

Tax breaks for wealthy are unfair, says group

A senior analyst at the Rhode Island Poverty Institute says legislation that promotes jobs and growth should "benefit all Rhode Islanders."

01:00 AM EDT on Thursday, May 26, 2005

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PROVIDENCE -- A proposed income-tax break that would benefit highly paid workers is not fair to average-income Rhode Islanders, according to an economic analyst from the Rhode Island Poverty Institute.

The Jobs Growth Act, a bill introduced last week by Democratic General Assembly leaders, proposes cutting the state income tax on employees' bonus checks by 50 percent. The bill would specifically benefit high-income workers who receive performance-based income -- such as year-end bonuses and stock options.

During a hearing on the legislation by the House Finance Committee yesterday, Ellen Frank, senior economic analyst for the Poverty Institute at Rhode Island College's School of Social Work, said the institute has serious concerns about the bill. The Poverty Institute works to protect economic security for low- and moderate-income Rhode Islanders.

"Legislation to promote jobs and growth in the state should be designed to benefit all Rhode Islanders," Frank said. "By privileging the economic interests of well-paid executives over those of ordinary employees, this legislation fails to address the need for good entry-level opportunities in Rhode Island."

In order for their employees to qualify for the tax break, companies must add 100 jobs in Rhode Island and increase their payroll by at least \$10 million. A new company can qualify by employing at least 100 people and having a payroll of \$10 million or more.

The average salary of the new jobs must be 125 percent higher than the state's average wage -- which is \$46,101. Once a company qualifies, employees who have started working in the state after June 1, 2005, would be eligible to take advantage of the tax break.

Employees can only take the 50-percent income-tax cut on performance-based pay -- such as bonuses. The cut would not apply to employees' base salaries. After the company has been certified for three years, it can extend the tax break on bonuses to all employees.

In addition, the employer must pay a 5-percent tax on all employee incentive income it awards eligible employees. The additional tax cannot be offset by any other tax credits.

Fidelity Investments, which employs about 1,600 workers in Smithfield, asked for the bill. The Boston-based investment and financial management giant said Rhode Island's tax rate for high-income employees makes it difficult for the company to recruit highly skilled, highly paid workers to Rhode Island.

Michael DiBiase, a Fidelity government-relations executive, testified in favor of the bill in front of the House committee yesterday. James Hagan, president of the Greater Providence Chamber of Commerce, also testified for the bill.

The tax break would apply to the bonuses of eligible employees at certified companies, regardless of income level. But the bill is geared toward softening the income-tax impact on workers who make more than \$319,000 a year and are subject to the state's highest income-tax rate of 9.9 percent. By cutting the tax rate in half on those employees' bonuses, it would bring Rhode Island's highest tax rate below Massachusetts' 5.3-percent rate.

"All we're trying to do is make it competitive," said Hagan. "We have to be competitive with" Massachusetts and Connecticut.

That however, makes it difficult for the Poverty Institute to swallow.

"This legislation amounts to an exceedingly generous tax break for some of the best-remunerated residents of our state -- at a time when less affluent residents are having difficulty meeting rising housing and energy costs," said Frank.

The Senate Committee on Financial Services, Technology and Regulatory Issues voted unanimously on Tuesday to send the bill to the full Senate for consideration. The House committee did not vote yesterday.