



Rhode Island Governor's Plan Would Improve Business Climate, Tax Foundation Says

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The Tax Foundation said March 27 that Rhode Island's business tax climate would improve significantly if the state were to adopt tax changes proposed by Gov. Don Carcieri (R).

In its analysis of the extent to which state tax systems encourage investment by maintaining a broad tax base and low tax rates, the Tax Foundation ranks Rhode Island 46th among the states. Had Carcieri's proposals been enacted and effective in 2009, Rhode Island's ranking would be 16th nationwide, according to the foundation, which monitors fiscal policy at the federal, state, and local levels.

Carcieri on March 10 proposed to phase out Rhode Island's 9 percent corporate income tax over four years, reduce the individual income tax's highest marginal rate from 9.9 percent to 5.5 percent starting in 2011, and increase the estate tax exemption amount from \$675,000 to \$1 million starting January 1, 2010. He has also proposed raising the cigarette tax by \$1 a pack, to \$3.46. (For coverage, see *State Tax Notes*, Mar. 16, 2009, p. 840, *Doc 2009-5303* or *2009 STT 45-21* [↗](#).)

Tax Foundation staff economist Josh Barro said in his March 27 analysis that "Rhode Island faces a tough tax situation because it has significantly lower per-capita income than its two neighbors, and therefore must impose higher taxes to raise revenues in line with its neighbors. Unfortunately, those high tax rates add further incentive for wealthy people and businesses to leave Rhode Island for its lower-tax neighbors, or for other parts of the country."

Barro said that, with Carcieri's plan in effect, Rhode Island's ranking would have moved up 30 places higher. Also, instead of scoring 40th on the corporate income tax component of the ranking, Rhode Island would tie for first. The state would jump nine spots on the income tax portion of the analysis (42nd to 33rd) and three places on the property tax portion (43rd to 40th) because the Rhode Island corporate tax includes an assessment on corporate net worth. The state would drop one position on the sales tax measure (30th to 31st).

"While small states can face competitive disadvantages with their larger neighbors (especially if those neighbors are wealthier), they also have an opportunity to specialize in attracting a certain kind of capital or business activity," Barro said. "Now, Gov. Carcieri has identified an opportunity for Rhode Island to step out from its neighbors' shadows."

John C. Simmons, executive director of the Rhode Island Public Expenditure Council, a business-backed group that monitors the state's finances, said on March 30 that Carcieri's proposals are "the types of changes that we need to do to make Rhode Island more competitive on a corporate tax basis."

Businesses and others use the Tax Foundation's rankings as a measure of a state's business climate, Simmons said. It is one factor businesses look at in determining whether to relocate or expand, he said.

But 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, said on March 30 that the Tax Foundation relies mainly on tax rates for its analysis of state business climates.

So if tax rates were to go down, "it's no surprise" that Rhode Island's ranking would rise, Brewster said. But she said that the Tax Foundation does not measure its rankings against economic activity. In other words, the group does not test its highest-ranking states to see if the tax structures in those states are generating comparably higher economic activity.

For this and other reasons, Brewster said, "We don't pay much attention to their rankings." Brewster's group opposes Carcieri's tax proposals, particularly the corporate income tax phaseout, which Brewster called "unaffordable, unfair, and unsound," particularly for small and mid-sized businesses in Rhode Island.

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