

# Linda Katz and Ellen Frank: Taxes no threat to R.I. economy

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EDWARD ACHORN'S Feb. 14 Commentary column, "Perestroika comes to Ocean State," rehashes what is by now a familiar refrain: Rhode Island's high taxes drive wealth and jobs to other states, including Massachusetts, while its lavish welfare benefits are a magnet for the region's poor. The problem with this "hard truth," as Achorn terms it, is that it's not true at all.

Let's start with taxes. This year the House leadership announced a proposal to reduce the personal-income tax on wealthy residents, claiming that the tax "might be having an effect on the retention of wealth by causing retirees and companies to move to states with lower taxes." But research does not support the idea that income taxes have much impact on business-location decisions. Furthermore, Rhode Island's income tax on wealthy earners is not nearly as high as purported.

Because Rhode Island allows deductions against income for property taxes, mortgage interest, and charitable contributions, and because we tax interest, dividends, and short-term capital gains at lower rates than does Massachusetts, our effective personal-income tax rate for Rhode Island's top earners is much lower than the commonly cited 9.9 percent. Even the executive director of the Rhode Island Economic Development Corporation, Michael McMahon, was recently quoted in *The Boston Herald* as saying that "various deductions knock [the top personal-income tax] down to about 5 to 5.5 percent in reality." Massachusetts taxes income at 5.3 percent.

And high-income households have received very generous tax breaks in recent years from the federal government. An analysis by Citizens for Tax Justice found that in 2003, federal tax cuts -- courtesy of the Bush administration -- gave Rhode Island earners with average incomes of \$808,000 an average tax cut of \$45,262.

Rhode Island is far from being perceived as a "tax hell," as Mr. Achorn claims, when it comes to business taxes, as well. Rhode Island has the lowest corporate-income-tax collections (relative to state income) of all 46 states that have such a tax on business profits. Generous deductions, exemptions, credits, and a lenient attitude toward corporate-tax evasion have cut the corporate-income tax from 10.4 percent of state revenues, in 1989, to 3.4

percent in fiscal 2006. It is worth noting that Rhode Island's high property taxes figure as one major reason that our tax ranking is so high -- yet this is the one tax that policymakers seem reluctant to tackle.

The claim that the wealthy are fleeing and the poor are flocking to Rhode Island is not borne out by research, either. Internal Revenue Service data on state-to-state migration show that over the last five years, those taxpayers moving to Rhode Island had higher incomes than those who moved from Rhode Island to Massachusetts.

And despite popular belief, people are not flocking to Rhode Island for its welfare programs. In 2005, the percentage of families on the Family Independence Program (Rhode Island's welfare program) that were new to Rhode Island was 50 percent lower than the percentage in 1997, when the FIP went into effect. In fact, the number of families on welfare leaving Rhode Island each month far exceeds the number of new residents joining the welfare program. Overall, the number of families receiving FIP cash assistance has dropped by 35 percent, and the state expenditures for cash assistance have plummeted from \$55 million to \$13 million.

Rhode Island cannot afford to give tax breaks to a wealthy few at such a great cost. The first phase-in of the tax cut, to 7.5 percent, would cost an estimated \$10 million, while a full reduction, to 5.5 percent in the near future, could cost the state at least \$50 million a year.

The average tax cut next year for the approximately 9,000 Rhode Islanders who earn more than \$200,000 a year would be \$1,077. Meanwhile, the governor has already proposed cutting millions of dollars from cash assistance, health care, and child care. These cuts would mean that a single person with two children who earns \$24,900 a year would lose RIte Care health insurance and have to pay \$720 a year more to keep health care and child care.

This legislative session promises to be one of the most important in recent history. The proposed cuts in both taxes and spending would have long-lasting effects on working families and our poorest citizens, as well as on the state's fiscal health.

We believe that all Rhode Islanders want to live in a community that is safe and healthy, and that provides some basic assistance to our poorest residents, and to families that are working hard but need support to stay afloat.

Budgets are about priorities. Others who believe, as we do, that this budget sets the wrong priorities should tell their state representatives and senators.

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