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Panel says plan would make Rhode Island more competitive

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PROVIDENCE — Governor Carcieri's tax-reform panel yesterday recommended scrapping the state corporate income tax, a move that would save businesses more than \$82 million a year.

Proponents said that doing so would encourage economic development and spur the creation of jobs. The state has an unemployment rate of 10 percent, its highest in more than 30 years.

Opponents said there is no firm evidence that eliminating the tax, a hefty revenue source, would create jobs. The state faces a \$357-million budget deficit for the year ending June 30.

A spokeswoman for Carcieri said he had not reviewed the proposal and awaits the panel final, written report.

Similarly, spokesmen for House and Senate leaders said they had not had a chance to review the plan.

Also yesterday, the panel proposed the following:

- Establish four rates for the state's personal income tax, ranging from 3.5 percent to 5.5 percent. (Rates now range from 3.75 percent to 9.9 percent.) There would be four brackets, instead of the current five.
- Eliminate most personal income tax credits, but keep four, including a credit for income taxes paid to other states, the statewide property-tax relief credit, a credit for lead paint abatement, and the earned income credit.
- Treat capital gains as ordinary income; eliminate the flat-tax option for calculating the personal income tax; and require that all taxpayers use the standard deduction, instead of making separate lists of their deductions (a process known as itemizing).
- Raise the threshold above which Rhode Island's estate tax kicks in to \$1 million initially, then gradually increase it to \$3.5 million. (The exemption amount is now \$675,000, the lowest in the nation, the panel said.)

If the proposed changes to the personal income tax were adopted, taxpayers in nearly every income group would pay less, in the aggregate, than they do now, said Paul L. Dion, chief of the Department of Revenue's Office of Revenue Analysis.

Those with federal adjusted gross incomes of \$1 million and higher would pay more in tax than they do now, Dion said.

However, within each income category, some people would pay more, others less, and still others would see no change, Dion said.

As outlined at the study panel's meeting last month, some proposals generally would have increased the burden on middle-income taxpayers. But yesterday's proposals offer tax relief to middle-income taxpayers, said panel member Edward J. Cooney, vice president and treasurer of Nortek Inc. of Providence, a maker of building products.

If all of the proposals were adopted, taxpayers would save at least \$125 million a year, Dion said.

The figure includes more than \$82 million from changes to the corporate income tax, between \$30 million and \$55 million through changes to the individual income tax, and about \$13 million through certain changes to the local property-tax system, he said.

In general, some communities — mainly urban areas — levy a comparatively high property tax on commercial real estate, motor vehicles, and certain tangible business property, such as furniture and fixtures.

The panel wants those property taxes reduced, and to help reach that goal it recommended boosting state aid to those communities by about \$13 million a year overall, said Peder A. Schaefer, chief of the Department of Revenue's Division of Municipal Finance.

The panel yesterday declined to make a detailed proposal on the sales tax. At last month's meeting, a consensus emerged to lower it by 2 points, to 5 percent, and broaden the categories of items covered.

As a result of yesterday's meeting, the group will probably recommend in its final, written report that if the state eventually chooses to broaden the number of items to which the sales tax applies, the rate should be lowered.

John C. Simmons, executive director of the Rhode Island Public Expenditure Council, a business-backed public policy group which monitors state finances, said the panel's proposals would "change the fundamentals of the tax structure in Rhode Island."

At yesterday's meeting, held at the State House, panel member Alfred J. Verrecchia hailed the proposal to eliminate the corporate income tax, saying it would send a message to the outside world that "Rhode Island wants to do business."

The state's economy "has always been . . . the first one in trouble and the last one out," said Verrecchia, chairman of Hasbro Inc. of Pawtucket, a global maker of toys and games.

Scrapping the corporate income tax would signal that Rhode Island is an appealing place to do business for companies that are already in the state and others that want to move to the state, he said.

Cooney said that eliminating the corporate income tax is “a bold initiative that gives Rhode Island the opportunity to create jobs,” an essential feature given the state’s high unemployment rate.

“We need to put people to work,” said Cooney, who is also chairman of the Greater Providence Chamber of Commerce.

Kate Brewster, executive director of The Poverty Institute, a nonpartisan think tank at the Rhode Island College School of Social Work, said there is no concrete evidence suggesting that eliminating the tax would affect job creation.

“Overall, this proposal is a huge gamble of taxpayer dollars ... and a gamble is not something the state can afford to take,” she said.

For the year that ended June 30, 2008, Rhode Island collected \$375.7 million from a variety of general business taxes, including the corporate income tax.

These accounted for 11 percent of all general revenues, according to a report issued last year by the House Fiscal Advisory Staff.

Rhode Island taxes a corporation’s net income at a rate of 9 percent. (The minimum tax is \$500.) The tax applies to businesses that are structured as traditional C corporations.

Four states have no corporate income tax: Nevada, South Dakota, Washington state and Wyoming, according to the Federation of Tax Administrators, an association of state tax agencies.

A number of states apply other types of taxes on businesses, said Verenda Smith, government affairs associate for the federation.

At yesterday’s meeting, the tax study panel chairman, Gary S. Sasse, director of the state Department of Revenue, did not seek a recorded vote on each of the group’s proposals.

Instead, he asked for a show of hands to get an idea of which way the panel was leaning. Some issues, such as elimination of the corporate income tax, won support from a majority of panelists, but not all.

Sasse said that the group’s final report will be prepared over the next 10 days or so, then circulated among panel members for their review.

The final report will include comments from those who disagree with various proposals, Sasse said. The report will then be submitted to the governor for his consideration.

Carcieri formed the panel in May, urging it to recommend a long-term tax strategy “designed to make Rhode Island’s tax structure a competitive advantage in retaining jobs and recruiting businesses.”

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