

Legislators get 2 views of tax cut plan

Advocates of reducing the tax rate for those with high incomes say the move would help boost the state's economy; opponents say the proposal would not help the average Rhode Islander.

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PROVIDENCE -- Lawmakers were confronted yesterday with two starkly different views of what might happen on the tax-and-jobs landscape if they cut tax rates for the wealthiest Rhode Islanders.

From Laurie White, president of the Greater Providence Chamber of Commerce, they heard that cutting the state's top marginal rate will entice new companies to locate here and bring in scores of good-paying, new jobs.

"What we are supporting today is not a tax cut for high-wage earners," White argued, "but rather a public policy change that will purposefully drive new investment, create better jobs . . . and alleviate the growing tax burden being placed on the state's middle class."

But Ellen Frank, an economist at Rhode Island College's Poverty Institute, warned the lawmakers that cutting taxes for the rich will make it harder than it already is for the state to pay its bills.

And, "This package does not provide relief for the ordinary Rhode Islanders," Frank told the House Finance Committee.

"Low- and middle-income Rhode Islanders will gain, on average, less than \$50 a year, while a small number of very wealthy Rhode Islanders will gain an average of \$1,227 a year," she said.

Frank also disputed the notion that tax cuts automatically translate into jobs.

To make up for the estimated \$70 million in lost income-tax revenue, Frank said the state would need to create 12,700 net new jobs with an average wage of \$17 an hour, when "the average rate of job creation, even in good years in the state of Rhode Island, is about 4,000."

Even state Economic Development Director Michael McMahon acknowledged a rate cut alone may not change Rhode Island's image to the world.

"Having the highest marginal rate shapes an image of the state," he said. But, "We have to change our brand. We have to be business friendly, tax competitive and we have to have one of the best public-school education systems in the country, and then we'll have economic development."

And so it went yesterday as the Democrat-controlled House Finance Committee held the first public hearing on the tax package that House Speaker William J. Murphy, D-West Warwick, is promoting.

Some lawmakers acknowledged reservations, among them Rep. Thomas Slater, D-Providence, who repeatedly asked how the tax cut would help "average Rhode Islanders?"

Included in the package are bills to increase the earned-income tax credit for the poor, reaffirm an earlier commitment to phase out the car tax, and provide shoppers with a sales-tax-free weekend in mid-August.

But the lightning rod for most of the controversy and comment is a bill that, as currently written, would give taxpayers the option of paying a new, flat income-tax rate that would start at 7.5 percent this year and gradually drop to 5.5 percent over five years.

Estimates are this rate reduction would cost the state \$8 million to \$14 million in lost revenue the first year. By the time it is fully phased in, House fiscal adviser Michael O'Keefe estimates it would cost \$70 million in 2010 dollars.

The lawmakers have not yet disclosed how they hope to make up the lost revenue while wrestling to plug a multimillion budget hole.

Rhode Islanders currently pay a graduated rate that ranges from 3.75 percent on their first \$49,650 in adjusted gross earnings up to 9.9 percent on every dollar over \$326,450.

Rhode Island's income tax is lower than the tax in Massachusetts for most people. The tax only becomes higher for those earning nearly \$200,000 a year, according to the business-backed Rhode Island Public Expenditure Council. A married couple with two children earning \$40,000 would pay \$1,311 in state taxes in Massachusetts, but only \$745 in Rhode Island. However, that same couple with an

adjusted gross income of \$250,000 would pay \$12,537 in Massachusetts and \$14,256 in Rhode Island.

For those couples earning \$1 million, the gap is even larger: nearly \$30,000 less taxes in Massachusetts.

In the 2003 tax year, there were 498,063 tax returns filed by Rhode Island residents, according to the IRS. Of those, only 9,252 returns showed an income of \$200,000 or more.

McMahon said he did not know how many companies may have passed Rhode Island by because of its tax rate.

But, "I think the empirical evidence is very compelling that we have a marginal tax rate that is twice as high as Massachusetts and Connecticut and we have half the number of wealthy individuals as Massachusetts, one-third the number" in Connecticut.

"I don't think it's because we are not as smart, we don't work as hard, we are not as creative. I think 'Cap" said it well. We just have better accountants in the state," he said of earlier testimony by Grafton "Cap" Willey, a certified public accountant.

Some lawmakers questioned the value of the proposed tax cut for all high-end earners versus the tax cuts the General Assembly hinged in the past on specific job promises.

"It seems when you have a large employer that comes to the state, the state has been very good about helping those companies . . . but that's not fair to those of us who are already here and the ones that we really want to attract to come here," said Charles Francis, president and CEO of Richard Ellis New England and chairman of the Providence chamber's board of directors.

"It should be good policy across the board so that we don't have to make a special deal for any company," Francis said.

"I agree with you," said Rep. William San Bento, D-Pawtucket. "I am so tired, for so many years, we'd have companies come in and we'd given them all kinds of deals and all of a sudden, they're out the door, going somewhere else.

"I am in favor of this legislation, even though I really don't think it's going to help the poor or the middle class," San Bento said.

Committee Chairman Steven M. Costantino, D-Providence, said after the hearing that he will consider the proposal in the context of the overall state budget.

"Am I supportive of this? Yes. I believe we have to change the competitive atmosphere here in Rhode Island," he said. "This is an investment in our community."

The bill has the support of the business community including The Providence Journal, which has supported the measure on its editorial pages. Journal Publisher Howard G. Sutton and Mark T. Ryan, the executive vice president and general manager, both said they have not lobbied for the measure but that it has come up in discussions with state leaders.

Governor Carcieri yesterday said again that he supports this measure.

"For over three years, I've been warning that Rhode Island's high tax rates are slowing our state's economic growth potential," Carcieri said. "During that time, I have repeatedly pointed to the need to bring our tax rates into line with Massachusetts and Connecticut if we hope to remain competitive."

While noting that "this is already a very difficult budget year," Carcieri said: "I'm looking forward to working with Speaker Murphy to make the spending reductions necessary to balance the budget and to implement these tax cuts."

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