

# The Providence Journal

## Your Money by Neil Downing: Unemployed could get break on R.I. taxes

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If you lose your job, the first \$2,400 of your unemployment benefits this year will escape taxation at the federal level.

Governor Carcieri wants that same favorable tax treatment to carry through to the state level, too.

So an unemployed person would save money not only in federal income taxes, but also in Rhode Island income taxes.

How much? Well, as a result of legislation approved by Congress and signed into law by President Obama on Feb. 17, there's no federal income tax on the first \$2,400 of your unemployment benefits this year.

That could save you \$360 in federal income tax.

If Carcieri has his way — and he probably will — the first \$2,400 of your unemployment benefits this year would also escape Rhode Island income tax.

That could save you somewhere around \$90 in Rhode Island income tax, said state Tax Administrator David M. Sullivan.

Thus, you could wind up saving about \$450 in taxes overall this year. (The example assumes you're in the 15-percent federal income tax bracket. The higher your bracket, the more you'll save.)

No, \$450 is not exactly a jackpot. But when you're out of work, every little bit helps, said 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 money will help to cover at least some of the living expenses for the unemployed, and will also wind up circulating in the local economy, "so it's important for them and the Rhode Island economy," she said.

What position the state would take on this matter wasn't clear until yesterday, when state Budget Officer Rosemary Booth Gallogly explained Carcieri's stance during a briefing about the state budget.

As a result of the new federal economic stimulus law, the unemployed are now getting \$25 more than they usually would in weekly benefits. (Rhode Island was one of the first states in the nation to implement this provision, Carcieri pointed out.)

That money is generally subject to federal and state income taxes.

But the federal economic stimulus law does another key thing when it comes to unemployment compensation, exempting the first \$2,400 from federal income tax.

If Rhode Island does nothing, that tax benefit will automatically flow through to your Rhode Island return.

But every now and then, Rhode Island prevents such breaks from flowing through (by taking a step known in tax circles as “decoupling” — other states do it, too).

Carcieri yesterday said, in effect, that Rhode Island should not prevent the tax benefit from flowing through.

“People are hurting as it is,” he said at a State House news conference yesterday afternoon.

Carcieri is taking the same position on a couple of other provisions of the new federal economic stimulus law.

For example, under the new law, the federal earned income credit (essentially a tax break for the working poor) will be expanded for taxpayers with three or more dependents. Carcieri says the expansion of the tax break will flow through to Rhode Island taxpayers, too.

Also under the new law, there’s a special tax break at the federal level for people who buy new cars or other such vehicles. Carcieri also wants the benefit of that tax break to flow through on Rhode Island income tax returns.

Overall, it’s good news for taxpayers. The General Assembly will have to decide whether to tax such benefits at the Rhode Island level.

But given the state’s high unemployment rate — 10.3 percent, one of the highest in the nation, and the highest in Rhode Island in more than 30 years — legislators will probably go along with Carcieri on this issue.

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