

A BALANCED APPROACH TO A BALANCED BUDGET

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Over the past decade, Rhode Island has given up hundreds of millions of dollars in revenue through a variety of tax breaks of questionable value to the economy, and by failing to modernize certain aspects of our tax structure. Even before the economic downturn, the state was struggling to maintain adequate funding for vital public services like education, infrastructure, and health care.

When the Great Recession hit the Ocean State, it was like a hurricane hitting a house that already was falling down. Record levels of job losses and housing foreclosures further weakened state revenues and as in other states, income and sales tax collections dropped by record-breaking proportions. The cruel irony is that at a time when the needs of families are growing, the state has fewer resources to help.

To grow our state's economy and help families weather the economic storm, Rhode Island must keep investing in the services upon which people and businesses rely. These include education for today's and tomorrow's workforce; consumer and environmental protections; a legal system that protects investments and production; and a safe, efficient transportation network. Without these things, it will take Rhode Island longer to shake the effects of the recession, and the state will be poorly positioned for when prosperity returns.

Maintaining these investments will require state leaders to take a balanced approach to solving our financial problems, rather than relying on a cuts-only strategy that will further damage the fragile economy. That means making sure each dollar we spend is a wise, efficient investment. It means carefully reviewing our state revenue policies. As Rhode Island faces one of the worst fiscal crises in history, we must consider not only what we spend but also what we give away. The spending that occurs in the state budget is carefully analyzed every year. But the hundreds of millions of dollars forgone each year through tax breaks are not. They are written into the tax code, where they can remain forever without any scrutiny or evaluation of whether they are serving their intended purposes.

Several policy changes would improve the economic vitality of our state and its residents.

1. **Time out for tax breaks** - Repeal the unaffordable and unproductive "flat tax;" all income should be subject to graduated rates that take into account the ability to pay and require everyone to pay their fair share.
2. **Break the (Tax) Code of Silence** – Determine whether every dollar spent through the tax code is achieving its intended policy goal in a cost effective way; reform or eliminate those tax expenditures that do not meet the "prove it or lose it" test.
3. **Stop corporate giveaways** – Rhode Island should pass a law decoupling from the federal "Domestic Production Deduction" corporate tax break, and also enact what is called "combined reporting" so large, multi-state corporations can no longer avoid paying tax on profits they make here.
4. **Update our sales tax for today's economy** – When the sales tax was begun, people spent more on goods than services. Today it's the other way around which is why digital purchases and more services need to be subject to sales tax. That will make the system more equitable and raise much-needed money.