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Hearings set on Carcieri's budget plan

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Journal staff report

Advocates for and against tax cuts are staking out their positions ahead of two State House hearings this week in which legislators will take up [Governor Carcieri's](#) proposed budget — which includes changes to state tax laws.

Carcieri in March proposed to phase out the state's corporate income tax and restructure the individual income tax, among other things.

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

The Senate Finance Committee is scheduled to hold a hearing Tuesday on several of Carcieri's tax plans, and the House Finance Committee is to hold its own hearing on Thursday.

In advance of those hearings, advocates have made clear their positions.

On income taxes: Carcieri's proposed changes to the state's personal income tax system, which would take effect in 2011, include the following:

- Establishing 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.)
- Treating 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.)
- Ending the option to claim a variety of "itemized" deductions, such as those for mortgage interest, local property taxes and charitable contributions. Instead, all taxpayers would claim a standard deduction, the amount of which would be expanded.
- Eliminating most of the state's tax credits and keeping four: the statewide property-tax relief credit; an expanded earned-income credit (essentially a tax break for the working poor); a credit for lead paint abatement; and a credit for income taxes paid to other states.

The Rhode Island Public Expenditure Council (RIPEC), a business-backed public policy group that monitors state finances, says that Carcieri's proposals would bring Rhode Island's personal-income tax system more in line with those of its neighboring states, Connecticut and Massachusetts.

The report focused, in part, on state income taxes paid by people as a percentage of their personal income.

According to RIPEC's analysis of Carcieri's proposals, many Rhode Island taxpayers, who currently pay more in state taxes (as a percentage of personal income) than similarly situated taxpayers in Connecticut and Massachusetts, would pay less or about the same.

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 that Carcieri's proposed changes to the personal income tax would be expensive and ineffective.

Carcieri's plan "will cause the state to lose significant amounts of revenue, is unlikely to be a cost-effective strategy for growing jobs and would present significant fiscal challenges as the changes are scheduled to take effect in 2011 — the same year [federal stimulus](#) funds are set to expire," the group said.

"The combined loss of federal funds and income tax revenue could cause a serious detour off Rhode Island's road to recovery," the Poverty Institute said.

On corporate taxes: Carcieri proposes to lower Rhode Island's 9-percent corporate income tax rate to:

- 7.5 percent in 2010.
- 6 percent in 2011.
- 4 percent in 2012.
- 2 percent in 2013.
- In 2014, the tax rate would drop to zero percent. 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 Rhode Island corporate income tax, according to state estimates.

In its analysis of the proposal, RIPEC said that, based on figures from accounting firm Ernst & Young, Rhode Island's business-tax burden ranked 11th-highest nationwide for the year ended June 30, 2008 — and the burden on businesses in Rhode Island is higher than that of businesses in Connecticut and Massachusetts.

RIPEC also noted that the state has been ranked by the Tax Foundation as having the 46th-worst business climate in the country.

Carcieri's plan would more closely align Rhode Island's business tax burden with that of its neighbors and the national average, RIPEC said.

The Poverty Institute said that the proposed phaseout of the corporate income tax is "unaffordable, unsound and unfair public policy."

In its commentary on the plan, the group said, "Rhode Islanders have already suffered from a decade of failed tax policies enacted in the name of economic development."

The group said, "These policies have cost hundreds of millions of dollars in lost revenue, crippling the Ocean State's ability to fund the public services that employers and workers rely on. Phasing out the state's corporate income tax would represent a continuation and expansion of these failed policies."

The Senate Finance Committee's hearing is tentatively scheduled for 2 p.m. Tuesday; the House Finance Committee's hearing is set for 1 p.m. on Thursday.