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R.I. legislators revamping personal income tax system

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PROVIDENCE — Legislative leaders are poised to unveil a sweeping plan as soon as next week that would bring fundamental changes to the state's personal income tax system.

Aimed at fighting the perception that Rhode Island's tax climate is unfriendly to business, the plan would sharply lower the state's top individual income-tax rate — but may also wipe away many tax breaks and credits that affect thousands of residents and businesses.

Lawmakers acknowledged there would be winners and losers because the shift would affect taxpayers differently depending on their circumstances.

Details of the plan are still being worked out and could change, said House Finance Committee chairman Steven M. Costantino. "It's a work in progress at this point," he said Wednesday afternoon, after an unusual public hearing in which the committee invited a small panel of tax experts to share their perspective on the looming changes.

State Tax Administrator David M. Sullivan confirmed that [Governor Carcieri](#)'s Department of Revenue is working with the legislature to study the impact of various proposed tax changes.

Costantino confirmed that he will push to pass the changes into law before legislators adjourn for the summer. The detailed proposal may be released as an individual piece of legislation or as part of next year's state budget — which "could be" unveiled publicly as soon as next week, he said.

In a separate interview, Senate Finance Committee chairman Daniel DaPonte said he has been working with Costantino to complete the tax plan as soon as possible.

One of the key goals is to drop the personal income-tax system's top rate of 9.9 percent, the sixth highest in the nation, said Gary S. Sasse, former state revenue director. Most people wind up paying Rhode Island income tax at rates as low as 3.75 percent; the 9.9 percent rate generally kicks in only when one's Rhode Island taxable income exceeds \$373,000 or so.

Still, national surveys tend to focus solely on the 9.9-percent rate. As a result, Rhode Island often ranks among the nation's highest-tax states. Costantino wants that to change, and DaPonte does, too. "There's no good reason for us to have the negative stigma on our backs of 9.9 percent," DaPonte said.

As currently designed, the plan would:

- Raise the amounts of the lump-sum standard deduction that most taxpayers claim, but eliminate the option to make a detailed list of deductions — a process known as itemizing.
- Allow only a handful of tax credits, including one for taxes paid to other states, the earned-income credit, the statewide property-tax relief credit and a credit for residential lead-paint abatement.
- Eliminate the optional flat-tax method of calculating one's Rhode Island income tax.

Mark Higgins, dean of the University of Rhode Island's College of Business Administration, said the changes, if adopted, would make Rhode Island's tax system more predictable for tax-planning purposes, and easier to understand and administer.

Carcieri's tax-reform panel last year recommended a top rate of 5.5 percent, but "that's not practical today. . . not affordable," Sasse said. "The top rate is going to have to be closer to 6.5 percent," he said. John C. Simmons, executive director of the Rhode Island Public Expenditure Council, a business-backed group that monitors the state's finances, said the new top rate should be no more than 6 percent.

A key issue will be the impact of such changes on various taxpayers. Whenever a tax system is changed, "There will be those who will pay more and those who will pay less," said Sharon Reynolds Ferland, House fiscal advisor.

It is not clear whether the planned overhaul would raise state tax revenue, lower it, or end up being neutral. "The goal is to get this close to revenue-neutral," said Grafton H. "Cap" Willey IV, co-chair of the Rhode Island chapter of the Smaller Business Association of New England, who is working on the plan. All of the proposed changes would take effect Jan. 1, 2011, he said.

While there is support among budget architects in the House and Senate, the passage of such a sweeping plan in the coming weeks is by no means a done deal: There will be intense political pressure among lobbyists and business interests to preserve certain tax breaks and credits that affect their clients.

An ominous warning came from one of the three tax experts invited to address the House Finance Committee at the State House on Wednesday.

Russell Dannecker, former Senate fiscal advisor who is now a fiscal policy analyst at the Poverty Institute of Providence, a social-policy think tank, said, "Remember that . . . there are many out there that are working, legitimately, to reduce tax liability for their clients. And they do this all day long."

Dannecker warned of outside influences — as a handful of paid lobbyists listened to his testimony from the seats behind him. They included former Lt. Gov. Richard A. Licht, who

represents Fidelity Investments, among other powerful clients; and R. Kelly Sheridan, who represents the Greater Providence Chamber of Commerce, was also in and out of the room.

“So as you proceed, remember, whatever you write, try to look for the unintended consequences,” Dannecker said.

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