

# R.I. taxing itself out of business?

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PROVIDENCE — The chronic state budget deficits are beginning to alarm Rhode Island business leaders, who fear lawmakers will try to generate new revenue by raising taxes on their companies.

The state's tax rates are already among the highest in the country, and a major increase would sabotage efforts to expand local companies, attract new businesses and retain college graduates, according to several panelists at the annual Financial Services Symposium yesterday.

"The tax burden has to be distributed fairly," Robert A. DiMuccio, president and chief executive officer of the Amica Mutual Insurance Co., said. "We have to just fix the structural issues."

The symposium, hosted by the University of Rhode Island, was held at the Rhode Island Convention Center in Providence.

Lawmakers have been under increasing pressure from anti-poverty advocates to protect social service programs, in part by raising taxes on the state's highest earners and companies.

In particular, the advocates have targeted the capital gains tax, the alternative flat tax and the tax credits granted to developers who rehabilitate historic buildings.

"Slashing funding for critical public systems and services while not addressing our antiquated revenue system will undermine the quality of life for all Rhode Islanders," Kate Brewster, executive director of the Poverty Institute at Rhode Island College, argued in a recent newspaper opinion column.

But yesterday, top executives in the financial-services industry urged lawmakers to continue their efforts to limit annual property-tax increases and gradually eliminate the capital gains tax, even in the face of a growing gap between the state's revenue and spending.

"It's an issue for businesses," William F. Hatfield, the Bank of America market president for Rhode Island, said. "Any business looking at Rhode Island needs to know Rhode Island is on solid footing."

So far, the expansion of the financial services sector has continued despite concerns over possible tax hikes.

Led by Citizens Financial Group, Bank of America and MetLife, the industry now employs more than 26,000 Rhode Island residents, up from about 21,000 a decade ago, according to a study by the state Economic Development Corporation. Financial-services firms pay an average salary of \$58,400, far above the state's median wage of about \$32,400.

The financial-services sector is expected to grow by 4,000 jobs over the next seven years, according to the EDC report. Yesterday, commercial-property insurer FM Global announced plans to build a \$60-million headquarters next to its offices in Johnston.

"This is one of our success stories," Saul Kaplan, an economic advisor to Governor Carcieri, said at the symposium yesterday. "We need to shine a big light on it."

Symposium panelists said financial-services companies here benefit from a proximity to Boston and New York City, as well as a consistent supply of college graduates.

But continued growth is not guaranteed, the business leaders said.

Financial-services companies face increasing competition in Rhode Island, a state with stagnant population growth and a growing community of immigrants that does not rely on banks, according to Gary E. Furtado, president and chief executive officer of the Navigant Credit Union, formerly Credit Union Central Falls.

Relatively low unemployment — 4.9 percent at the end of September — makes recruiting employees difficult, Furtado said. Recruiting customers, he added, is even tougher, with "rate wars" raising the cost of deposits.

Nationwide, the financial-services sector is projected to grow by double digits over the next decade, said DiMuccio, the Amica president. But improved communication technologies give companies flexibility in choosing a home state, he said.

"We have made tremendous gains, but the competition is fierce," Laurie White, president of the Greater Providence Chamber of Commerce, said. "We cannot backslide on the tax equation."

Kaplan, a former pharmaceutical executive and now the executive director of the EDC, agreed.

"We don't have a revenue problem, we have a spending problem," Kaplan said. "We have to resist the temptation to solve our budget issues with tax increases."

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