

PUBLIC POLICY

Report: R.I. business taxes among lowest in U.S.

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A new report from the Poverty Institute at Rhode Island College says the Ocean State now ranks 44th in the nation in corporate income tax collections — belying “the claim that Rhode Island is a ‘high-tax,’ ‘business-unfriendly’ state.”

The institute, which conducts research and promotes policy measures to enhance the well-being of low- to moderate-income Rhode Islanders, shared its analysis with legislators last week as part of ongoing discussions about potential tax cuts.

“Rhode Island’s corporate income tax has fallen so sharply that in 2000, half of

Rhode Island’s largest corporations paid less in income tax than the typical Rhode Island family,” says the report, authored by economist Ellen Frank.

“The median corporate income tax paid by the state’s largest employers was \$1,825, less than the median personal income tax paid by joint filers,” she added. “What’s more, by [fiscal] 2004, the tax on cigarettes produced 50 percent more revenue (\$117 million) than the tax on corporations (\$76 million).”

In fact, she wrote, when ranked by corporate tax collections relative to state income, Rhode Island “ranked dead last” among the 46 states that collect income taxes on corporations.

In fiscal 1989, 6.7 percent of state gen-

eral revenues came from corporate taxes, Frank wrote. By fiscal 2004, it was down to 2.7 percent. If corporate taxes had held steady, she estimated, the state would have collected an additional \$115 million in revenue.

In an interview, Frank said the decline in corporate taxes could stem from an increase in tax breaks, tax incentives and tax credits for businesses enacted by the state in recent years.

The historic tax credits for developers of historic sites and tax breaks for businesses that invest in research and development are two kinds of incentives that could be costing the state millions in lost revenue, she said.

Some reasons for providing tax breaks

is that they foster economic development by creating jobs, encouraging capital investment, and upgrading the skills of workers, said Jean Robertson, senior director of policy and research at the R.I. Economic Development Corporation.

“My experience with the tax breaks given is the state gets more in return than the value of the [tax break] they’ve given,” she said, adding that it is difficult to determine the exact value of some tax incentives because income tax information is private and not accessible to the RIEDC.

Frank said a real problem exists when evaluating the effectiveness of Rhode Island’s various tax incentives for businesses. Her report urges legislators to shut down two “loopholes” that allow multi-state businesses to avoid paying state taxes at all on some income, and to dramatically improve accountability for economic development-oriented tax breaks.

“What we found is not only do we not know how many jobs are being created, we don’t know how much [the tax breaks] are costing us,” Frank said. “Nobody has been following up with analysis on whether there are economic benefits [of the tax breaks].” ■

The Poverty Institute analysis is available at www.povertyinstitute.org.