



## **Rhode Island Business Lobby Moves to Defend Flat Tax Option**

**By Neil Downing**

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Rhode Island's Greater Providence Chamber of Commerce sent a policy alert on June 3 to its 6,000 members, urging them to lobby their legislators to block efforts to raise state taxes.

"A significant move is underway in the General Assembly to raise taxes in Rhode Island, including personal income taxes," the chamber's e-mailed message said. "Take action now! Contact your state senator and representative!"

The chamber represents about 2,600 businesses and other organizations and has about 6,000 individual members, said Laurie White, president of the chamber.

White told Tax Analysts on June 3 that the focus is on Rhode Island's optional flat tax system. There are five bills pending in the General Assembly that would either freeze or repeal the flat tax. "Our principal message is, we need to preserve the flat tax," she said.

The chamber's push comes as the General Assembly works toward closing a \$590 million budget gap for the fiscal year that starts July 1. White said the flat tax is one way to lower the state's tax burden, which she described as one of the highest in the nation.

The flat tax was enacted in 2006 through legislation approved by the Democrat-controlled General Assembly and signed into law by Rhode Island Gov. Don Carcieri (R).

Rep. Scott J. Guthrie (D) said in a recent essay that the flat tax system was adopted "because, it was argued, the wealthiest citizens of our state are the job-creators, and making their life better was going to trickle down and help us all." Since then, "the economy has soured, Rhode Island unemployment is above 10 percent and lots of people are truly suffering -- except those richest few who are able to employ the flat tax formula," he wrote.

The regular method for the state's personal income tax system allows a number of deductions, exemptions, and credits; provides for favorable capital-gains treatment; and carries a top marginal rate of 9.9 percent.

The flat tax option, implemented in 2006, generally does not allow deductions, exemptions, credits, or favorable capital gains treatment. But it carries a flat tax rate -- initially 8 percent, now 6.5 percent, and scheduled to drop to 5.5 percent for 2011 and later years.

White said that lower taxes lead to more growth, including job creation. "Private-sector job growth is the only real solution. . . . You're not going to be able to tax your way out of" the current recession and Rhode Island's 11.1 percent unemployment rate, she said.

Kate Brewster, executive director of 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 on June 3, "We have been calling for repeal of the flat tax since it was enacted."

She added, "Policymakers would be right to repeal what has been a very expensive tax policy that was enacted based on the fallacy that cutting income taxes for high-income taxpayers would attract and retain individuals capable of creating jobs. Economic research, however, provides evidence that individual tax cuts are not a cost-effective tool for growing state economies. Furthermore, the data show that the growth in the number of wealthy households has been in line with the region."