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## R.I. House panel shifts focus to taxes

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PROVIDENCE — Rhode Island must eliminate its top personal income tax rate of 9.9 percent to make the state more competitive from a tax standpoint, House Finance Committee Chairman Steven M. Costantino said Thursday.

“We have to get that 9.9-percent monkey off our backs,” Costantino said after a budget briefing at the State House.

Costantino’s comments, during and after the meeting, represented the strongest language he has used to date about reducing the state personal income tax’s top rate.

John C. Simmons, executive director of the Rhode Island Public Expenditure Council, a business-backed group that monitors the state’s finances, said that Costantino’s comments represented “a potential message from the House — or maybe the House Finance Committee — that the high marginal rate is an impediment and needs to be examined.”

Costantino has long been vexed by national surveys that consistently rank Rhode Island among the highest-taxed states based mainly, or solely, on the top rate.

The surveys and rankings typically do not take into account other key factors involved in calculating the state’s personal income tax. For example, Rhode Island has a range of tax rates that start at 3.75 percent; the 9.9-percent rate generally applies only to that portion of one’s Rhode Island taxable income that exceeds \$373,000, or so.

Still, the perception remains that Rhode Island has a high levy when it comes to the personal income tax, Costantino said. “It just seems that the business community’s concerned, everybody’s concerned about this 9.9-percent” rate, he said.

Sharon Reynolds Ferland, House fiscal adviser, told the committee that lowering the top 9.9-percent rate would remove a “stigma.” Although national surveys typically list the 9.9-percent rate with a footnote, “Nobody’s going to read the footnote” once they see a rate of 9.9 percent, she said. (Massachusetts generally has a top rate of 5.3 percent, Connecticut 6.5 percent.)

Russell Dannecker, fiscal policy analyst with the Poverty Institute, of Providence, which analyzes tax and budget policies on behalf of low-income people, said of the overall plan, “We’d certainly want to look at it,” particularly at how it would affect taxpayers in all income categories.

Costantino reiterated that lowering the top rate would be accompanied by elimination of the optional flat-tax method of calculating one's Rhode Island personal income tax. Unlike the regular system, the optional flat-tax method does not permit exemptions, deductions or most credits. But it does feature a single, flat-tax rate of 6 percent for this year, 5.5 percent for 2011 and later.

At the meeting, Costantino suggested that the new top rate under the regular Rhode Island personal income tax system could be 6 percent or 6.5 percent. In an interview afterward, however, he said the rate has not been set, but would be "very competitive" with the flat-tax rate.

He declined to say whether the overall proposal would result in more, less, or the same amount of state tax revenue as now. But he said the proposal would not be in the current year's supplemental budget, but would instead be part of the committee's budget for the fiscal year that starts July 1.

Costantino also said that such a plan would "obviously need some study" regarding the impact on taxpayers in various income groups, and would have to be structured in a way to prevent "a major shift" of the tax burden to the middle class.

Other details have yet to be worked out and are still under review, he said. He has assigned state Rep. Helio Melo, D-East Providence, the committee's deputy chairman, to study the overall plan.

One issue known to be under review involves deductions. Currently, a taxpayer may claim either a lump-sum amount, known as the standard deduction, or a lengthy list of deductions, known as itemized deductions. One scenario would raise the standard deduction, perhaps significantly, eliminate the option to itemize, and curtail tax credits.

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