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GOVERNMENT

# Chafee tax plans alive in Assembly

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The General Assembly leadership may have sunk Gov. Lincoln D. Chafee's controversial sales tax expansion – at least how he initially recommended it. But legislators have been mum on two other Chafee proposals opposed by business groups, to implement combined reporting and to restructure the minimum corporate tax.

Both recommendations are in Chafee's $7.66 billion fiscal 2012 tax-and-spending package. Business leaders say the changes would unfairly boost the tax burden on larger companies and hinder the state's economic-development efforts.

At a House Finance Committee hearing in April, Pawtucket-based Hasbro Inc. warned that instituting combined reporting could endanger the toy maker's plans to add hundreds of high-wage jobs in Rhode Island.

Under combined reporting, Ocean State companies with operations in other states would file their tax returns based on net income derived from both inside and outside the state, after factoring in things such as where sales take place and where a company's properties and employees are located.

Currently, a business files a tax return that only takes into account income earned in Rhode Island.

"[Combined reporting] unfairly penalizes companies with multistate entities that create jobs," said Laurie White, president of the Greater Providence Chamber of Commerce. "We'd be penalizing Rhode Island employers for creating jobs here because it would add to their tax burden. I think the math is clear."

Business leaders also have objected to Chafee's push to have the corporate minimum tax – which is a flat $500 for S corporations and limited-liability corporations – restructured so it is based on a company's gross receipts. While the state's smallest businesses would see their minimum tax cut in half to $250, others could pay as much as $2,000.

"The reason why we object to the proposal in its entirety is that in some instances you are quadrupling the tax businesses will pay," said David R. Carlin III, spokesman for the Chamber of Commerce Coalition, a group of 11 Rhode Island-based chambers. "We don't think the tradeoff is fair."

While protests against Chafee's sales tax plan to lower the 7 percent sales tax while also expanding it reached a fever pitch last month – leading House Speaker Gordon D. Fox to declare the idea "unacceptable' – opposition to the combined reporting, corporate tax restructuring, as well as the proposed elimination of the Jobs Development Act tax credit, has been more low-key.

And likewise, there has been no pronouncement from the legislative leadership of where the business-tax proposals stand, whether they are dead or alive.

Chafee's budget is the hands of the House Finance Committee, which is at least a few weeks away from completing the process of developing its own plan based on the governor's recommendations, a House aide said last week.

In contrast to Fox's dismissal of Chafee's proposal to create a two-tier sales tax system, the speaker last week was unwilling to shoot down the other business-tax proposals, at least not yet.

"They're not going to rule anything out, including such things as the combined reporting and the corporate tax," Fox's spokesman Larry Berman told Providence Business News last week. "They're all part of the mix."

State leaders are grappling with how to close a shortfall for fiscal 2012 that was projected to be $331 million, before the state's fiscal advisers estimated Rhode Island would collect $119 million more than expected this fiscal year and next.

Chafee's sales tax plan would lower the rate from 7 percent to 6 percent, but he would tax an array of products and services for the first time, some at 6 percent and some at 1 percent. The Chafee administration said the move would generate $164.9 million.

In contrast, the combined reporting and minimum corporate-tax proposals are part of a bigger package the Chafee administration acknowledges will cost the state $905,533 in tax revenue in 2012, and millions more in the following four years.

The package – dubbed the "Business Tax Competitiveness" plan – calls for the corporate-tax rate to be cut in phases over three years from 9 percent to 7.5 percent, a move that would reduce tax revenue by $8.53 million in fiscal 2012 alone. But to partially offset that, the Chafee administration is recommending a three-year phase out of the Jobs Development Act tax credit, which has been used mostly by the state's largest corporations, such as CVS Caremark Corp.

The restructuring of the minimum corporate tax would cost $6.12 million in 2012, according to Chafee administration figures. The proposal would have S corporations that report gross receipts of up to $1 million paying only a $250 minimum tax – about 34,800 businesses, Chafee officials said.

The minimum tax would jump to $1,000 for those with receipts between $1 million and $2.5 million, $1,500 for those with receipt between $2.5 million and $5 million, and $2,000 for those with more than $5 million in receipts.

The loss in tax revenue under Chafee's minimum-tax proposal would be offset by $8.89 million in additional tax revenue from implementing combined reporting, administration officials said.

Rhode Island is not alone in at least considering a combined-reporting system.

Meg Wiehe, state tax policy director at Washington, D.C.-based think tank the Institute on Taxation Policy, said 23 states of the 45 that have a corporate tax use a form of combined reporting, including every other New England state expect Connecticut.

"It levels the playing field for the mom-and-pop shops that don't have the opportunity or the resources to move profits out of state," Wiehe said.

At the same time, however, combined reporting creates a disincentive for larger employers to add jobs in Rhode Island, because in-state growth – in terms of jobs and property – adds to the portion of a company's profits that are subject to the corporate tax. And at 9 percent, it is one of the highest corporate tax rates in the country.

Grafton H. "Cap" Willey IV, a managing director at the accounting firm CBIZ Tofias, acknowledged that combined reporting was a fairer way to assess income tax, but he still had concerns last week.

"[State officials] really have to drill down and make sure they're not hurting companies like CVS and Amgen," Willey said. "There are going to be some winners and some losers, and I don't know how it will fall out. It seems to be a lot of risk for $8 million."

For his part, Chafee hasn't been discouraged by the business community's opposition, or the initial reaction by the legislative leadership to his sales tax proposal.

Chafee's spokesman said the governor continues to push for passage of the corporate-tax changes in his budget proposal. "He remains engaged in meetings with [the leadership]," Michael Trainor said last week. "It's a proposal that's aimed at increasing Rhode Island's business competitiveness while addressing the revenue side at the same time," he said. •