



# OFFICE OF MANAGEMENT & BUDGET

## State Budget Office

One Capitol Hill  
Providence, RI 02908-5890

Office: (401) 222-6300

*State Fiscal Note for Bill Number:*

**2026-H 7242**

**Date of State Budget Office Approval:** Tuesday, March 10, 2026

**Date Requested:** Tuesday, February 17, 2026

**Date Due:** Friday, February 27, 2026

<i>Impact on Expenditures</i>		<i>Impact on Revenues</i>	
FY 2026	\$0	FY 2026	\$0
FY 2027	\$0	FY 2027	\$0
FY 2028	\$0	FY 2028	\$(19,604)

**Explanation by State Budget Office:**

This act would amend R.I. Gen. Laws § 44-3-3 titled "Property Subject to Taxation" by adding to the list of property exempt from taxation real and tangible personal property of urban and small farmers.

This act would also amend R.I. Gen. Laws § 44-11-11 titled "Business Corporation Tax - "Net Income" defined to exempt from net income subject to the business corporation tax any income from the production of food by urban and small farmers.

Further, this bill would amend R.I. Gen. Laws § 44-18-30(32) "Gross receipts exempt from sales and use tax - Farm equipment" to exempt urban farmers from any annual, gross sales amount thresholds needed to qualify for the current exemption.

This bill would amend R.I. Gen. Laws § 44-18-30(44) "Gross receipts exempt from sales and use tax - Farm structure construction materials" to add any materials used to build urban farming structures as qualifying items for the sales and use tax exemption (the current exemption lists construction of commercial farming structures).

Also, the bill would add to R.I. Gen. Laws § 44-18-30 "Gross receipts exempt from sales and use tax" an exemption for farm products used to grow food by urban and small farmers.

For all sections, an urban area is defined as any municipality incorporated as a city or has a population density of greater than 3,000 residents per square mile. A small farm is a farm with agricultural or horticultural land less than five acres.

**Summary of Facts and Assumptions:**

The effective date of the bill is July 1, 2027. This date would potentially cause a change for the business corporation tax in the middle of the tax year. The Office of Revenue Analysis (ORA) assumed this was done in error and assumed the implementation date for the business corporation tax change will be for tax years beginning on or after January 1, 2028. Further, Rhode Island is a signatory to the Streamlined Sales and Use Tax Agreement (SSUTA). Under the SSUTA and R.I. Gen. Laws § 44-18.1-5, it is necessary to allow for at least a 90-day period for such a tax change. The Department of Revenue, Division of Taxation (Taxation) noted potential concerns with the bill as



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drafted, including significant implementation concerns, and likely will be submitting a letter of concern for any hearing on the bill to note these concerns.

ORA did not provide an estimate for the change in property taxes as they are not general revenues.

According to the U.S. Census Bureau, there are eight municipalities in Rhode Island incorporated as a city and two towns with a population density greater than the 3,000 residents per square mile threshold proposed in this bill. Thus, there are 10 municipalities that would be considered urban areas. The Division of Taxation provided data on farms in these municipalities that fall under certain NAICS codes that include farm-related food production. In these municipalities for TY 2024, there were 24 farms that paid a total of \$11,768 in business corporation tax, for an average of \$490.33 in tax liability per farm ( $\$14,060 / 24$ ). Taxation also reported that for the same NAICS codes, there are a total of 167 farms that filed a Rhode Island income tax return. Dividing the 24 farms by the 10 urban municipalities yields an average of 2.4 urban farms per municipality.

ORA assumed all urban farms would fall under the small farm threshold as well. Further, it was assumed that the other 29 municipalities would, on average, have a similar number of small farms (defined as farms below five acres). Thus, there are an estimated 70 farms in the other municipalities ( $29 * 2.4$ ), for a total of 94 small and urban farms in Rhode Island ( $24 + 70$ ). ORA applied the average tax liability to each small and urban farms, which is an estimated total of \$46,091 business corporation tax revenue lost from the passage of this bill ( $94 * \$490.33$ ). NAICS codes are self-reported and may include income from non-food production sources, and it is possible that the urban farms included in the Taxation data are five or more acres. Thus, this estimate should be considered a maximum revenue loss.

It should be noted that this bill does not exempt small and urban farm income from the state's personal income tax. According to USDA data, most farms are not incorporated and are likely paying tax under the personal income tax.

ORA used the Moody's consensus economic forecast adopted at the November 2025 Revenue Estimating Conference (REC) for farm proprietors' income to calculate a growth rate of -60.0264% from CY 2024 to CY 2028. Applying this percentage yields an estimated full-year business corporation tax revenue loss of \$18,424 for TY 2028 ( $\$46,091 * (1 + -0.600264)$ ). Employing the Office of Accounts and Control's accrual methodology yields budgetary revenue losses for business corporation tax from the passage of this bill for FY 2028 of \$9,212 (half of the TY 2028 revenue estimate).

To estimate the revenue loss from the proposed sales and use tax exemption for farm products used to grow food by urban and small farmers, ORA used its Sales and Use Tax Macro Simulation Model. Total sales taxes paid by agriculture, forestry, fishing, and hunting was estimated to be \$318,300 in FY 2024. ORA was unable to determine the amount paid just by the agricultural industry, and, thus, this should be considered a maximum revenue loss.



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The USDA reports in the 2022 Census of Agriculture that there are 59,076 acres of farmland, which includes land used for crops, pasture, and woodland. ORA was unable to determine the number of acres for the small and urban farms from this data and instead assumed the maximum estimate of 4.99 acres per farm. This yields, using the average-per-municipality count of farms calculated earlier, an estimated total number of acres for these farms in Rhode Island of 467 (i.e.,  $2.4 * 4.99 * 39$ ). The 467-acre estimate is only for small and urban farms that pay the corporate income tax (because it is sourced from Division of Taxation corporate income tax returns, as described above). According to the USDA, 73.0088% of farms with 1 – 9 acres of farmland are family or individual farms that are not incorporated. Assuming that percentage also applies to farms below five acres, ORA estimates that there are 1,730 acres for all small and urban farms that produce food ( $467 / (1 - 0.730088)$ ). It should be noted that ORA was unable to determine the acreage for small and urban farms that produce non-food farm products, which would qualify for the proposed sales and use tax exemptions.

Total estimated farm acreage for small and urban farms is therefore 2.9284% of the total farm acreage in the state ( $1,730 / 59,076$ ). Applying this percentage to the amount of sales tax paid by the industries noted above yields an estimated FY 2024 sales and use tax revenue loss from passage of this bill of \$9,321 ( $\$318,300 * 0.0292874$ ).

The sales and use tax growth rates based on the estimates adopted at the November REC from FY 2024 to FY 2028 is 11.4920%. Applying this percentage yields an estimated sales and use tax revenue loss of \$10,392 in FY 2028 (i.e.,  $\$9,321 * 1.114920$ ).

The total general loss from passage of the bill is \$19,604 ( $\$9,212 + \$10,392$ ) for FY 2028.

Comments on Sources of Funds:

All business corporation and sales and use taxes are general revenues. Property taxes are local revenue for the municipalities.

Summary of Fiscal Impact:

FY 2026: No general revenue impact is forecast due to the effective date of July 1, 2027 for the sales and use tax change and the assumed implementation date of January 1, 2028 for the business corporation tax change.

FY 2027: No revenue impact is forecast due to the effective date of July 1, 2027 for the sales and use tax change and the assumed implementation date of January 1, 2028 for the business corporation tax change.

FY 2028: A maximum general revenue loss of \$19,604 is forecast, comprised of a revenue loss of \$10,392 for sales and use tax and \$9,212 for business corporation tax.

Budget Office Signature: \_\_\_\_\_

Fiscal Advisor Signature: \_\_\_\_\_

Digitally signed by Joseph Codega  
Date: 2026.03.11 12:33:28 -0400

