RIPEC

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Representative Marvin Abney
Chairperson, House Committee on Finance
Room 35
Rhode Island State House
Providence, RI 02903

June 11, 2024

RE: House Bill 7927 Substitute A – Relating to Taxation

Dear Chairperson Abney,

I am writing on behalf of the Rhode Island Public Expenditure Council (RIPEC) in strong support of House Bill 7927 Substitute A, which allows financial institutions to elect a single sales factor apportionment methodology in calculating their income tax liabilities.

The traditional method of taxing businesses that operate in more than one state is to apportion their taxable income using a three-factor formula. This formula takes account of how much property, payroll, and sales the company has in the taxing state relative to how much of those components exist in other states. This three-factor formula creates disincentives for home companies to invest and grow in their home state, since the more a company grows its investment or payroll in their home state, the more it is taxed.

In response to these disincentives, the Rhode Island General Assembly in 2015 changed this three-factor apportionment to single sales factor apportionment, whereby income of a multistate corporation is apportioned based only on the proportion of sales in the taxing state in relation to total sales, based on the location of the customer. This change enabled Rhode Island companies to better compete, particularly since the majority of states apply single sales factor apportionment to their businesses.[1]

The 2015 change was made for all business corporations, but for some reason did not apply to financial institutions, which are taxed under a separate chapter of the state tax code and

[1] Federation of Tax Administrators, "State Apportionment of Corporate Income," as of January 1, 2022.

continued to be subject to three-factor apportionment. This situation is unfair to financial institutions and should be corrected so that multistate banks located in Rhode Island are treated the same as other Rhode Island multistate businesses and can compete on a level playing field with banks in other states.

The need to make this correction became more urgent last year when Massachusetts, which had long applied single sales apportionment only to manufacturers and some other industries, extended single sales factor taxation to all businesses, including financial institutions. The tax change adopted in Massachusetts means that a multistate bank headquartered in Rhode Island could now move across the border to Massachusetts and receive much more favorable tax treatment under single sales factor apportionment.

Passing this legislation would not only correct the unfairness of excluding banks from single sales factor apportionment, but also would level the playing field with Massachusetts, as well as with the majority of states, for these financial institutions.

For these reasons, RIPEC urges that the Finance Committee support the House Bill 7927 Substitute A.

Sincerely,

Michael DiBiase

Michael DiBiase
President & CEO
Rhode Island Public Expenditure Council

RIPEC is a nonpartisan and nonprofit public policy research organization dedicated to providing objective research and analysis that addresses the critical challenges surrounding public finance and economic opportunity in Rhode Island.