging in Rhode Island consists of the 7% state sales tax, the 5% state hotel tax and the 1% local hotel tax for a total lodging tax of 13%
 - The state sales tax and the local hotel tax apply to the rental of all types of lodging (i.e. traditional hotel rooms, rooms at a bed and breakfast, rentals of individual rooms and entire dwellings, etc.)
 - The state hotel tax does not apply to the rental of entire dwellings:
 - The rental of an entire dwelling is subject to an 8% tax rate
- The Governor's proposal would increase the state hotel tax rate to 6% and increase the total lodging tax to 14%
 - The rental of an entire dwelling would remain subject to an 8% tax rate

H7171 Article 8, Section 2- Hotel Tax

New Distribution Formula for State Hotel Tax Revenues

- Currently, revenues from the state hotel tax are distributed based on the situs of the rental as follows (Providence/Warwick Hotels / Convention Center Hotels/Statewide District):
 - Tourism Districts: 30% / 45%
 - Municipalities: 25%
 - Rhode Island Commerce Corporation: 21% / 25% / 50% / 70%
 - Providence Warwick Convention & Visitors Bureau: 5% / 20% / 24%
- Under the Governor’s proposal revenues from the increased state hotel tax would be distributed based on the situs of the rental as follows:
 - Tourism Districts: 25.0% / 37.5%
 - Municipalities: 20.8%
 - Rhode Island Commerce Corporation: 17.5% / 20.8% / 41.6% / 58.3%
 - Providence Warwick Convention & Visitors Bureau: 4.2% / 16.7% / 20.0%
 - General Revenues: 16.7%
- *The change in the distribution formula ensures that the revenues generated from the higher state hotel tax rate of 6% are deposited as general revenues*

H7171 Article 8, Section 2- Hotel Tax

Regional Comparison of Lodging Tax Rates

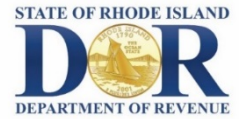
Location	Standard Rate	Short-Term Rental Rate
Rhode Island: Current	13%	13%
Rhode Island: Proposed	14%	14%
Connecticut	15%	15%
Massachusetts		
Boston	14.95%	17.95%
Worcester	14.45%	14.45%
Cape Cod *	14.45%	14.45%
Springfield	13.45%	13.45%
Southeastern MA ^	9.7% / 11.7%	9.7% / 11.7%

* Barnstable, Bourne, Dennis, Falmouth, Orleans, Provincetown, Truro, Wellfleet, Yarmouth

^ Fall River and Swansea: 9.7%

Attleboro, Dartmouth, Mansfield, New Bedford, Plainville, Seekonk, and Somerset: 11.7%

H7171 Article 8, Section 3-US Treasury State Reciprocal Tax Offset Program



Description: Treasury offset program (TOP) administered by the US Dept. of the Treasury, Bureau of Fiscal Services, to **collect delinquent debts** owed to federal agencies and states. Rhode Island is currently participating in State Income Tax, Child Support, SNAP, UI programs. This is an expansion to the State Reciprocal Program (SRP) which allows offsets of federal vendor and other non-tax payments to payees who owe delinquent debts to state agencies. In return, states have to allow state payees who owe delinquent debts to federal agencies to be offset. The reciprocity requirement is proposed to be met by allowing state business tax refunds to be offset for debts owed to federal agencies.

Simulation: Division of Taxation provided all business tax accounts receivable for simulation for the month of November 2019 and results determined that had Rhode Island participated in the SRP, it would have received \$1.52 Million in revenue.

Regional comps: 12 states participating as of September 2019 including, DC, Maryland, New Jersey, New York

RI precedent: Federal Income Tax refund offsets, Unemployment Insurance, Child Support, and SNAP currently participating in Tax Offset Programs.

Stakeholders: Division of Taxation and other state agencies

Estimated Revenue: \$5M

Estimate source: Rhode Island Division of Taxation