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## Repealing Rhode Island's Capital Gains Tax Break Would Ease Budget Woes and Improve Tax Fairness

**WASHINGTON, DC (March 19, 2009)** – A new report released today by the Institute on Taxation and Economic Policy (ITEP) finds that Rhode Island could save upwards of \$49 million per year if it were to repeal the tax break the state currently offers for income from capital gains. According to the report, *A Capital Idea*, Rhode Island is one of just nine states to grant preferential tax treatment to all income derived from long-term capital gains. Together, those states will lose more than \$660 million in 2008 from such policies.

“Rhode Island’s capital gains preferential tax rates deprive the state of millions of dollars in needed funds, benefits almost exclusively the very wealthiest members of our communities, and fails to promote economic growth,” remarked Kate Brewster, Executive Director of The Poverty Institute. “In fact, the Governor’s Tax Advisory Workgroup recommended eliminating preferential rates for capital gains, claiming that such a change would improve equity in the tax system.”

Jeff McLynch, ITEP’s Northeast Regional Director and one of the authors of the report, added, “Right now, legislators across the country are searching for solutions to mounting budget deficits, solutions that will allow them to fund vital public services without placing additional responsibilities on those families struggling to make ends meet. Repealing costly, inequitable, and ineffective tax breaks like Rhode Island’s capital gains deduction are the first place they should look.”

In practice, very few working class Rhode Islanders have capital gains income that is subject to taxation. As the report notes, taxpayers with adjusted gross incomes (AGI) of less than \$50,000 comprised 66 percent of all federal returns filed by Rhode Islanders in 2006, but constituted just 11 percent of returns with income from capital gains. In fact, taxpayers in this income group received just 3 percent of total capital gains income reported by Rhode Islanders on their federal tax returns that year.

As a result, *A Capital Idea* finds that the impact of repealing Rhode Island’s capital gains tax break would fall almost exclusively on the most affluent state residents. More specifically, 98% percent of the additional tax revenue generated by repeal would be

paid by the richest 1 percent of taxpayers in Rhode Island – families and individuals with incomes over \$200,000 in 2008.

Said McLynch, “Rhode Island lawmakers face a clear choice: keep in place a tax break that largely benefits the wealthy few or repeal that tax break and fund the investments in education and infrastructure that will speed the state’s economic recovery.”

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### **About The Poverty Institute**

The Poverty Institute is a non-partisan organization that develops and promotes policies to improve the economic security of low- and modest-income Rhode Islanders and to ensure that tax and budget policies are equitable and adequate to fund vital public services. The Institute is housed at the Rhode Island College School of Social Work. Financial support comes from foundations, corporations, and individuals who care about social change and economic justice. For more information visit [www.povertyinstitute.org](http://www.povertyinstitute.org).

### **About the Institute on Taxation and Economic Policy (ITEP)**

Based in Washington, DC, the Institute on Taxation and Economic Policy is a non-profit, non-partisan research organization that seeks to inform policymakers and the public of the effects of current and proposed tax policies on tax fairness, government budgets, and sound economic policy. Copies of *A Capital Idea*, including detailed estimates of the impact repealing capital gains tax breaks would have in each of the nine states highlighted in the report, are available at [www.itepnet.org](http://www.itepnet.org).