

Income Gains *and* Charitable Giving Among Wealthy Rhode Island Taxpayers Exceed Neighbors

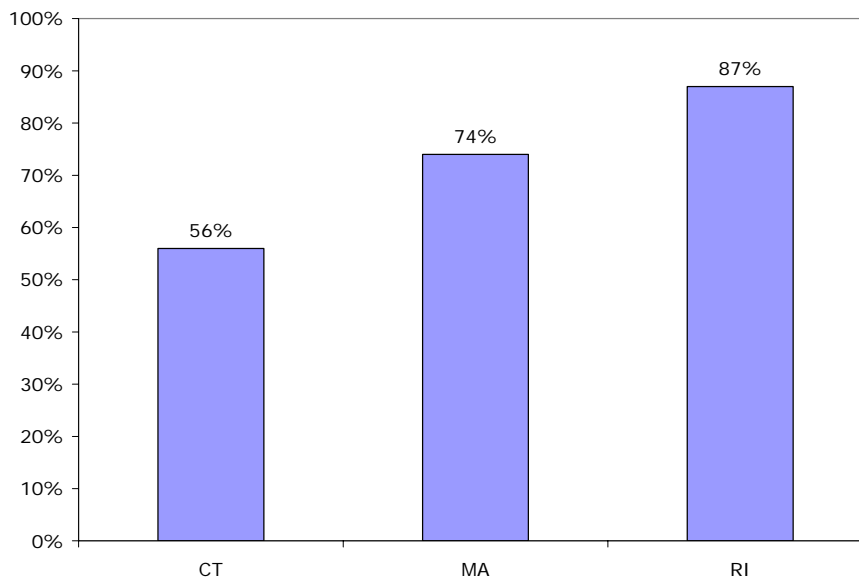
Wealth in Rhode Island is growing as evidenced by an increasing number of taxpayers reporting annual incomes of \$200,000 or above. According to data from the Internal Revenue Service, income gains among the wealthiest Rhode Islanders are exceeding those of our New England neighbors.

- The number of Rhode Islanders reporting incomes of \$200,000 and above nearly doubled from 1997-2004, and the average income of the top one percent of households rose by 11.9 percent to \$965,908. Massachusetts saw an actual decline in the average earnings of affluent households over the same time period, while Connecticut residents saw gains of only 5.3 percent.
- Since 2000, taxpayers moving from Massachusetts to Rhode Island had higher median incomes than those leaving Rhode Island for Massachusetts, despite the fact that Massachusetts reduced its income tax rate during the period 2000 – 2002.
- Charitable contributions by those with incomes of \$200,000 and above were stronger in Rhode Island than in neighboring states from 2000 -2004.

The number of very high income Rhode Islanders is growing

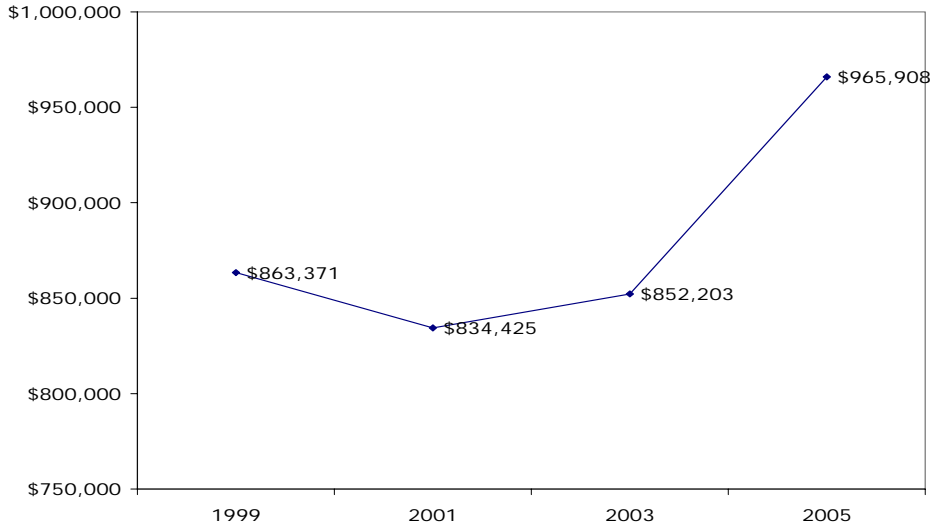
An increasing number of taxpayers record incomes far above the median. The Internal Revenue Service publishes data on federal personal income tax returns filed by Rhode Islanders by income level. The top income category reported is \$200,000 and above. Since 1997, the earliest year for which the IRS data are available, the number of Rhode Island taxpayers reporting incomes of \$200,000 and above has risen by 87 percent, a faster rate of growth than was recorded in neighboring Connecticut or Massachusetts.¹

Rhode Island taxpayers reporting incomes above \$200,000 grew faster than neighboring states between 1997-2004



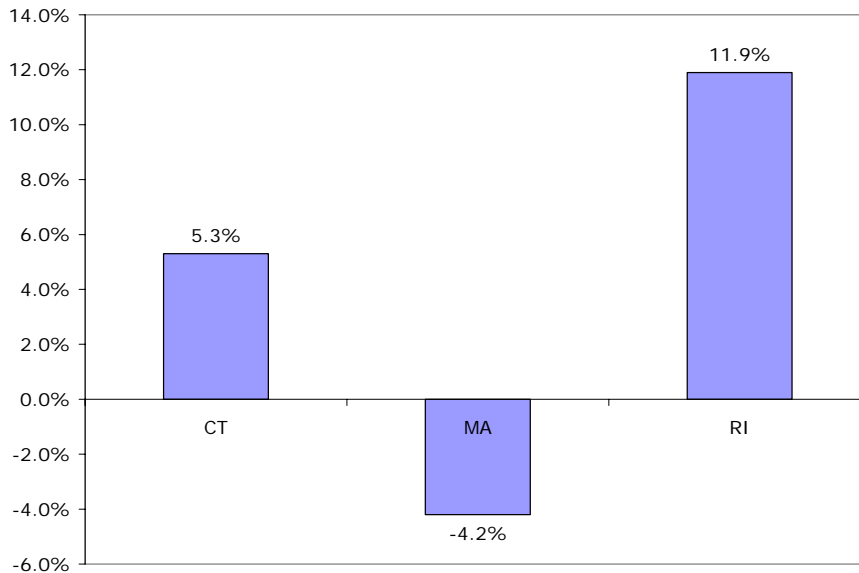
Incomes at the top are rising rapidly

Not only is the number of high earners rising, but their average incomes are increasing quite rapidly as well. The Institute on Taxation and Economic Policy, a Washington, DC-based think tank, maintains a comprehensive and widely-respected economic model that produces estimates of the incomes of the top one percent of earners in all the states. At the Poverty Institute's request, ITEP estimated the average annual earnings of the top one percent in Rhode Island and neighboring states from 1999 – 2005. In 2005, the highest earning one percent of Rhode Island households earned \$965,908, an 11.9 percent increase from 1999.



In Massachusetts very affluent households experienced a decline in average earnings over the same period, while affluent Connecticut residents saw their income rise by 5.3 percent -- less than half the rate of growth in Rhode Island.²

Income of top 1% in RI grows faster than neighbors between 1999-2005



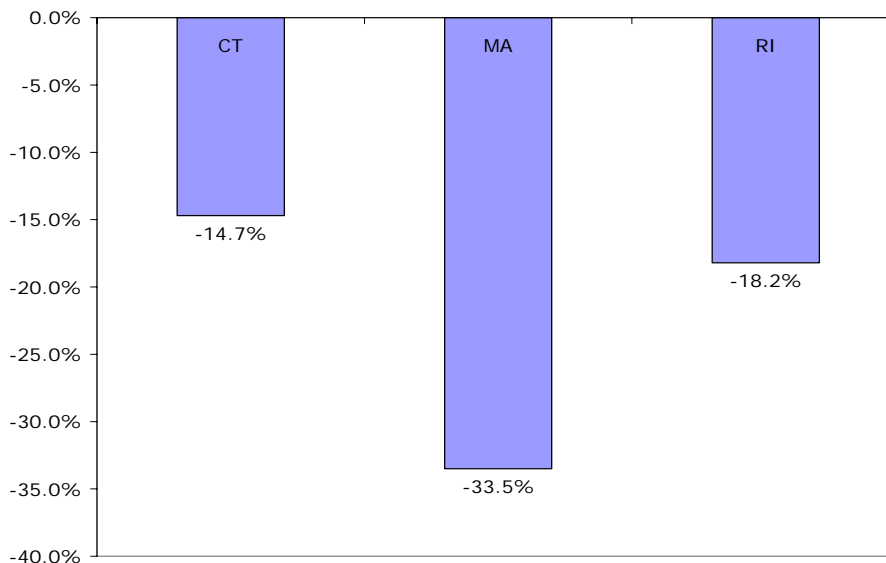
More affluent taxpayers move to Rhode Island from Massachusetts than move from Rhode Island to Massachusetts

Further evidence that Rhode Island is attracting more affluent residents comes from IRS data on taxpayers who have changed their state of residence during the year. Massachusetts is by far the largest destination and recipient state for migration to and from Rhode Island. Migration data shows that, since 1999, the number of people moving to Rhode Island from Massachusetts has exceeded the number moving to Massachusetts from Rhode Island.³ Furthermore, the median income of in-migrants from Massachusetts has been higher than the median income of out-migrants to Massachusetts. This is true despite the fact that MA reduced its top income tax rate from 5.95 to 5.3 percent in 2000-2002 while Rhode Island's top marginal rate at the time was 9.9%.

Charitable contributions by affluent residents have been stronger in Rhode Island than in neighboring states

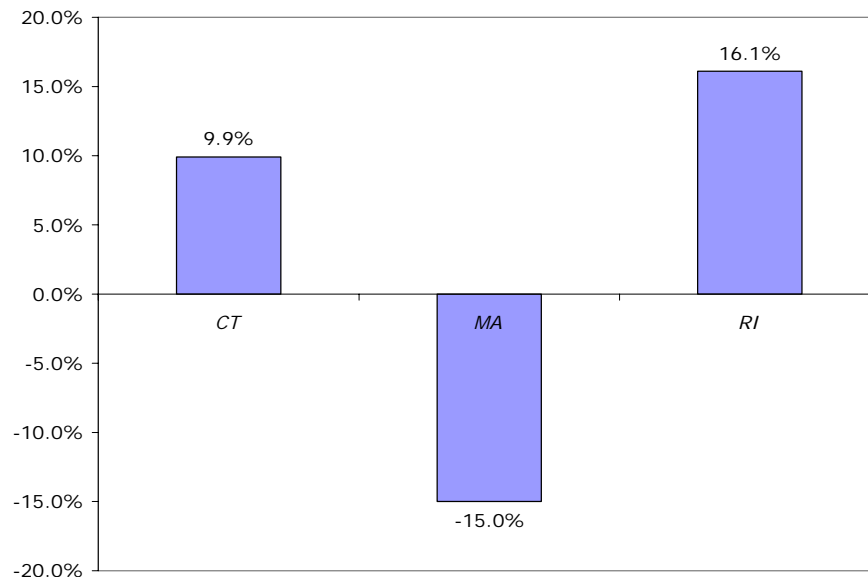
As evidence for the assertion that wealthy residents are leaving Rhode Island, numerous commentators have noted a sharp decline in charitable contributions by high-earning Rhode Islanders between 2000 and 2003.⁴ The IRS Statistics of Income collects data on charitable contributions of taxpayers with incomes of \$200,000 and above, as reported on federal income tax returns. From 2000 – 2003, charitable contributions by affluent taxpayers in Rhode Island did indeed decline by 18.2 percent. However, high-income taxpayers also curbed their charitable giving in neighboring states in the wake of the 2000-2001 stock market crash and subsequent recession. Donations in Massachusetts, for example, fell by 33.5 percent from 2000 -2003.⁵

Tri-state declines in charitable contributions by taxpayers earning \$200,000+



By 2004, however, contributions exceeded 2000 levels by 16.1 percent in Rhode Island. Contributions in Connecticut and Massachusetts, in contrast, had not yet rebounded to 2000 levels.

Rhode Island charitable contributions by high income households rebounded more quickly than neighboring states from 2000-2004



Conclusion

A careful review of data proves that wealthy taxpayers are realizing income gains at better rates than wealthy taxpayers in Massachusetts and Connecticut. Most migrants from Rhode Island leave for Massachusetts, yet in the last few years, more people have migrated to Rhode Island from Massachusetts and their median income has been higher than those leaving the Ocean State for Massachusetts. The number of Rhode Islanders reporting incomes of \$200,000 and above has nearly doubled since 1997 and has grown at a faster rate than in neighboring Connecticut and Massachusetts. The average income of the most affluent one percent also rose faster in Rhode Island than in neighboring states and charitable contributions by affluent households rebounded from the stock market crash and exceeded the rate of growth in donations in Connecticut and Massachusetts.

¹ US Internal Revenue Service, Statistics of Income, 1997 and 2004.

² Data provided by Matt Gardner, Institute on Taxation and Economic Policy, Washington DC.

³ US Internal Revenue Service, Statistics of Income, Migration data series, 1994 -2004. The top four destination states for Rhode Islanders in 2004 were Massachusetts, Florida, Connecticut and New York and the top four states for people entering Rhode Island were Massachusetts, New York, Connecticut and Florida.

⁴ See testimony by the Rhode Island Economic Development Corporation before the Joint Committee on Economic Development, April 2006.

⁵ US Internal Revenue Service, Statistics of Income, 2000 and 2003.