

# House Democratic leaders banking on flat-rate plan

01:00 AM EST on Friday, February 3, 2006

BY KATHERINE GREGG

Journal State House Bureau

PROVIDENCE -- House Democratic leaders yesterday proposed a new flat-rate income tax that would primarily benefit the relatively small proportion of Rhode Islanders who make more than \$250,000 a year.

The tax-cutting package the Democrats unveiled at a State House news conference contained glimmers of tax relief for Rhode Islanders in other income-classes, including:

A two-day "sales-tax holiday" over the Aug. 12-13 weekend with a handful of items exempt, such as cars and gasoline, and a tax-free week in March 2007 for the purchase of up to \$2,500 worth of "energy-efficient" items.

An initial \$25 increase -- with the promise of a larger increase later -- in the income-tax credit of up to \$250 currently available to low-income, disabled or elderly people for their rent and property taxes.

An increase in the refund -- known as an "earned-income tax credit" -- the state provides low-wage workers who pay little or no taxes.

An expansion, smaller than anticipated a year ago, of the \$5,000 car-tax exemption, but an additional \$250 exemption nonetheless.

But most of the attention -- and more than \$10 million of the estimated \$17.2-million cost of the tax-cutting package -- stemmed from the proposed income-tax cut for the wealthy.

House Speaker William J. Murphy, House Majority Leader Gordon D. Fox and House Finance Chairman Steven M. Costantino billed the proposal as an economic-incentive for high-end wage-earners and decision-makers to move here, stay here and create new jobs here.

"The ultimate goal," Murphy said, "is to put more money directly into people's pockets both by giving relief to those who need it and by making Rhode Island a

more attractive place for businesses that will provide high-paying jobs for more Rhode Islanders."

But the proposal comes days before Republican Governor Carcieri is scheduled to deliver his budget proposals for next year, including his plans for plugging a \$220 million to \$240 million hole.

And the promise of election-year tax cuts while the state struggles to pay its Medicaid bills drew sharp criticism from some quarters, concern from others and skepticism from the Senate president.

Said House Minority Leader Robert A. Watson: "I'd like to know how they plan on paying for these tax cuts. There seems to be a complete reluctance to do anything by way of reducing government spending."

Said Kate Brewster, director of Rhode Island College's Poverty Institute: "There is absolutely no evidence or research that cutting taxes for a handful of wealthy individuals will stimulate economic growth."

Ocean State Action director Martin Rosenberg echoed: "We are extremely concerned that, with the state already in such a budget hole, this proposal aims to dig us deeper."

Asked whether the Senate shared the House leaders' zeal for lowering top-tier tax rates, Senate President Joseph A. Montalbano, D-North Providence, said: "I don't think we can, facing that type of budget deficit, make that a priority at this time."

I want to make it clear," added Montalbano, "because I don't think a lot of people understand -- that for people making less than \$250,000, taxes in Rhode Island are less than they are in Massachusetts."

Rhode Island's tax rate has been difficult to fathom -- and explain -- since lawmakers, in an effort to decouple Rhode Island's piggybacked tax rate from the federal income tax, created a hybrid.

As it stands, Rhode Island taxpayers are required to pay the state 25 percent of whatever their federal tax liability would have been before the first round of Bush tax cuts in 2001. Put another way: taxpayers pay the state a quarter of what they would have paid when federal tax rates ranged from 15 percent to 39.6 percent of income.

That translates into a state tax that ranges from 3.75 percent on the first \$49,650 in earnings up to 9.9 percent on every taxable dollar above \$326,450, according to a Rhode Island Public Expenditure Council chart.

With study after study indicating that the tax burden on Rhode Islanders with incomes below \$250,000 is less -- under this system -- than it would be in Massachusetts or Connecticut, the lawmakers do not intend to touch this system.

They, instead, intend to offer an option aimed at making Rhode Island more competitive with other states, such as Massachusetts with its 5.3-percent flat-rate.

Under their proposal, the taxpayer would have the option of paying a flat-rate that, over five years, would drop from 7.5 percent of adjusted gross-income down to 5.5 percent with no exemptions and no deductions.

A chart provided by the House fiscal office yesterday illustrates what most tax policy wonks know. It is headlined "Rhode Island's income tax burden is high only at the highest income levels."

Of the 498,063 income-tax returns filed in 2003, only 9,252 came from filers with adjusted gross-incomes of \$200,000 or more.

Asked if any companies have linked plans to stay or move here to the tax cuts, Fox said: "Has one company said they are going to come forward with this package? No" and "that means there is no 'special deal' behind this package."

The lawmakers had no immediate answer as to how they intend to make up the estimated \$17.2 million in first-year revenue losses from the tax cuts.

But Fox called the proposal a discussion point for comparing revenues and expenditures.

"When the governor says we need to go on a diet -- why? For whose benefit?" Fox asked rhetorically.

"Maybe we need to look at some entitlement programs. Maybe we need to look at where we've gone over the last decade and, hey, I'm a liberal Democrat and I'm saying maybe we need to look at that.

"We are going to take a critical look at that and that money's going back into the taxpayer's pockets where it belongs," Fox said.

Carcieri spokesman Jeff Neal said the governor welcomes proposals to cut taxes and commends the lawmakers for embracing some of his own ideas, including the sales-tax holiday.

"Governor Carcieri is glad that others on Smith Hill are finally talking about granting tax relief to overtaxed citizens," Neal said.

"But the governor also recognizes that cutting taxes requires cutting spending . . . The governor hopes to work with the General Assembly to make the spending cuts necessary to enact real tax relief."

In his own turn, Carcieri's likely Democratic opponent, Lt. Gov. Charles J. Fogarty endorsed yesterday's proposal as "an excellent starting point" for making Rhode Island more competitive, and the sales-tax holiday in particular. But he said his own top priority for tax reform "must be property taxes, which continue to be well above the national average."

Gary Sasse, executive director of the Rhode Island Public Expenditure Council, applauded the lawmakers for trying to make the income tax "more transparent" and proposing the creation of a Department of Revenue.

But he said the jury is still out on the tax package which "needs to be considered in light of four factors: will it improve economic competitiveness? Is it fair? Is it balanced and does it improve the efficiency of the system?"

Reminded that Massachusetts has talked about lowering its rate, Fox said Rhode Island can't "race to the bottom or compete with the largest state. That's a race that a small state like Rhode Island can't win. The one thing we do know . . . is that right now, the top level in Rhode Island, [at] 9.9, is way out of whack."