The Providence Journal

Groups seek improved reports on R.I. tax-breaks

Friday, April 10, 2009
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Rhode Island should offer more details more often about which goods and services escape state tax — especially as the state struggles to resolve huge budget deficits, two antipoverty groups said in studies issued Thursday.

The groups focused on a little-publicized topic known among tax experts as "tax expenditures." The term essentially refers to the potential tax revenue that government regularly forfeits by offering special tax breaks.

If more were known about such breaks — such as special tax credits intended to encourage economic development — legislators and others would be able to make more-informed decisions when it comes to setting tax policy, the groups said.

Once every two years, the Rhode Island Department of Revenue publishes a tax expenditure report. The latest, a 151-page report posted on the state Division of Taxation's Web site in January 2008, outlined a number of tax credits, deductions, exemptions, exclusions, modifications, preferential rates, abatements and deferrals that are currently allowed directly by state law, or indirectly through other means.

Overall, the state report said, Rhode Island passes up the chance to collect nearly $1.3 billion in estimated revenue each year by providing certain tax breaks. About 48 percent of the estimated forfeited revenue relates to state sales tax breaks and about 41 percent to breaks involving the state's personal income tax, the report said.

The Poverty Institute, a think tank at the Rhode Island College School of Social Work, said on Thursday that the state's tax expenditure report "has long been recognized as ineffective in accurately defining how much tax exemptions and preferential rates cost the state."

A number of tax expenditures have been created over the past few years in the name of economic development, such as special tax credits, deductions and exemptions for businesses, the group said.

But there has been little scrutiny of the cost and benefits of each, the group said in an issue brief published Thursday.

“Rhode Island faces very difficult choices to balance its budget and, at the very least, policymakers and residents should know where the state’s money is going in order to prioritize and decide which sacrifices to make,” said Kate Brewster, executive director of the group, which analyzes tax and budget policies on behalf of low-income people.

The group’s analysis came on the same day that the Center on Budget and Policy Priorities, a Washington, D.C., group that focuses mainly on the impact of government budget decisions on people with low income, issued a study asserting that tax expenditure reports produced by Rhode Island, Maryland and Arkansas were among the least useful nationwide because they omit major taxes, fail to provide cost estimates and other key information for many tax expenditures, and are not available online.

Paul L. Dion, chief of the Rhode Island Department of Revenue’s Office of Revenue Analysis, said Thursday that he had not had a chance to fully review the studies issued by both groups.

But he said that the Rhode Island report is posted on the Rhode Island Division of Taxation’s Web site:

www.tax.ri.gov

He also said that his agency plans to try to upgrade its report. “We’re working on it,” Dion said. But he added that certain tax expenditure items are difficult to quantify. “Some of our [tax] exemptions are so narrow that it’s impossible to get data on them that’s reliable,” Dion said. For example, “I can’t tell you what the exemption for horse feed is,” he said.

Another problem is that his agency has limited resources, Dion said. To publish a report annually would require more staff and more computer hardware and software, he said.

As it stands, one member of the agency’s staff, starting in June, will work full-time for at least six months to compile the next such report, due to be issued in January 2010, Dion said.

The Poverty Institute said it supports legislation introduced by state Sen. J. Michael Lenihan, D-East Greenwich, that would, among other things, require that a report be published annually, included as part of the annual budget submission, and provide historical data and future projections of forfeited revenue for each tax-expenditure item.

Testifying on March 17 in favor of the bill, Brewster said, “In good economic times, lawmakers should know what the state is losing in revenue … to tax expenditures in order to get an accurate picture of the state’s finances. In difficult times like this, it is even more critical to ensure our limited resources are being used in the most effective and productive way possible.”

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