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Study ranks R.I.'s tax climate 44th

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The tax climate for businesses is worse in Rhode Island than in 43 other states, according to a study issued Tuesday by the Tax Foundation.

Rhode Island ranked 44th of the 50 states — up from 46th last year — according to the Tax Foundation, a nonprofit group in Washington, D.C., that monitors fiscal policy at the federal, state and local levels.

The report measured the competitiveness of the 50 states' tax systems and ranked them based on taxes that the group said matter most to businesses and business investment, such as the corporate income tax, individual income tax, sales tax, property tax and unemployment insurance tax.

South Dakota had the most business-friendly tax system, New Jersey the least, according to the Tax Foundation's State Business Tax Climate Index.

[Governor Carcieri](#) said the report shows that Rhode Island has made some headway, despite the global recession, but needs to do more. "We are making progress, mostly because we're managing our way through this downturn without raising broad-based taxes," he said.

Some states, such as Massachusetts, recently raised sales taxes, while other states, including Connecticut, raised income taxes for some taxpayers, he noted. "We're improving, if you will, while the others are getting worse," Carcieri said.

Carcieri in March proposed phasing out the state's corporate income tax, restructuring the individual income tax, and giving more people a break from Rhode Island's estate tax — measures that would have helped to improve Rhode Island's ranking.

The [General Assembly](#), working to close massive budget deficits, rejected much of Carcieri's proposal, as well as many other recommendations advanced by his tax-reform panel.

In the end, the state budget that emerged for the year that began July 1 generally raised taxes on capital gains, but allowed some estates to escape the estate tax, and also kept intact the state's optional flat-tax method of calculating one's individual income tax. (Many business groups view the flat tax favorably.)

Mark Higgins, dean of the University of Rhode Island's College of Business Administration, said of Rhode Island's Tax Foundation ranking, "It's good that we didn't go backwards, but

we've got a long way to go" to significantly improve. "We haven't made any large improvements over time; just small, incremental changes," Higgins said.

"We're a high-tax state, with high regulation, and it's not a good state to do business in — that's the perception," he said. To alter that, "You have to make major changes," such as eliminating the corporate income tax and lowering the individual income tax for most taxpayers, he said.

John C. Simmons, executive director of the Rhode Island Public Expenditure Council, a business-backed public-policy group that monitors state finances, said that the Tax Foundation's findings were not surprising. "Rhode Island consistently ranks in the bottom tier" in studies that focus on business-tax climates, he said.

Still, the report "illustrates that even holding the line on taxes can improve our overall business-tax climate," Simmons said. As some other states raised broad-based taxes, their rankings fell, which helped to improve Rhode Island's ranking, he 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 that the Tax Foundation focused solely on taxes.

"Surveys of business executives routinely rank factors such as work-force skills and highway access as more important than tax rates," she said. "This is not surprising, given that state and local taxes paid by businesses represent, on average, less than 3 percent of their total expenses."

Brewster added, "Investing in our work force and infrastructure should be the focus of any efforts to improve our economy."

Among the other New England states, New Hampshire ranked 7th overall in the Tax Foundation study, Maine 34th, Massachusetts 36th, Connecticut 38th, and Vermont 41st.

On the individual components of the overall ranking, Rhode Island scored better in some areas than others.

For example, Rhode Island ranked 13th regarding sales taxes, 36th for corporate income taxes, and 38th for individual income taxes. But Rhode Island ranked 47th for property taxes, and 50th — dead last — for the unemployment insurance tax that businesses pay.

The Tax Foundation said it publishes the annual report as a tool for lawmakers, businesses and individuals so they can gauge how their state's tax systems compare.