



**Testimony in Opposition to Senate Bill 2394
Senate Committee on Finance
Submitted by Douglas Hall, Ph.D.
May 1, 2018**

The Economic Progress Institute opposes S2394: An Act Relating to Taxation – Sales and Use Tax which removes the sales tax on pet care services, eroding state revenues needed for the critical investments needed to build thriving communities and a strong vibrant economy.

In the FY2018 budget as enacted, the sales and use tax generates \$1.1B, or 28 percent of total General Revenues (Figure 1). Eroding this revenue source in any way places critical public investments in jeopardy.

S2394 would repeal the sales tax on pet care services. This would be a mistake, not only because of the important revenue that the state would forego as a result, but because it would put the state’s tax system further out of alignment with the economy. The 2012 General Assembly broadened the sales tax base by extending it to a small number of services, including pet care services. Expanding the sales tax base by including more services is the right thing to do, because it responds to a fundamental shift in the economy, away from the consumption of goods to the consumption of services (Figure 2).¹

Proponents of this bill will claim that taxing pet care services, but not also taxing veterinary and testing laboratory services, is unfair. This is a credible argument, particularly given the fact that

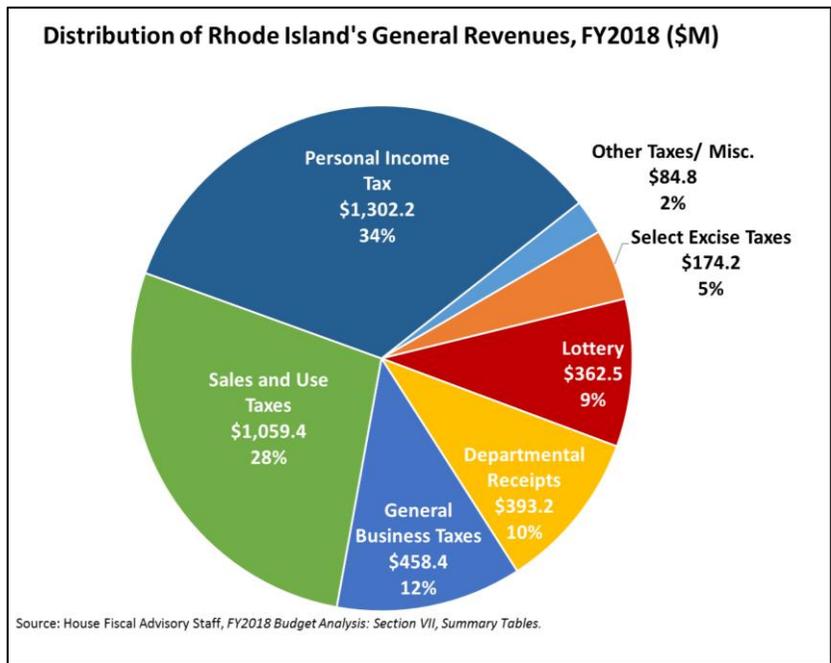


Figure 1

“Rhode Islanders understand that smart investments lay the foundation for thriving communities today and widely shared prosperity in the future. Investments in our schools set our children on a path to success, investments in health care help working people and their employers to succeed, and investments in infrastructure — roads, bridges, green buildings — help keep our families safe, facilitate commerce, and help to preserve the Ocean State’s abundant natural resources.”

Rachel Flum, Providence Journal, April 20, 2018

¹ The Economic Progress Institute testified earlier in support of the Governor’s proposal to expand the sales and use tax to cover two new services – Software as a Service (SaaS) and security services, a change that is expected to generate \$14.5 million in new revenues.

excluding veterinary and testing laboratory services cost the state over \$4M in each of FY's 2014, 2015, and 2016, and is projected to cost \$4.7M in each of FY's 2017, 2018, and 2019.² We encourage this committee to protect rather than erode our tax base—instead of passing S2394 out of committee, give serious consideration to further extending the sales and use tax to a broader range of services than those currently taxed.

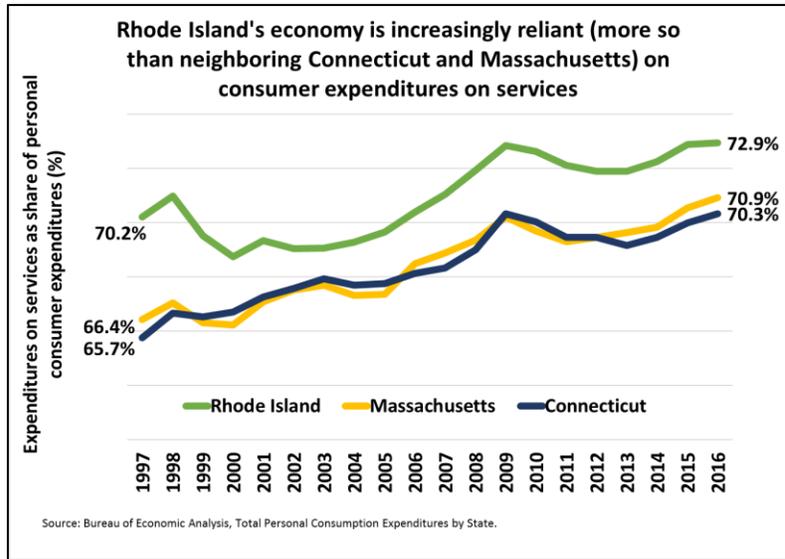


Figure 2

² Rhode Island Department of Revenue, Office of Revenue Analysis, *2018 Tax Expenditures Report*. <http://www.dor.ri.gov/documents/Reports/2018TaxExpenditureReportI.pdf>.