

Benefit-Cost Analysis

Non-Owner Occupied Property Tax (280-RICR-20-75-1)

Rhode Island Department of Revenue, April 2026

Introduction

The FY 2026 enacted Rhode Island budget established a new non-owner occupied property tax, administered by the Division of Taxation (the “Division”) and effective July 1, 2026. The governing statute of this regulation, R.I. Gen. Laws Chapter 44-72, allows the Division to establish rules and regulations to administer this tax. This rulemaking creates a new regulation to implement the tax.

Background

The Rhode Island non-owner occupied property tax (“property tax”) is a state-level tax that imposes a unique set of implementation challenges for the Division and taxpayers. Currently, Rhode Island does not collect any property taxes at the state level.

Revenue from this property tax will be deposited into an escrow account and transferred quarterly to the low-income housing tax credit (LIHTC) fund. The LIHTC program is administered by the Rhode Island Executive Office of Housing. Projects apply to the Executive Office of Housing for these tax credits, and these projects must create new affordable housing units. Estimates by the Office of Revenue Analysis (ORA) put annual collections from this tax at approximately \$25 million. ORA estimates that around 4,000 to 5,000 properties will ultimately be subject to the tax. Data on the owners of these properties suggests that around one quarter of the owners reside in Rhode Island.

R.I. Gen. Laws § 44-72-14 allows the Division to promulgate regulations that are “not inconsistent with state law and fiscal procedures.” Because property taxes are administered at the local level, the Division has attempted to implement this property tax in a way that is consistent with the data and procedures utilized by the state’s municipalities.

Proposed Provisions

The proposed regulation includes both non-discretionary provisions, sourced from the statute, and discretionary provisions. The non-discretionary provisions include:

- The tax rate and property value threshold,
- The requirement to pay the tax in quarterly installments,
- The exemptions for properties that are occupied by the owner for 183 days or more, or for properties that are rented short-term or long-term for 183 days or more,
- The record requirements to prove occupancy and rental status,
- The imposition of interest and penalties on overdue taxes,
- The timeline for applying for a refund of tax overpayments, and
- The appeal process for the tax.
- A taxpayer cannot combine owner occupancy and rental occupancy in order to claim exemption from the tax.

Discretionary provisions include:

- The system of notices of tax due will be sent to the taxpayer proactively by the Division,
- The use of municipal classification and assessment values as the basis for the tax and the requirement that any appeals of the municipal assessment are conducted by the municipality rather than the Division,
- The establishment of joint and several tax liability for the owners of the property,
- The provision that the taxpaying owner and owner-occupied status will be determined using a “privilege year,” which is the fiscal year prior to the tax year.
- The rule that the timing of property transfers (either in the first or second half of the privilege year) will determine if the buyer or seller is responsible for the tax, and
- The standard that the assessed value used to determine the tax will be as of December 31 of the year prior to the privilege year.

Regulatory Options

When drafting the discretionary provisions of this proposed regulation, the Division considered a reasonable range of regulatory alternatives. These alternatives contemplate property classifications determined by the Division, a voluntary compliance process (as opposed to the proactive billing), and the further definition of documents and timelines associated with exemption claims. These alternatives were determined to have less net benefit than the proposed provisions.

Two possible alternatives are not analyzed in this document because they likely violate the statutory intent. One is the use of assessed values as determined by the state (rather than municipalities). This was not considered a reasonable alternative given (a) the statute links the assessed value definition to R.I. Gen. Laws § 44-5-12 which governs local assessment, (b) this alternative would be inconsistent with current state law and fiscal procedures, and (c) it would impose a significant, if not impossible, implementation burden on the Division given the resources required and the timeframe for implementation as well as a need for express statutory authority and criteria to conduct that statewide assessment.

Second is the provision that a property must either be owner-occupied for 183 days or more or it must be rented for 183 days or more to not be subject to the tax. If a property is owner occupied for 183 days or more then the property is not subject to the tax and no statutory exemptions need apply. The lack of application of the tax cannot be combined with the statutory exemptions from the tax. For example, consider a property that the owner lived in for 160 days during the privilege year and rented the property as a short-term rental for 20 days and to a tenant for 60 days for that same period. This property would be subject to the tax because it was not owner occupied for 183 days or more and would not qualify under the rental exemption because it was not rented for 183 days or more.

R.I. Gen. Laws Chapter 44-72 provides for a tax on non-owner occupied properties. If the property is owner-occupied for 183 days or more, the tax does not apply. If the property is non-owner occupied, then it may be eligible for the statutory rental exemptions. In the prior example, because the property was not owner occupied for 183 days, it is subject to the tax. Then, because the rental period was less than 183 days, it does not qualify for an exemption and is subject to the tax.

Analysis

Generally, benefit-cost analyses treat taxes and fees as transfers: they are a cost to the taxpayer but a benefit to the government. This yields a net benefit of \$0 as these benefits and costs offset each other. Because this regulation implements the property tax, most of the regulatory provisions involve transfers between taxpayers and state government.

This analysis looks at three categories of provisions that impose a potential cost on individual taxpayers. These costs generally shift tax liability between taxpayers, and are as follows:

- *Defining properties subject to the tax:* The regulation specifies that properties classified as residential by the municipality will be potentially subject to the tax.
- *Defining owners liable for the tax:* The regulation establishes joint and several liability for all property owners, which increases the group of owners who may be liable for the tax. It also clarifies who owes the tax when there is a property transfer during the privilege year, which shifts the tax burden between two potential taxpayers.
- *Establishing proactive assessment:* The regulation sets out a system where the Division bills properties over \$1 million of value for the tax and requires the owners to apply for an exemption if eligible. The regulation also clarifies that the tax assessment will be based on the municipal assessment, and any challenge to the assessment value must go through the municipal valuation process. These provisions will increase the rate of collections without generally changing the tax liability itself.

The main benefit of the regulation is the increase of resources for the LIHTC fund, which will allow for greater affordable housing development in the state. There is one provision that does generally benefit taxpayers: the assessed value for the tax will be based on the assessment preceding the privilege year, and the privilege year is the fiscal year preceding the tax year. This use of older assessed values will reduce tax liability for some taxpayers, depending on when their property is reassessed.

Costs

Defining Properties Subject to the Tax

The regulation specifies that the Division will use the property classification as established by the municipality to determine which properties may potentially owe the tax. This approach may impose horizontal equity costs because municipalities differ in how they classify property. (“Horizontal equity” is the principle that similar taxpayers should be treated the same.) For example, under R.I. Gen. Laws § 44-5-11.8, mixed-use property is generally considered Class 2, or commercial property. However, the law states in Providence, Class 1, or residential property, “may also include residential properties containing partial commercial or business uses and residential real estate of more than five (5) dwelling units.”

The Division is unable to quantify these equity costs, although more information on this provision is presented in the “Alternative 1” section.

Defining Owners Liable for the Tax

The regulation establishes joint and several liability for the property tax. This means that all owners of a property (as defined in the statute and regulations) are liable to pay the tax. The Division may collect the tax from the owners as a whole or individually. This expands the group of owners who are liable for the tax, although it does not change the overall tax liability.

The regulation also addresses who must pay the tax in the event of a property transfer. If the property is transferred in the first half of the privilege year (the fiscal year before the tax is due), the presumption is that the buyer was the owner for more than half the year and is liable for the tax. If the property is transferred in the second half of the year, the presumption is that the seller was the owner for more than half the year and is liable for the tax. The regulation also establishes specific, transitional rules related to property transfers for the first tax year.

Because R.I. Gen. Laws § 44-72-4 specifies that the tax is imposed “upon the privilege of utilizing property as a non-owner occupied residential property,” the Division asserts that the intent of the statute is to align the tax burden with the usage of the property. This is the rationale of assigning the tax liability to the person who owns the property for over half the year as this is the person that could occupy the property as the owner for the sufficient amount of time such that the tax does not apply or who could rent the property to qualify for a statutory exemption.

Both the establishment of joint and several liability and the rules for property transfers do not change the overall tax liability and thus do not change overall societal costs. The Division is unable to quantify how tax liability may be shifted between owners under these provisions due to a paucity of data and uncertainty about future property transactions.

Establishing Proactive Assessment

The regulation establishes a collections system whereby the Division sends out bills to properties deemed subject to the tax, typically properties classified as residential and valued over \$1 million by municipal assessors. Taxpayers are required to pay the tax in quarterly installments, or file for an exemption from the tax. This system mirrors how municipal property taxes are collected.

This approach will require some taxpayers who believe they are exempt from the tax to collect documentation and file with the Division for an exemption. However, the Division will use any records in the Division’s possession to proactively grant exemptions based on occupancy. This will ease the burden on taxpayers.

An ORA analysis of 2023 municipal property tax data estimates that around 700 taxpayers will be exempt from the tax. This analysis assumes any properties listed on the short-term rental registry from the Department of Business Regulation, or identified as apartment buildings by ORA, will be exempt. This is a simplified approach to modeling these compliance costs – for example, not every short-term rental property is rented for more than 183 days (which is a requirement to be eligible for the exemption).

Assuming the exemption process requires three hours of compliance time and applying the median hourly wage in Rhode Island of \$25.98,¹ this will create \$54,558 of compliance costs for taxpayers. As

¹ See <https://dlt.ri.gov/labor-market-information/data-center/occupational-employment-and-wage-statistics-oews>.

discussed further in the “Benefits” section, this approach will increase compliance with the tax (as opposed to a voluntary compliance regime, as discussed in “Alternative 2”).

Proactive billing of taxpayers will require time and resources from the Division. The Division believes this can be accomplished with currently budgeted resources, as discussed in the fiscal note accompanying this rulemaking.

As discussed earlier, the Division is relying on municipal classifications and assessments when identifying and billing properties subject to the tax. This means that if a local property assessment is appealed or changed, the state property tax payments will initially be based on this contested valuation. A taxpayer may end up overpaying the state initially (just as they overpaid their local property tax bill). A change in the local assessment means the taxpayer is allowed to request a refund of state taxes paid.

Given the statutory definition tying the assessed value to the local valuation, and the lack of resources at the Division to reassess or audit local valuations, this refund process is the most straightforward way to implement the tax. The Division is unable to quantify this potential cost across all taxpayers due to a paucity of data and uncertainty about future assessment appeals.

Benefits

Broadly, the benefit of this regulation is the implementation of the property tax and the collection of the associated revenue. This property tax will fund the LIHTC program, which will increase affordable housing development in the state. Scholars have discussed how a lack of affordable housing leads to secondary societal costs, such as “poorer health outcomes, lower educational achievement, more involvement with the criminal justice system and incarceration, and lower productivity rates.”² Conversely, increasing the stock of affordable housing will have the benefit of ameliorating these costs. This is in addition to the direct economic benefit of the construction spending associated with these projects.

There is a debate between economists about the multiplier on government spending. Some economists see government spending as a “leaky budget,” where waste and overhead lead to benefits that are less than a dollar for each dollar of government spending.³ Other studies have found a positive multiplier on government spending.⁴ This regulatory analysis does not quantify these possible benefits of additional state government resources dedicated to affordable housing.

More narrowly, many of the provisions discussed in the “Costs” section will increase compliance and collections of the property tax. To the extent that these provisions increase collections, these additional resources will deliver additional marginal societal benefits associated with affordable housing. ORA, when estimating potential revenue from this proposal, factored in a reduction in revenue of 25% due to

² See Diamond, Michael R., “The Costs and Benefits of Affordable Housing: A Partial Solution to the Conflict of Competing Goods.” *Georgetown Journal on Poverty Law & Policy*, Vol. XXVII, No. 2, Winter 2020, page 236 (available at <https://scholarship.law.georgetown.edu/facpub/2293>).

³ Chris Edwards, *Federal Spending Is a Leaky Bucket*, Cato Institute (Mar. 24, 2025, 10:37 AM) (available at <https://www.cato.org/blog/federal-spending-leaky-bucket>).

⁴ Renee Haltom, *Fiscal Multiplier*, Federal Reserve Bank of Richmond, Econ Focus (Fourth Quarter 2018) (available at https://www.richmondfed.org/publications/research/econ_focus/2018/q4/jargon_alert).

noncompliance. Under ORA's analysis, this equates to over \$7 million in potential lost revenue. Because this is one of the first non-owner occupied property taxes in the country, the Division is unable to quantify possible noncompliance and how this regulation may mitigate that noncompliance.

[Clarifies the Privilege Year and Assessment Year](#)

There is one provision that will generally benefit taxpayers: the clarification of the privilege year and the assessment year. The privilege year is defined as "the July 1 through June 30 period directly preceding the tax year." The privilege year will be used to determine the owner and whether the property was non-owner occupied. The use of a privilege year is a common aspect of property taxes at the local level.

The assessed value for the tax will be as of the end of the calendar preceding the privilege year. For example, the property tax is effective on July 1, 2026. The privilege year for this tax year will be July 1, 2025 through June 30, 2026. The assessed value used to calculate the tax will be as of December 31, 2024.

This aspect of the regulation has two benefits for the taxpayer: it creates clarity and it may reduce the assessed value for certain properties. Related to clarity, a taxpayer will know whether they are the owner responsible for the tax, and whether their property was owner occupied, before the tax year begins. This contrasts with a system that sets the privilege year equal to the tax year: the owner or owner-occupied status may shift over the course of the tax year, and the taxpayer may misjudge their responsibility for the tax.

By using a lagged assessment value, the owner will be taxed on the value as of eighteen months prior to the start of the tax year. This is compared to an alternative where the assessed value is set as of the calendar year preceding the tax year (for example, an assessed value as of December 31, 2025 for a tax year beginning July 1, 2026). This also allows ample time for appeals and certification related to those assessed values.

ORA estimates that using assessed values as of eighteen months prior to the start of the tax year (rather than six months) would potentially save taxpayers around \$1 million of liability. However, this estimate likely overstates that benefit given that each municipality uses a different revaluation schedule, while the estimate uses a forecast of median home price growth applied to all properties.

[Determination](#)

Pursuant to the Administrative Procedures Act, R.I. Gen. Laws § 42-35-2.9(b), the Division has determined that there is no alternative approach among the alternatives considered during the rulemaking proceeding which would be as effective and less burdensome to affected private persons as another regulation. Furthermore, the Division has determined that the benefits of the proposed rules justify the costs of the proposed rules, and the proposed rule will achieve the objectives of the authorizing statute in a more cost-effective manner, or with greater net benefits, than other regulatory alternatives.

[Alternative 1: State-Level Classification](#)

The Division considered creating a definition of residential property administered by the state and independent of the local classification.

Benefits

This alternative would create horizontal equity by treating similar taxpayers the same. The Division is not able to quantify how many properties might see their classification changed under a uniform state-level system. However, evidence suggests the group of properties that would potentially shift between commercial and residential classifications is small. ORA analysis of 2023 property records shows around 120 properties, paying an estimated \$0.5 million in non-owner occupied property tax, that are mixed use and may be impacted by this alternative.

Costs

This approach would impose significant implementation burdens on the Division, that would (a) likely delay the effective date of the tax, and (b) cause confusion among taxpayers who are given differing local- and state-level property classifications. This approach would be inconsistent with the statutory reference to the assessed value definition to R.I. Gen. Laws § 44-5-12 which governs local assessment. The current statute lacks criteria to establish statewide assessed values and also lacks statutory authority for the Division of Taxation to determine this value.

Determination

This alternative was determined to have costs that exceed the benefits. The Division would not be able to create a state-level classification system given current resource constraints and it would be impossible to conduct and establish statewide property tax assessments, allow due process, and implement this tax within the time period currently enacted.

Alternative 2: Voluntary Compliance

The Division considered a system of voluntary compliance, similar to how other tax types such as personal income tax are administered. Taxpayers would file quarterly estimated payments and final tax returns if they meet the criteria for taxation set out in the statute as determined by the taxpayer themselves. Taxpayers would only be required to produce documentation to prove their exemption from the tax if audited by the Division.

Benefits

Under this alternative, fewer taxpayers would be required to collect and submit documentation related to exemption from the tax because the Division is not proactively billing properties with unknown (to the Division) owner-occupied status. This would ease the compliance burden on taxpayers and would likely reduce the \$54,558 of compliance time costs noted in the "Costs" section. However, this alternative approach would put more of the onus on the taxpayer to determine if they were subject to the tax, which has its own compliance costs.

Costs

This would lead to a significantly higher level of noncompliance with the tax, both willful and accidental. As noted in the "Benefits" section, ORA estimates potential noncompliance of 25% may reduce revenue by \$7 million. The state would likely see noncompliance exceeding 25% under a voluntary compliance system. As discussed earlier, the revenue from this tax will support affordable housing and the societal

benefits associated with that housing. Increased noncompliance will reduce revenue and thus reduce those benefits, leading to a cost compared to the proposed alternative.

Determination

This alternative was determined to have costs that exceed the benefits. A voluntary compliance approach is not feasible for this type of tax. Personal income tax collections are informed by a well-developed system of federal and business reporting of income and liability, which allows the Division to find and audit taxpayers who fail to file or underreport their income. This system does not exist for property tax, which is currently only administered at the local level without centralized data sharing.

Alternative 3: Specify Residency Documents and Timeline to Prove Residency

The statute provides a non-exhaustive list of documents that can be provided to determine residency: “rental agreements, payments for rent, bank statements for payment of residential expenses, [and] utility bills.” R.I. Gen. Laws § 44-72-13. The Division considered providing a definitive list of documents in the regulation and establishing standards for these documents. The Division also considered providing a deadline for taxpayers to prove their residency.

Benefits

This alternative would provide clarity for taxpayers and may reduce compliance costs for taxpayers seeking to prove their exemption from the tax based on residency. This Division is not able to quantify these compliance cost savings.

Costs

This alternative would limit the flexibility of the Division to determine which documents reasonably establish residency, and when those documents can be submitted. Some taxpayers may be denied an exemption incorrectly due to an overly prescriptive list of documents, or for not meeting a deadline.

Determination

This alternative was determined to have costs that exceed the benefits. The Division will still be able to provide clarity using non-regulatory guidance documents. The statute and regulation establish an appeal process, which will allow the Division and taxpayers to adjudicate any disagreements about acceptable documentation. The Division may choose to amend the regulation in the future after working with taxpayers to determine a reasonable list of documentation.