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R.I. General Assembly continues work on tax-overhaul bill

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PROVIDENCE, R.I. — Most people would pay less in state income tax under a proposal crafted by the [General Assembly](#)'s Democratic leadership, legislative figures show.

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But the plan cannot be approved as it stands because it would result in lower state tax revenue, forcing the state's budget out of balance, a top negotiator said.

House and Senate leaders continued to work on the plan on Thursday.

The Senate Finance Committee held a hearing on its version, S 2921. Meanwhile, state Rep. Helio Melo, D-East Providence, the House Finance Committee's deputy chairman, introduced the committee leadership's version of the bill, H 8196. (Both versions are substantially the same, Melo said.)

In general, the plan would lower personal income-tax rates, reduce the number of tax brackets, cut the number of tax credits and generally make the system simpler to understand and administer, proponents said.

And a key feature would be a lower top tax rate, said Senate Finance Committee Chairman Daniel DaPonte, D-East Providence.

The current system has a range of rates, the highest of which is 9.9 percent. As a result, Senate fiscal adviser Peter Marino said, Rhode Island has the highest top tax rate in New England — and the fifth-highest in the nation.

“It doesn't make sense to have that stigma,” DaPonte said during a break in Thursday's hearing. When businesses and others looking to relocate compare states from a tax standpoint, and see a 9.9-percent top rate for Rhode Island, “It causes them to turn the page,” he said. “It just gives Rhode Island a bad rap,” Melo said earlier in the day.

The plan would lower the top rate to 6 percent under the Senate bill, 5.99 percent under the House bill.

But the plan would also implement other provisions to reduce taxes. As a consequence, overall, 61 percent of taxpayers would see a tax decrease, 18 percent a tax increase and 21 percent no change, according to Senate fiscal office figures.

But the plan would also reduce state tax revenues by about \$11.5 million for the fiscal year that ends June 30, 2011 (and more in later years), Senate fiscal office figures show.

The tax provisions would take effect Jan. 1, 2011. For tax year 2011, the Senate leadership's version would result in about \$23 million in savings to taxpayers, nearly all of it to Rhode Island residents, Marino said.

But because the tax-overhaul plan is not part of the overall state budget for the coming year, it cannot be approved as is unless it is neutral from a revenue standpoint, said House Finance Committee Chairman Steven M. Costantino, D-Providence. He and other legislators were working on that and other issues on Thursday.

Among the measure's proponents testifying at the Senate Finance hearing was Patricia A. Thompson, a member of the Greater Providence Chamber of Commerce's board of directors. "We do need to change things, and that's what this proposal does," said Thompson, who is a tax partner at Piccerelli Gilstein & Co. LLP, a CPA firm in Providence.

Kate Brewster, executive director of the Poverty Institute, of Providence, a social policy think tank, said she wants to learn more about the overhaul plan, such as its exact cost in state revenue and whether such money would be better spent investing in work-force training and education, infrastructure and other areas.

Daniel Bass, lead organizer for Ocean State Action, a coalition of labor unions and advocacy groups, opposes the bill partly because it would reduce income taxes for the wealthy and increase the state's over-reliance on the property tax.

Melo's tax-overhaul bill will be heard by the House Finance Committee within the next week, Costantino said.

Costantino and other legislative leaders have been working on the overhaul plan for months, mainly behind the scenes. If enacted, it would result in a transformation of the state's personal income tax system, he said.

A separate part of the tax-overhaul plan makes fewer estates subject to the Rhode Island estate tax. It would do this by raising the exemption about to \$1.5 million for those dying on or after Jan. 1, 2011. (The current exemption amount is \$850,000.)

A Senate Finance Committee hearing for the estate tax bill, S 2922, scheduled for Thursday was scratched. DaPonte said the estate tax provision is "still on the table," but added that he wants to work with Melo on the overall issue.

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