



June 11, 2024

The Honorable Marvin L. Abney, Chairman
The Honorable Scott A. Slater, First Vice Chairman
The Honorable Alex Marszalkowski, Second Vice Chairman
The Honorable Members of the House Committee on Finance

Re: Testimony Supporting H 7927A – Relating to Taxation

Dear Chair Abney, First Vice Chair Slater, Second Vice Chair Marszalkowski, and Members of the House Committee on Finance:

On behalf of Citizens Bank, N.A. and its 4,200 Rhode Island employees, thank you for this opportunity to provide our testimony on **H7927A**. Citizens submits its testimony in **support** of this bill, which allows financial institutions the opportunity to elect a single sales factor apportionment methodology in calculating their income tax liabilities, modernizes the standard for alternative apportionment, and implements a study of combined reporting for financial institutions.

Historically, all Rhode Island corporations calculated taxable income by applying an equally weighted, three-factor apportionment formula based on property, payroll, and sales. In 2015, for all non-bank corporations that are subject to corporate tax, Rhode Island replaced this three-factor formula with a single sales apportionment factor: the proportion of their Rhode Island sales to their total sales everywhere. In 2018, the Division of Taxation explained the benefits of this legislation in its annual report, stating, “a Rhode Island corporation typically has a greater portion of its property and payroll in Rhode Island than does an out-of-state corporation doing business in Rhode Island.” See Pub. 2018-02 (Mar. 15, 2018). **Accordingly, the shift to a single sales factor “levels the playing field” between instate and out-of-state taxpayers “because the distorting factors of payroll and property are no longer taken into account” (emphasis added).**

By contrast, the Rhode Island bank tax continues to mandate the use of the three-factor apportionment formula that allows for an uneven playing field between in-state and out-of-state banks. A bank that employs administrative and support personnel in Rhode Island pays up to four (4) times more in Rhode Island income taxes than a bank that chooses to locate these employees in other states, such as Massachusetts. Disincentivizing banks from employing Rhode Islanders is simply counterproductive to the great work this legislature and administration have done to promote the creation of good jobs in Rhode Island. In the past, Rhode Island has been the unintended beneficiary of other states utilizing similar three-factor apportionment formulas as it meant there was not as much difference between the tax outcomes for a bank in Rhode Island versus a bank elsewhere. But this is no longer the case. Twenty-six states have since passed single sales factor for banks and, effective January 1, 2025, Massachusetts will also use a single sales factor apportionment formula for all corporations and financial institutions. Rhode Island truly is an outlier, placing it at a severe competitive disadvantage. This is simply bad tax policy for the state.

H7927A is the answer. This bill levels the playing field for instate and out-of-state banks and removes the economic inducements to invest in jobs and property elsewhere.

Citizens Bank proudly traces its roots in Rhode Island back to 1828 and continues to maintain its headquarters in Providence. Citizens is among Rhode Island's largest private employers, with 4,200 employees and \$400 million in annual payroll in the state. Citizens built our largest back-office location in the country in Johnston, RI in 2018. This project created hundreds of construction jobs in one of the largest development projects in RI in decades. The overwhelming majority of these jobs were high paying union jobs.

H7927A does not lower the tax rate on banks, which will remain at 9% relative to the 7% rate imposed on RI corporations. Should this bill pass, the bank will continue to pay virtually the same income tax to RI as it had in prior years. The loss of the JDA tax credit that Citizens is no longer eligible for will be offset by the benefit of the single factor apportionment formula. The real benefit Citizens and other banks will receive from the passage of this bill is the certainty that Rhode Island tax policy will continue to incentivize rather than penalize banks to invest in Rhode Island jobs and property. By allowing a bank to elect to apportion its income using a single sales factor, **H7927A** allows a bank to compute its bank tax consistently with how all corporations subject to the general corporate tax compute their tax. The election will also be easy for the Division to administer, as a bank is bound by the election for at least five years and cannot revoke the election after that period without the Division's approval.

Furthermore, **H7927A** protects the Rhode Island tax base by prohibiting banks from artificially reducing their tax liability by manipulating their corporate structure and intercompany expenses. This expense disallowance prevents erosion of Rhode Island's tax base and is consistent with the laws of many other states, including Massachusetts. Finally, **H7927A** implements a combined reporting study that would require all banks to provide the Division of Taxation with information about their tax liability if banks were to be included in combined reporting. A similar study was conducted prior to the enactment of combined reporting for the corporate tax. This study is an important step that will give the legislature and the Division the information that they need to determine if including banks in combined reporting with non-banks is a prudent and viable path for the future.

Citizens has over 100 branches and ATMs statewide, which is over twice as many bank branches in the state as its closest banking competitor. Citizens is integral to Rhode Island's economy, serving over 200,000 residents and over 30,000 small businesses. We are proud of our contributions to the state, including over 55,000 volunteer hours each year to local organizations. In addition, we recently pledged \$600,000 to support local workforce development programs through the YMCA and the Davies Career Academy, Genesis Center CHOP kitchen, RI Hospital, Crossroads, Bank Forward (Citizens is a founding member), and others, as well as \$200,000 to support financial literacy initiatives in RI.

With the passage of **H7927A**, the legislature will create the necessary conditions to allow those contributions to continue to grow as Citizens thrives as a national bank headquartered in our home state of Rhode Island. Thank you for your consideration of my testimony.

Michael Knipper

Mike Knipper
Executive Vice President
Head of Property & Procurement
Citizens Financial Group, Inc.