



# Governor's Strategic Tax Policy Workgroup

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## Presentation to the Poverty Institute's Budget "Rhode" Map

January 15, 2009

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# Policy Direction and Mission

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*“Develop a tax strategy so that Rhode Island’s tax structure is a competitive advantage in retaining jobs and recruiting businesses. To achieve this objective the tax strategy should result in a tax structure that meets the test of equity, efficiency, predictability, competitiveness and transparency.”*



# What is Rhode Island?

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Is Rhode Island at a competitive disadvantage in attracting jobs and investments?

Data indicates that the answer is "YES", but.....



# Is This Accurate?

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The level of competitiveness is influenced by:

- The Taxpayer's AGI
- Location of Residence and Business
- Business Sector



# FY 2006 State and Local Tax Collections

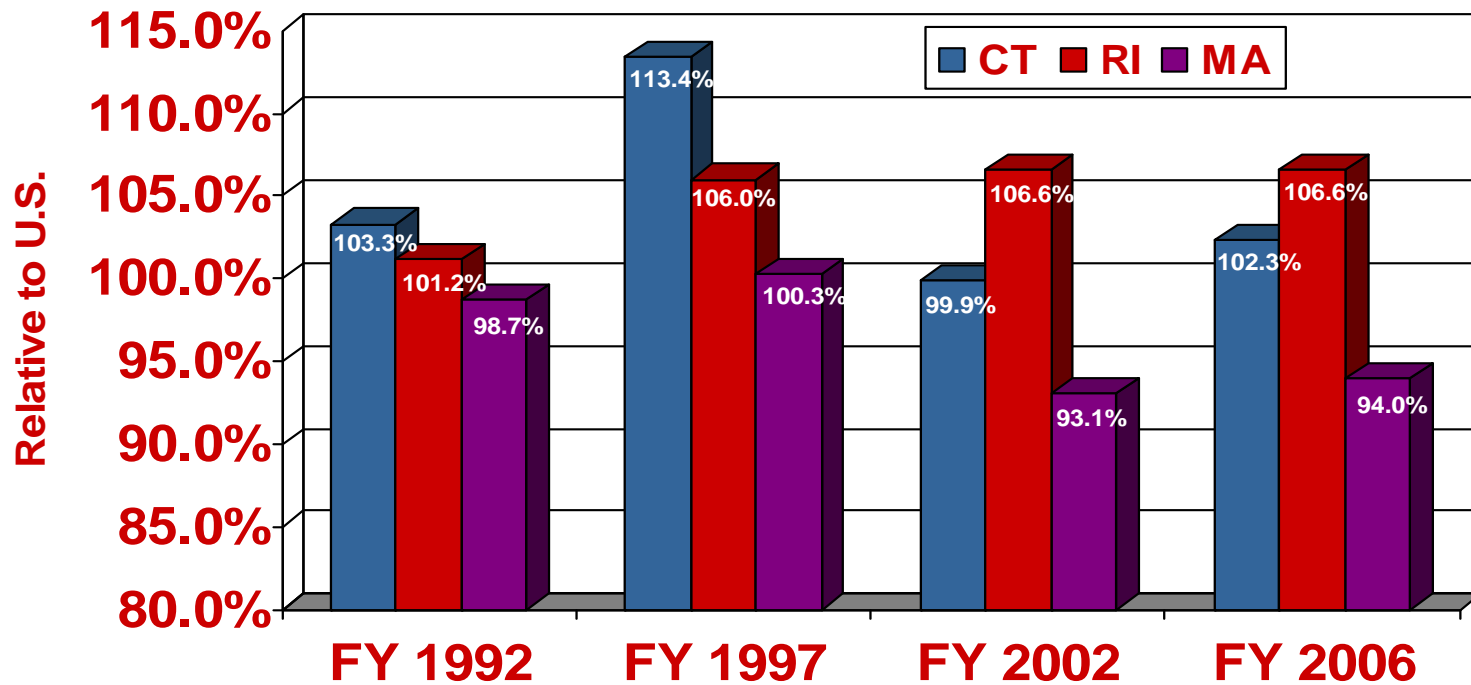
Rank	State	State and Local Taxes as a % of Personal Income
1	Wyoming	15.84%
2	New York	15.03%
3	Alaska	14.61%
4	Maine	14.02%
5	Louisiana	13.72%
6	Hawaii	13.54%
7	Vermont	13.08%
8	New Mexico	12.44%
<b>9</b>	<b>New Jersey</b>	<b>12.07%</b>
<b>10</b>	<b>Rhode Island</b>	<b>11.98%</b>
<b>19</b>	<b>Connecticut</b>	<b>11.49%</b>
<b>24</b>	<b>Delaware</b>	<b>11.13%</b>
<b>27</b>	<b>North Carolina</b>	<b>10.87%</b>
<b>36</b>	<b>Massachusetts</b>	<b>10.57%</b>
<b>41</b>	<b>Virginia</b>	<b>10.18%</b>
<b>50</b>	<b>New Hampshire</b>	<b>8.95%</b>

Comparison states are in **bold**.



# A Tale of Three States

## State & Local Taxes (Per \$1,000 of Personal Income)



### Average Annual Growth Rates, FY 1992 to FY 2006:

Personal Income: US: 7.0%; CT: 6.1%, RI: 6.0%, MA: 6.8%

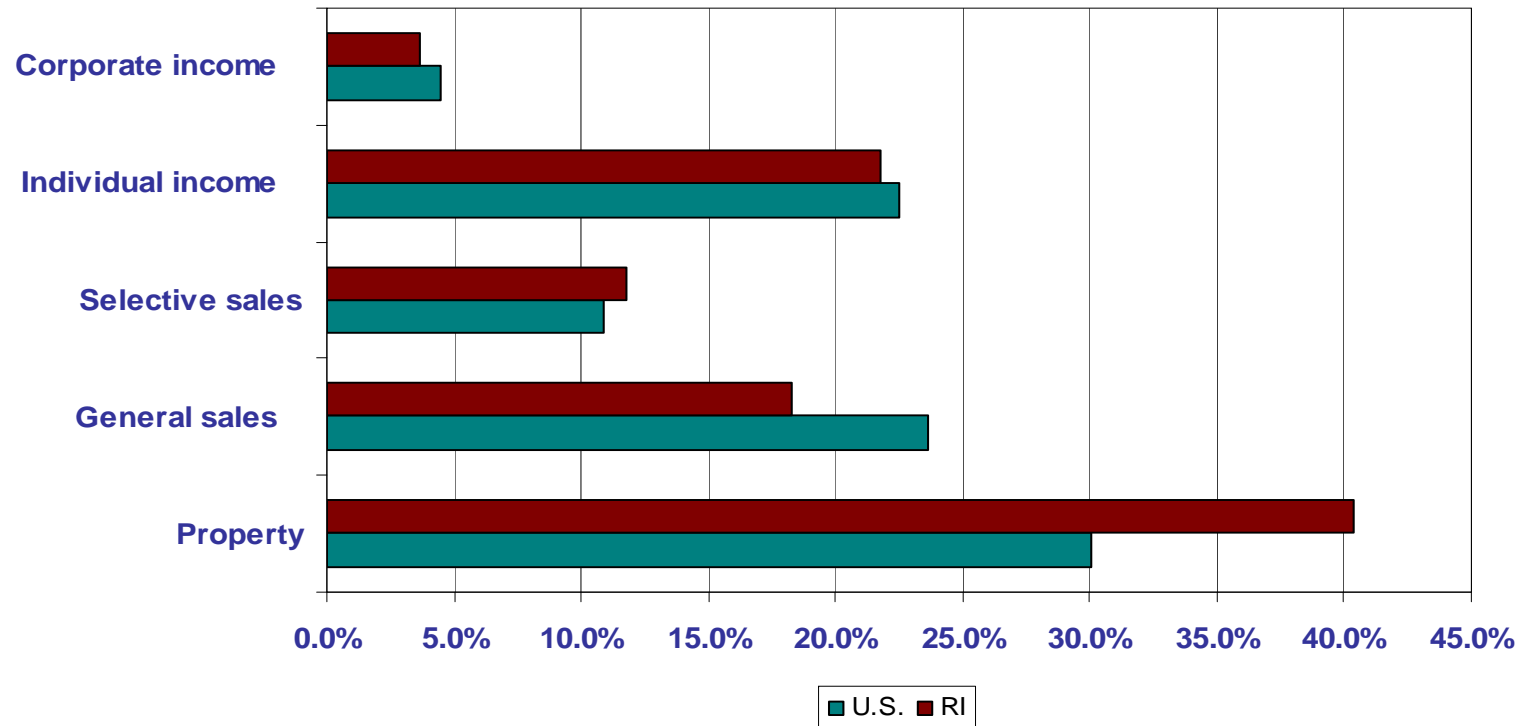
State & Local Taxes: US 7.6%; CT: 6.5%; RI: 7.2%; MA: 6.7%



# U.S. and RI Tax Shares

## FY 2006 Tax Revenue Sources

*Motor Vehicle License and Other Taxes not shown*





# Governor's Strategic Tax Policy Workgroup

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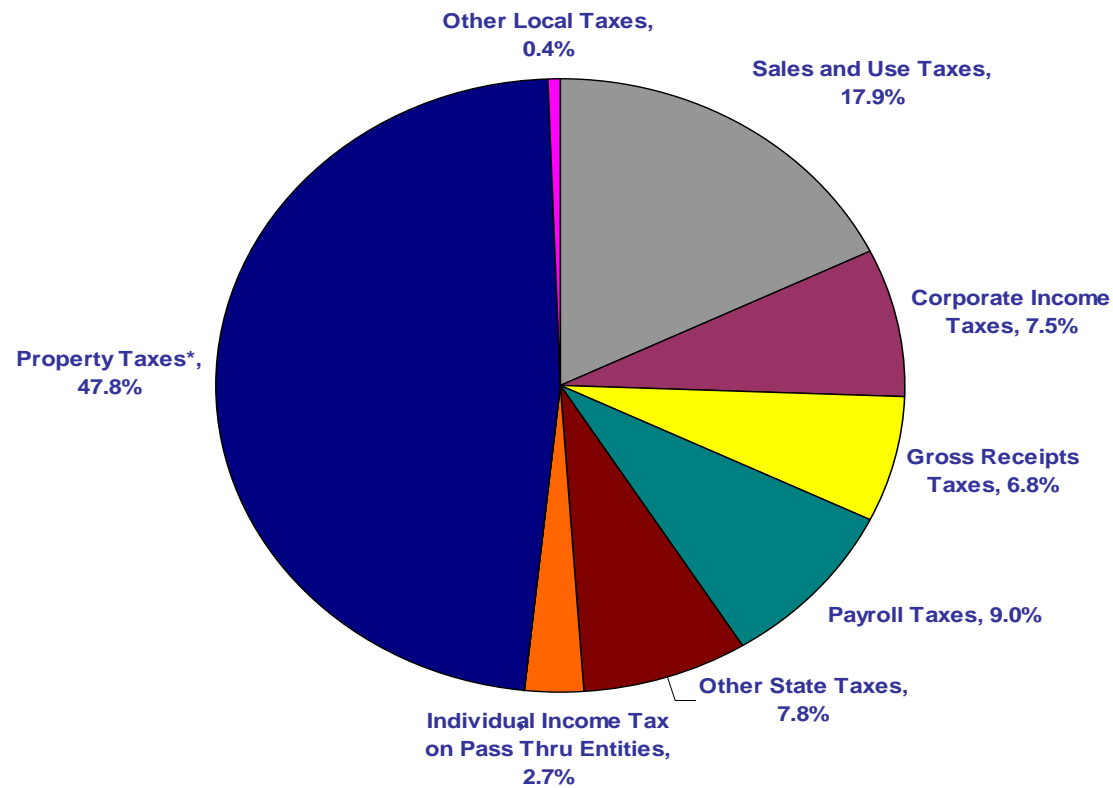
## STATE BUSINESS TAXATION SUBGROUP



# RI Business Taxes

## FY 2006 Composition of RI Business Taxes

Source : Ernst & Young, Rhode Island State and Local Benchmarking Report  
(July 30, 2007)



\* Property Taxes include property taxes paid on multi-family homes including those that are owner occupied



# Business Taxes as a Share of State GDP\*

State	% of State GDP
<b>Rhode Island</b>	<b>6.1%</b>
New Hampshire	4.9%
New Jersey	4.9%
Massachusetts	4.5%
Connecticut	4.0%
Virginia	4.0%
North Carolina	3.9%
Delaware	3.5%
US	5.0%

\* Ernst & Young, Council on State Taxation



# State and Local Effective Tax Rates by Industry

Sector	Rhode Island	Massachusetts	Connecticut
Consumer Products	10.84%	7.58%	11.17%
Pharmaceuticals	14.44%	9.30%	16.91%
Headquarters	8.07%	6.80%	9.50%
Hospitality	28.99%	23.89%	26.34%
Information Services	10.35%	8.70%	10.38%
R&D	16.97%	12.51%	22.35%
Banking	12.50%	12.45%	11.27%
Insurance	8.09%	5.80%	9.11%
Distribution	25.22%	21.12%	24.01%
Defense	10.02%	5.14%	12.23%
All Industries	13.23%	10.30%	13.93%



# State Business Taxation

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- Analyze the Corporate Income Tax Structure
- Analyze Tax Credits used by Business Entities
- Analyze the Personal Income Taxes on Business and Taxation of Pass-through Entities
- Analyze the fiscal, distributional and economic impacts of sales tax on B2B transactions



# Corporate Tax Comparison

Scenario: Resident non-manufacturing corporation operating in multiple states

	Rhode Island	Connecticut	Massachusetts
	<b>Sales</b>	<b>Property</b>	<b>Salaries</b>
In State	100,000	500,000	500,000
<b>Total</b>	<b>1,000,000</b>	<b>1,000,000</b>	<b>1,000,000</b>
Federal Taxable Income	300,000	300,000	300,000
Apportionment %	37%	10%	30%
Taxable Income	111,000	30,000	90,000
Tax Rate	9.0%	7.5%	9.5%
Total Tax	9,990	2,250	8,550



# Corporate Tax Comparison

Scenario: Resident manufacturing corporation operating in multiple states

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	<b>Sales</b>	<b>Property</b>	<b>Salaries</b>
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Apportionment %	30%	10%	30%
Taxable Income	90,000	30,000	90,000
Tax Rate	9.0%	7.5%	9.5%
Total Tax	8,100	2,250	8,550



# RI Business Tax Credits

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<b>Credit</b>	<b>Tax Year 2004 (millions)</b>	<b>Tax Year 2005 (millions)</b>	<b>Tax Year 2006 (millions)</b>
Investment Tax Credit (44-31)	7.68	8.59	6.49
Enterprise Zone Tax Credit (44-64.3)	0.62	0.94	0.74
Job Development Tax Credit (42-64.5)	4.80	7.60	11.40
Motion Picture Tax Credit (44-31.2)	0.00	0.01	0.90
Historic Tax Credit (44-33.2)	3.73	8.50	2.03
Other Credits	1.82	1.47	3.11
<b>Total</b>	<b>18.65</b>	<b>27.11</b>	<b>24.67</b>



# State Business Taxation Policy Options

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- Modify corporate income tax or replace with alternative tax structure?
    - Factor Apportionment: Single Factor/Three Factor/Three Factor with Double Weighted Sales
    - Reporting: Combined or Single Entity
  - Rate Reductions in lieu of Tax Credits
  - Franchise Tax?
  - Alternative Tax Structures
    - Modified Gross Receipts, Business Enterprise Tax, etc.
      - Who would be taxed? Deductions from Gross Revenue?
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# Governor's Strategic Tax Policy Workgroup

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## STATE INDIVIDUAL TAXATION SUBGROUP



# State Individual Tax Questions

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## PERSONAL INCOME TAXES

- Alternative personal income tax structures
  - Flat rate personal income tax system
  - Personal income tax system with fewer and broader tax brackets and lower marginal rates
- Benefits and costs of personal income tax credits
- Trade-off between tax credits and flat rate personal income tax options
- Capital gains taxation, holding periods, asset exemptions and tax rates

## WEALTH TAXES

- Impact on capital retention and formation and economic development

## PERSONAL CONSUMPTION TAXES

- Reducing the sales tax rate and revising the sales tax base
- Examining the trade-offs between sales taxation of business inputs vs. personal consumption only



# RI Income Taxes by AGI

## Tax Year 2006 - Resident

AGI	% of Returns	% of AGI	% of Tax Liability	Tax as a % of AGI	% of Capital Gains	% of AMT
0 to \$30,000	47.7%	10.6%	3.9%	1.39%	0.4%	0.2%
\$30,001 to \$50,000	17.8%	12.5%	7.8%	2.33%	0.7%	0.3%
\$50,001 to \$75,000	13.9%	15.3%	11.2%	2.75%	1.6%	1.3%
\$75,001 to \$100,000	8.6%	13.3%	11.2%	3.17%	2.4%	2.3%
\$100,001 to \$200,000	9.5%	22.4%	23.5%	3.94%	10.1%	16.1%
\$200,001 and above	2.6%	25.9%	42.3%	6.12%	84.9%	79.7%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>3.75%</b>	<b>100.0%</b>	<b>100.0%</b>



# Taxpayer Incidence Models

## Taxpayer Profile Assumptions

Taxpayer Type	AGI	Filing Status	Dependents	Standard Deduction	Itemized Deductions
Minimum Wage Worker	\$ 15,392	HoH	2	Yes	No
Retired Working Class	\$ 24,020	MFJ	0	Yes	No
Dual Minimum Wage Workers	\$ 30,784	MFJ	3	Yes	No
Single Professional	\$ 45,415	S	0	Yes	No
Working Class	\$ 75,500	MFJ	2	Maybe	\$ 12,899
Retired Professionals	\$ 93,200	MFJ	0	Maybe	\$ 10,050
Professionals	\$ 152,450	MFJ	2	No	\$ 26,836
Investment Income Only	\$ 171,475	MFJ	0	No	\$ 22,670
Executive	\$ 190,500	MFJ	4	No	\$ 34,973
Small Business Owner	\$ 353,000	MFJ	4	No	\$ 56,387
Senior Executive	\$ 1,173,000	MFJ	3	No	\$ 187,370

Key: HoH, Head of Household; MFJ, Married Filing Jointly; S: Single.



# Taxpayer Incidence Models

## Taxpayer Profile Results

(1 is lowest tax burden/ 9 is highest tax burden)	RI	MA	CT	NC	NJ	VA	DE	NH	RI Alt Flat Tax at 5.5%
	Rank	Rank	Rank	Rank	Rank	Rank	Rank	Rank	Rank
Minimum Wage Worker	3	2	4	5	1	4	4	4	9
Retired Working Class	2	1	5	5	4	5	5	3	9
Dual Minimum Wage Workers	2	7	5	6	1	8	4	3	9
Single Professional	3	6	5	8	2	7	4	1	9
Working Class	3	6	8	7	2	5	4	1	9
Retired Professionals	5	3	7	8	2	6	4	1	9
Professionals	4	6	7	8	2	5	3	1	9
Investment Income Only	2	3	6	9	5	7	4	1	8
Executive	5	4	7	9	2	6	3	1	8
Small Business Owner	8	6	2	9	5	4	1	3	7
Senior Executive	7	2	4	8	9	5	3	1	6



# Individual Income Tax Credits

<b>Total Social Goods Credits</b>		<b>\$32,311,121</b>
Property Tax Relief (circuit breaker)		\$14,090,126
Earned Income Tax Credit		\$12,300,335
Historic residence*		\$3,005,614
Child and dependent care expenses		\$2,509,533
All other social goods credits		\$405,512
<b>Total Taxes Paid to Other Jurisdictions</b>		<b>\$129,537,788</b>
Income tax paid to other states		\$126,783,548
Foreign tax**		\$2,754,240
<b>Total Economic Development Credits</b>		<b>\$61,896,901</b>
Historic commercial building*		\$34,519,437
Motion picture production credit***		\$19,551,483
Investment tax credit		\$4,157,290
Research and development expense credit		\$1,460,149
All other economic development credits		\$2,208,542
<b>Total All Tax Credits</b>		<b>\$223,745,809</b>
<b>All Credits less Taxes Paid to Other Jurisdictions</b>		<b>\$94,208,022</b>
* Credit frozen by 2008 General Assembly		
** Repealed by 2008 General Assembly		
*** Capped at \$15.0 million by 2008 General Assembly		



# Reforming RI's Income Tax

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## PROPOSED PARAMETERS

- Income Base
    - Federal AGI with minor modifications
  - Brackets and Rates
    - Three to four Brackets with a maximum marginal tax rate of 6.0 percent
    - Brackets would be indexed and top marginal rate would be effective at lower taxable incomes
  - Deductions
    - Standard deduction would be large enough so that poverty level earners would owe no tax
    - No itemized of deductions would be allowed
  - Exemptions
    - Amounts would be state determined and indexed for inflation
  - Other Items
    - Eliminate AMT, follow federal rules for taxing pensions and Social Security income and earned income tax credit (with state determined refundable amount), consider efficacy of tax credits and treatment of capital gains
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# Governor's Strategic Tax Policy Workgroup

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## PROPERTY TAX CAPACITY SUBGROUP



# Property Taxation Questions

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- Analyze the relative commercial/residential property tax burden and compare and contrast with other jurisdictions;
- Review and assess the tax classification structure (or homestead exemptions) available throughout Rhode Island;
- Review the impact of personal and statutory exemptions on municipal tax capacity; and
- Evaluate how the property tax structure affect decisions by businesses or individuals to locate in specific communities within the state or in the state at all and how development is affected



# Rhode Island Property Tax Reduction Plan

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- Rhode Island has the 6<sup>th</sup> highest property tax burden per \$1,000 of personal income, or 43% above the U.S. average;
- **Property Tax Cap;**
- Growth in the property tax is capped at 5.0% in FY 2009 and reduced to 4.0% by FY 2013;
  - The exceptions include: debt service, non-property tax revenue decline, health insurance, retirement and utilities expenditures that exceed 3x the cap and significant growth requiring infrastructure; and
  - A 4/5 vote of municipal governing body is required to exceed the cap.



# Trends in Property Tax Levies

<b>Fiscal Year</b>	<b>Property Tax Levy</b>	<b>% Levy Change</b>
FY 1998	1,249,709,460	
FY 1999	1,299,138,727	3.96
FY 2000	1,335,655,806	2.81
FY 2001	1,368,115,294	2.43
FY 2002	1,430,017,857	4.52
FY 2003	1,487,299,471	4.01
FY 2004	1,587,561,556	6.74
FY 2005	1,658,875,956	4.49
FY 2006	1,729,950,231	4.28
FY 2007	1,797,458,328	3.90
FY 2008	1,886,900,755	4.98
Change 98 to 08	637,191,295	51.0%
<b>Capped Levy</b>		
FY 2009	1,967,190,576	4.26%
FY 2010	2,060,632,128	4.75%
FY 2011	2,153,360,574	4.50%
FY 2012	2,244,878,399	4.25%
FY 2013	2,334,673,534	4.00%
* Estimated Tax Levy for FY 2009 based upon disclosure information.		



# Rhode Island's Property Tax System

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**Property tax systems that are fraught with numerous exemptions, typically have high rates, that are necessary to raise revenues with a constrained tax base.**

- Assessed Value and Levy By Type
- Personal Exemptions
- Statutory Exemptions
- Classification



# Assessed Value and Levy FY 2008

<b>Assessed Values 12/31/06</b>		<b>% of StateTotal</b>
Residential	\$100,910,415,804	77.65%
Comm. / Indust. / Tangible	25,651,665,460	19.74%
Motor Vehicles	3,401,548,172	2.62%
Statewide Total Assesmer	\$129,963,629,436	100.00%
<b>Property Tax Levy - FY 2008</b>		
Residential	\$1,257,067,984	66.69%
Comm. / Indust. / Tangible	512,171,994	27.18%
Motor Vehicles	115,562,394	6.13%
Statewide Total Levy	\$1,884,802,372	100.00%



# Revaluation Municipalities

## 12/31/2006

Municipality	Residential Tax Rate	Homestead Exemption	Owner Occupied Single Family (1)	Tax Levy on Owner Occupied \$300,000 Home
BURRILLVILLE	11.60		11.60	\$3,480
CENTRAL FALLS	10.04	\$45,000		2,560
EAST PROVIDENCE	14.41	15%	12.25	3,675
JAMESTOWN	7.81		7.81	2,343
JOHNSTON	18.91	20%	15.13	4,539
LINCOLN	16.72	35%	10.87	3,261
LITTLE COMPTON	4.42		4.42	1,326
NEW SHOREHAM (2)	3.17	20%	2.54	762
NORTH KINGSTOWN	13.30		13.30	3,990
NORTH SMITHFIELD	12.16		12.16	3,648
PROVIDENCE	22.84	50%	11.42	3,426
SCITUATE (2)	21.42	50%	10.71	3,213
SMITHFIELD	13.23		13.23	3,969
SOUTH KINGSTOWN	11.51		11.51	3,453
WARREN	12.54		12.54	3,762
WARWICK	12.75		12.75	3,825
WEST WARWICK	15.26		15.26	4,578
WESTERLY	8.60		8.60	2,580
(1) Effective Rate				
(2) Not at 100% of value.				



# FY 2008 Tax Levy Loss Due to Exemptions

FY 2008 Tax Levy Loss Due To Personal Exemptions									
12/31/2006 Certifications									
MUNICIPALITY	ELDERLY	VETERANS	MISC	TANGIBLE	FREEZE	MOTOR VEHICLE	TOTAL	FY 2008 TAX LEVY	% EXEMPT
<b>High</b>									
Coventry	\$18,474	\$136,892	10,249	25,635	2,361,629	2,138	2,555,017	56,292,002	4.5%
Glocester	\$971,734	\$148,880	\$133,298	\$0	\$0	\$13,709	\$1,267,621	\$18,134,552	7.0%
Scituate	\$53,571	\$13,559	\$9,468	\$0	\$875,343	\$2,452	\$954,393	\$22,342,549	4.3%
<b>Low</b>									
Central Falls	\$19,729	\$13,675	\$1,355	\$0	\$0	\$97	\$34,856	\$10,074,873	0.3%
Woonsocket	\$4,598	\$84,621	\$15,636	\$0	\$0	\$65,351	\$170,206	\$43,533,869	0.4%
<b>STATEWIDE</b>	<b>\$18,596,370</b>	<b>\$6,339,227</b>	<b>\$2,903,576</b>	<b>\$1,161,567</b>	<b>\$7,475,468</b>	<b>\$4,914,243</b>	<b>\$41,390,451</b>	<b>\$1,884,802,372</b>	<b>2.20%</b>



# Statutory Exemptions

	(In Millions)					
Statutory Exemption	Newport	Providence	Warwick	All Other	All Cities & Towns	% of all Exempt
Cemeteries	\$7.1	\$118.9	\$10.7	\$123.9	\$405.5	1.5%
Charitable	14.1	183.0	3.6	343.5	949.5	3.2%
Church	64.1	343.0	122.5	849.6	2,356.1	8.2%
Charter	293.9	958.5	128.1	724.5	2,962.4	12.0%
Federal	796.5	184.2	14.5	318.0	2,233.9	10.2%
Hospital	89.3	1,313.4	156.7	227.1	2,061.0	9.8%
Libraries	5.1	48.5	1.2	49.8	160.5	0.6%
School	195.9	2,061.7	307.3	1,127.8	5,013.5	20.9%
State	95.1	786.5	1,688.3	1,601.9	6,907.4	28.4%
All Other	8.4	414.2	140.5	226.7	1,187.0	5.1%
<b>Total</b>	<b>\$1,569.4</b>	<b>\$6,412.0</b>	<b>\$2,573.3</b>	<b>\$5,592.9</b>	<b>\$24,236.8</b>	
Municipal	198.0	1,410.1	158.0	1,982.7	5,943.2	21.8%
All Exempt	1,767.4	7,822.1	2,731.3	7,575.6	30,180.0	100.0%
% Exempt of all C & T	8.4%	34.2%	13.7%	29.8%	129.1%	



# Location! Location! Location!

## Office Building

	Commercial Tax Rate 12/31/2006	Estimated Tax Levy
<b>Commercial Real Estate</b>	<b>FY 2008</b>	<b>FY 2008</b>
Value	\$25,000,000	
East Greenwich (12/31/05)	13.54	\$338,500
Providence (12/31/06)	26.99	\$674,750
Warwick (12/31/06)	19.13	\$478,250
West Warwick (12/31/06)	20.58	\$514,500
<b>Tangible Personal Property</b>		
Value	\$10,000,000	
East Greenwich	13.54	\$135,400
Providence	50.46	\$504,600
Warwick	25.50	\$255,000
West Warwick	30.40	\$304,000
<b>Total Property Taxes</b>		
East Greenwich		\$473,900
Providence		\$1,179,350
Warwick		\$733,250
West Warwick		\$818,500



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**Thank You**