

# Proposal to broaden R.I. sales tax to services sparks criticism

By David Ortiz,  
PBN Staff Writer

The House Finance Committee last week heard testimony on a bill that would reduce Rhode Island's sales tax from 7 to 4.5 percent, but broaden the base to include almost all services, except medical and legal services, as well as food or clothing items selling for more than \$150.

Rhode Island now exempts all services except cable TV from the sales tax, and all food and clothing sales. But in the last two years, there has been growing discussion of changing the sales tax, both to compete with Massachusetts' 5-percent tax, and to raise more revenue.

The liberal Center for Budget and Policy Priorities has estimated that in 2003, Rhode Island only taxed 34 percent of the goods and services sold in the state. Earlier this year, the Poverty Institute at Rhode Island College suggested taxing personal services such as dry-cleaning and diaper services and recreational activities such as golf courses, marinas and fitness clubs.

The legislation heard last week, H-5749, would go much further.

Sponsored by five lawmakers who represent mostly working-class neighborhoods, the bill would tax services such as haircuts, dance lessons, advertising, Web site design, IT services and data storage, landscaping, public relations, cleaning services, even funeral services.

The bill is not seen as having any chance of passage this legislative session – it was described by Rep. Steven M. Costantino, D-Providence, chairman of the House Finance Committee, and Rep. Joseph S. Almeida, D-Providence, a co-sponsor of the bill, as a “conversation-starter.”

Still, the proposal immediately galvanized social service agencies and advocates for the poor on one side and business interests on the other. Both camps filled the room at a House Finance Committee hearing on May 22 in what they saw as a battle over budget priorities.

Representatives of several chambers of commerce, industry associations and individual business owners who spoke against the bill said it would be onerous for service providers in the state and would make Rhode Island less competitive versus Massachusetts, which does not tax services of any kind (Connecticut does tax a handful).

“We at the Chamber want to make sure that no new tax policy put in place would affect the business climate,” said Paul DeRoche, a lobbyist for the Greater Providence Chamber of Commerce.

Extending the sales tax to include most services would drive Rhode Island consumers to Massachusetts, impacting service providers particularly in border communities, business advocates said.

The bill also would put small businesses that contract out such services as printing, photocopying, advertising and Web site design at a competitive disadvantage compared with larger companies that perform such functions in-house, they said.

Monica Staaf, a lobbyist for the Rhode Island Association of Realtors, said the bill would impact the state's housing market, increasing the cost of buying a home by tacking sales tax onto all aspects of the process, including home inspections, appraisals, radon and lead tests, title work and brokerage commissions.

But a coalition of groups that has formed to prevent widespread slashing of social programs in the state said the bill offered an opportunity to repeal tax exemptions for high-end services, which they advocate as a way to more fairly share the pain of fixing a projected structural budget deficit of at least \$350 million.

Karen Malcolm, spokeswoman for the Campaign for Rhode Island's Priorities, ticked off a list of such "luxury services" her group would like to see taxed, including golf clubs and marina fees, airplane rentals and manicures.

"We are stuck back in the early 20th century with our sales tax structure," Malcolm said. "We have moved from an economy based on goods to an economy based on services. The bulk of the responsibility for paying sales tax as a percent of income falls on our middle- and lower-income families, and we believe that needs to change."

Costantino described the proposal as "not a black-and-white issue" and said he would like the state to study reducing the sales tax and also extending it to include services, using a computer model that states can purchase to determine what the net gain would be to state coffers.

"Should the \$10,000 mink coat be taxed?" Costantino said. "I mean, that's a policy decision that this assembly would have to make. I don't know."

Aside from Almeida, the bill's sponsors include Reps. Thomas Slater and Grace Diaz from Providence, Charlene Lima from Cranston, and Eileen Naughton from Warwick, all Democrats.