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Corporate tax would fade away by 2014

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By NEIL DOWNING

Journal Staff Writer

PROVIDENCE — Governor Carcieri yesterday proposed to phase out the state's corporate income tax, restructure the individual income tax, and give more people a break from Rhode Island's estate tax.

Carcieri said he offered the changes as a way to make Rhode Island more competitive with other states from a tax standpoint.

One reason Rhode Island has felt the recession so severely is, "We've not been as good [as some other states] at growing the private sector, at growing the jobs," Carcieri said at a State House news conference.

Changing the state's overall tax structure will help the state attract and retain businesses and promote job creation, he said.

None of the provisions would take effect immediately. Instead, most would be phased in, over time.

For example, under Carcieri's proposal, Rhode Island's 9 percent corporate income tax rate would drop to 7.5 percent in 2010, 6 percent in 2011, 4 percent in 2012 and 2 percent in 2013. It would be eliminated in 2014.

Corporations would then be subject to a different tax — a graduated franchise tax — under which they would pay less in tax than under the current system.

If the phase-in were to start next year as proposed, businesses would save about \$14.5 million next year in corporate income tax, according to state estimates.

Gary S. Sasse, director of the state Department of Revenue, said the eventual elimination of the corporate income tax would "send the right signal to business and the markets."

Rhode Island's corporate income tax rate is the second-highest in New England, behind Massachusetts. If unchanged, it would be the region's highest next year, when Massachusetts lowers its rate to 8.75 percent.

Edward J. Cooney, chairman of the Greater Providence Chamber of Commerce, said Carcieri's plan for the corporate income tax, and some other proposals, would create "a real powerful stimulus" that would result in the formation and expansion of start-up companies.

“Dramatic steps need to be taken to help our neighbors and friends. Something has to change to get us into a growth mode. Right now, we’re shrinking,” said Cooney, who served on a tax-reform panel created by Carcieri last year.

Strategically crafted tax policies “will help [the state] jump off the page and get noticed,” said Cooney, who is also vice president and treasurer of Nortek Inc., of Providence, a maker of building products.

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, opposes Carcieri’s plan.

“Reducing corporate income taxes without closing corporate tax loopholes is double jeopardy for small businesses in Rhode Island,” she said.

Small businesses “will find themselves competing on an even more un-level playing field” than they do now, as they watch big businesses obtain tax relief, she said.

Some businesses would benefit through the eventual elimination of the corporate income tax, others would not. Of about 50,600 companies that do business in Rhode Island, about 3,500 pay the state’s 9 percent corporate income tax, according to state figures based on the 2006 tax year.

The majority of companies — about 47,000 — do not, because they are organized as pass-through entities. Thus, their income is typically not taxed at the entity level, but instead passes through to the business’s owners, who pay taxes on it on their individual Rhode Island returns.

But those companies would benefit from another proposed tax break, which would lower the minimum annual business tax to \$450 from the current \$500 in 2014, said state Tax Administrator David M. Sullivan.

Carcieri also proposed a change, starting next year, in Rhode Island’s estate tax, also known as the “death tax.”

In general, an estate may trigger the tax if its value exceeds \$675,000. That threshold was set in 2001, is not indexed to inflation, and is tied with New Jersey for the lowest in the nation, according to Carcieri’s tax-reform panel.

As a result, too many people of modest means wind up triggering the tax, the panel said in its final report, issued Monday.

Carcieri wants to raise the threshold to \$1 million starting next year. This would match the Massachusetts threshold, said state Budget Officer Rosemary Booth Gallogly. Estate-tax filers would save about \$1.5 million next year as a result, she said.

Carcieri also proposed changes to the state’s personal income tax system, but they would not take effect until 2011. They include the following:

- Establish four tax brackets, with tax rates ranging from 3.5 percent to 5.5 percent. There are now five brackets, with rates ranging from 3.75 percent to 9.9 percent.
- Treat capital gains as ordinary income. In general, the state's maximum capital-gains tax rate now is 1.67 percent, or 0.83 percent in some circumstances.
- End the option of claiming a variety of "itemized" deductions, such as for mortgage interest, local property taxes and charitable contributions. Instead, all taxpayers would claim a standard deduction, the amount of which would be expanded.

ndowning@projo.com