

# Rhode Island's Future

An insider's guide to politics and culture in RI



## News from the budget "Rhode Map" conference

by: Pat Crowley  
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We have just finished the morning session at the Poverty Institute's "Rhode Map" Budget Conference. There were some great presentations, particularly from Russ Dannecker from the Institute, Gary Sasse from the Department of Revenue, and Jeff McLynch from **ITEP**. Here are a few highlights:

### Russ Dannecker:

In FY 2007, 4,184 people benefited from the flat tax. In total, 1,803 of those folks are Rhode Island residents, but 2,381 are out of state residents. So far the flat tax has cost the state \$48 million. (and look at all those jobs it has brought it! - PC)

Dannecker also pointed out a underreported press release about the drop in the State's bond ratings. In October of last year the **Fitch Bond Rating** agency down graded the State of Rhode Island's general obligation funds from AA to AA-. Why? One of the key reasons cited by Fitch was the poor tax structure in the State. According to the release,

"Rhode Island's financial stress reflects underlying weakness in the key revenues sources and numerous tax credits and tax cut programs undertaken in recent years."

### Gary Sasse:

The problem with the State's tax structure is the perception, not the reality. Sasse also made it very clear that the Tax Foundation's methodology, which ranks us as a high tax state, is fundamentally flawed. **(YAY! Just like we have been saying here are RIFUTURE)**.

Sasse also gave hints at what the Governor's tax policy group may be proposing:

1. Increase the number of tax brackets
2. Base the income tax more on the federal AGI rates
3. Tax capital gains as income

He also indicated that the group is still debating the merits of instituting **combined reporting**. Let's hope they do it!

Another interesting part of his presentation was pointing out that even though our property tax burden is 6<sup>th</sup> in the country, **we give approximately \$41million in property tax credits.** There is no indication yet about whether that affects our ranking ( I predict it

doesn't) and when we take a break I will try to ask the question.

**Jeff McLynch:**

We have highlighted the work of **ITEP** before. McLynch pointed out that what the Governor's Tax Policy Workgroup may in fact do while broadening the tax base make the current system more regressive, not less. He also revealed that looking at Rhode Island's current tax structure:

- The bottom 20% of tax payers pay 12.3% of the income to taxes.
- The middle 20% of tax payers pay 10% of their income to taxes.
- The top 1% of tax payers pay 5.7% of their income to taxes.

He also emphasized the work of economist **Len Burman** who writes:

"...a cut in the tax rate on capital gains is unlikely to have much effect on saving and investment."

and

"...tax preferences are more likely to depress economic productivity than improve it."

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