

Poverty Institute urges new look at tax breaks

01:00 AM EST on Tuesday, January 9, 2007

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Journal State House Bureau

PROVIDENCE — As the state's leaders scramble to find ways to close a multimillion-dollar deficit, the Poverty Institute at Rhode Island College has come up with its own list of suggestions to ease the state's budget problems.

The advocacy group says that state leaders too often focus on cutting expenses and need to look at increasing revenues.

Among its suggestions: broaden the sales tax to include services, close corporate tax loopholes, freeze the phase out of the car tax and consider reversing the elimination of the state's capital-gains tax. Lawmakers must also reassess the historic and film tax-credit programs, the group says.

"This year we are asking policymakers to apply the prove-it-or-lose-it test to the myriad of tax breaks and exemptions that result in Rhode Island losing million of dollars each year," said Kate Brewster, executive director of the Poverty Institute.

Rhode Island faces a \$105.1-million budget shortfall this year and a potential \$254-million deficit next year.

The Poverty Institute says in a new report that there are many tax breaks that have been created by lawmakers over the years to promote economic development but the benefit of these breaks has never been assessed.

"In 60 percent of cases, the Division of Taxation is unable to estimate how much revenue is lost each year due to special tax treatment," the report says.

The group says that Rhode Island's historic tax-credit program "has been extremely successful in promoting urban investment." However, it notes that there is no cap on the project size or on the total amount of credits available in the state in a given year. Next year, the program is expected to cost Rhode Islanders an estimated \$85 million. The Poverty Institute says the costs "have become substantial and warrant review of the program." Among the suggestions: find a more efficient way to give out the credits and consider some type of cap on the number issued at any given time.

There were similar concerns about the lack of caps on the state's film tax-credit program. The group also says, citing other studies, that the program does not appear to provide a major economic stimulus.

"Both Connecticut and Massachusetts have passed similar credits since Rhode Island's motion picture tax credit was enacted. This eliminates any competitive advantage Rhode Island may have had in trying to 'jump-start' a local film production industry," the report says.

In the area of sales tax, the Poverty Institute suggests that the state start taxing services. Some services currently exempt from taxation that it suggests now should be included under the state's 7-percent sales tax are dry cleaning, golf green fees, marina fees and fitness center memberships.

The Poverty Institute says the state should stop phasing out the motor vehicle excise tax because at this point the phase-out is only benefiting those with expensive cars. The exemption currently covers the first \$6,000 of a car's value.

"Low-income car owners already are largely exempt from the tax, so further hikes in the exempt value will not have a progressive impact on the state's overall tax system," the report says.

A lot of the suggestions revolve around business taxes.

For instance, in 2004, lawmakers created a sales-tax exemption for aircrafts and parts in an attempt to get more CEOs to relocate to Rhode Island. The Poverty Institute says the state has never studied if the tax break — which cost the state \$1 million in 2005 — has led to any companies moving to Rhode Island.

Others involve exemptions that allow companies operating in multiple states to avoid certain taxes.

Another provision of the tax law — called passive investment — exempts Rhode Island companies from paying tax on income they earn from the management of intangible assets, such as logos, copyrights and patents. The Division of Taxation estimates that Rhode Island loses \$39.1 million a year because of this exemption.

Finally, the group says Rhode Island needs to look at bringing back a capital-gains tax. The state's capital-gains tax, once at 5 percent, will be completely phased out by next year. The move was originally aimed at being competitive with Massachusetts. However, Massachusetts recently brought back its 5.3-percent capital-gains tax. Capital gains are typically paid by people who have enough money to have some type of investment portfolio.