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Group sees R.I. tax plan as a boost

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By Neil Downing

Journal Staff Writer

PROVIDENCE — Rhode Island’s tax climate for business would improve somewhat if the state adopted a tax-overhaul plan proposed by the [General Assembly](#)’s Democratic leadership, the Tax Foundation said Wednesday.

Rhode Island now ranks 44th of the 50 states, among the 10 worst nationwide, according to the Tax Foundation, a nonprofit group in Washington, D.C., that monitors government fiscal policy.

If the plan were implemented for this year, the group said, Rhode Island would rank 41st. “This indicates the plan would be a modest but positive change for the state’s tax system,” the group said in a report.

The report came as Rep. Steven M. Costantino, D-Providence, chairman of the House Finance Committee, issued his strongest comments yet in favor of the overhaul.

“This is our moment,” he said at a committee hearing at the State House and in an interview afterward. The proposal represents “a tremendous opportunity” to better position the state to take advantage when the economy recovers, he said.

Rep. Helio Melo, D-East Providence, the committee’s deputy chairman, said the plan would “put us back on the map” from a tax-competitiveness standpoint.

The plan would revise the state’s personal income-tax system partly by lowering the top tax rate – now 9.9 percent, one of the highest in the country — to either 6 percent under a Senate bill (S 2921), or 5.99 percent under a House bill (H 8196).

Both plans would take effect Jan. 1, and would also reduce the number of tax brackets, eliminate the option to claim itemized deductions, raise the standard-deduction amounts, limit the number of tax credits and eliminate the optional flat-tax method of calculating one’s individual income tax.

A key goal is to make Rhode Island more competitive, from a tax standpoint, with its neighboring states, proponents said.

The state Office of Revenue Analysis is working on a report to show the House bill's impact on taxpayers, said the agency's chief, Paul L. Dion. Calculations for the Senate bill, based on tax returns for the 2008 tax year, include the following:

- 302,500 taxpayers would see a tax decrease, totaling \$79.2 million, an average of about \$262 apiece.
- 103,434 taxpayers would see no change.
- 91,404 taxpayers would see a tax increase, totaling \$56.3 million, an average of about \$616 apiece.

Overall, under the Senate bill, taxpayers would save in taxes and the state would lose in revenue about \$22.9 million.

Russell Dannecker, fiscal policy analyst at the Poverty Institute, of Providence, a social policy think tank, said the revenue loss would occur "at the worst possible time" as the state faces budget deficits.

Legislative leaders plan to work on the proposal to ensure that it neither raises nor lowers overall revenue, Melo said. Costantino said there is still time in the General Assembly session to make that happen and get the plan approved. Business groups at the hearing said the plan would make the state more business-friendly and tax-friendly.

ndowning@projo.com