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House Finance Committee hears testimony on proposals to change Rhode Island's tax structure

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PROVIDENCE — The troops have begun lining up for the battle that lies ahead over proposed changes to the state's tax structure.

One day after Governor Carcieri outlined his plan for a sweeping overhaul of the state's tax laws, witnesses came before the House Finance Committee yesterday to testify on a number of tax-related bills.

The measures were not precisely the same as those proposed by Carcieri at a State House news conference on Tuesday, but they were close enough to give an indication of the debates in the weeks to come as the General Assembly considers tax matters as part of the annual budget process.

The House Finance Committee heard testimony yesterday on measures that would change the rules for the Rhode Island estate tax, reduce the state's corporate income tax rate, and broaden the state's earned income credit — all issues that Carcieri included in his proposed budget for the year that begins July 1.

Current law generally says that if the value of a decedent's estate exceeds \$675,000, it may be subject to Rhode Island's estate tax, also known as the death tax.

That \$675,000 threshold was set in 2001, has not been indexed to inflation, and is tied with New Jersey's as the lowest in the nation, Carcieri's tax-reform panel said in its report issued Monday. As a result, too many people of modest means wind up triggering the tax, the panel said.

By raising the threshold — some say it should be \$1 million, others \$3.5 million — fewer estates would be clipped by the tax, leaving more for heirs.

R. Kelly Sheridan, counsel for the Greater Providence Chamber of Commerce, said that because Rhode Island's threshold is so low, it represents "one area in which Rhode Island remains truly an outlier" when compared with other states.

"It really penalizes people," even those who have compiled a comparatively modest amount of assets during their lifetimes, and is one reason there has been "a significant migration of wealth" away from Rhode Island and to other states, Sheridan told the committee.

Among those against changing the estate tax was Kate Brewster, executive director of the Poverty Institute at the Rhode Island College School of Social Work, which analyzes tax and budget policies on behalf of low-income people.

The estate tax “must be preserved to maintain a progressive and balanced tax structure,” she told the committee. Increasing the threshold to \$3.5 million would make Rhode Island stand out among its neighbors — the Massachusetts threshold is \$1 million, Connecticut’s \$2 million, she said.

“This proposal is unaffordable and fiscally irresponsible, especially given the lack of evidence that it will provide an incentive for people to stay or locate in the Ocean State,” Brewster said.

Another measure before the committee, sponsored by Rep. Amy Rice, D-Portsmouth, would lower the state’s corporate income tax rate to 8 percent from the existing 9 percent.

Rhode Island’s rate is second highest in New England, behind Massachusetts. If unchanged, it would be the region’s highest next year, when Massachusetts is scheduled to drop its rate to 8.75 percent, Carcieri’s tax-reform panel found.

“Regionally, we are not in line with other states,” Sheridan said. Reducing Rhode Island’s rate would “make Rhode Island more competitive with our New England states,” Rice said in a letter to the committee.

Peter Asen, associate director of Ocean State Action, a coalition of 15 community and advocacy groups, said that raising the estate-tax threshold and lowering the corporate income tax rate would result in an “irresponsible reduction in revenue.”

The changes also would represent tax cuts for the wealthy and for big business at the expense of “hard-working Rhode Islanders,” Asen told the committee.

One area in which the various witnesses appeared to agree yesterday was on a plan to broaden Rhode Island’s earned income credit, essentially a tax break for the working poor.

Brewster called the earned income credit “one of the most effective antipoverty programs in America.” Under one proposal, the credit for a taxpayer with two or more qualifying children would increase to \$1,206 from the current \$181, Brewster said.

Another measure, proposed by Rep. Edwin Pacheco, D-Burrillville, would essentially provide a Rhode Island tax break for families that claim a federal tax credit for college expenses. Pacheco testified in favor; nobody spoke in opposition.

Yesterday was a day for taking testimony, not for voting, said Rep. Steven M. Costantino, D-Providence, the House Finance Committee’s chairman.

However, in an interview after the meeting, Costantino said that any tax changes the committee considers must be viewed in light of the state’s budget deficit, which he has estimated to be at least \$357 million for the year ending June 30, and between \$400 million and \$500 million — “possibly more” — for the year beginning July 1.

“I’m very concerned about the volatility in revenues right now that the state is facing,” Costantino said. Whether his committee would approve tax relief depends on how much money is available, he said.

“Ultimately, it’s how much the state can afford,” Costantino said. Besides, “We shouldn’t be making any of these decisions until we see what happens in May,” when a group of state officials will convene to get a better handle on the state’s revenue and expenses in light of the most recent financial data, he said.

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