

Posted Apr. 16, 2007

PUBLIC POLICY

Campaign for R.I.'s Priorities report urges closing of corporate tax 'loopholes'

By Marion Davis,
PBN Managing Editor

As Rhode Island grapples with a huge budget deficit that will almost certainly require social-service cuts, the battle over corporate taxes is heating up, and a report released last Wednesday is bound to add fuel to the fire.

Issued by the Campaign for Rhode Island's Priorities, an alliance of community organizations, labor groups, human-service providers, faith institutions and individuals, the report makes no bones about what its authors believe big businesses are doing.

The title is "Tax Tricks: Corporate Income Tax Evasion in Rhode Island," and the text alleges that large corporations, many of them based out of state, avoid paying an estimated \$12 million annually in Rhode Island corporate income tax through two "loopholes" – the use of passive investment corporations, and the allocation of income to no state at all.

The report singles out Wal-Mart, which has eight stores in Rhode Island, as a particularly egregious offender, saying that using those loopholes and real estate investment trusts, the retailer paid just 2 percent of its Rhode Island income in taxes in 2002.

"In comparison," the report adds, "middle-income taxpayers in Rhode Island paid 10.7 percent of their income in taxes and the poorest Rhode Islanders, despite earning less than \$16,000 annually, paid 11.5 percent."

None of these tax reduction strategies are new, and many states, as the report notes, have changed their laws to capture more of that elusive corporate tax revenue. Locally, The Poverty Institute at Rhode Island College has been calling for reforms to close those "loopholes" for more than five years.

Last year, the Poverty Institute issued a report noting that "Rhode Island's corporate income tax has fallen so sharply that in 2000, half of Rhode Island's largest corporations paid less in income tax than the typical Rhode Island family, a median of \$1,825 (the state's corporate tax rate is 9 percent, with a minimum payment of \$500 per year).

The Poverty Institute report also noted that in fiscal 2004, the cigarette tax had produced more revenue (\$117 million) than the tax on corporations (\$76 million).

That has since changed – in part through the doubling of the minimum tax from the former \$250 – and in fiscal 2006, the business corporations tax brought in \$166.2 million, though that's expected to drop to \$137.5 million in the current fiscal year.

Still, with child care subsidies and several other valued pieces of Rhode Island's social safety net at risk this year, the pressure to bring in more revenue and to ensure that everyone pays a fair share has increased.

Legislation to close those corporate "loopholes" is being considered in both the House – sponsored by Rep. Edith Ajello, D-Providence – and in the Senate, sponsored by Sen. Steven Alves, D-West Warwick, with many groups' enthusiastic support.

Business leaders are feeling the heat and fighting back. In its "Under the Dome" newsletter, sent out a day before the "Tax Tricks" report came out, the Northern Rhode Island Chamber of Commerce, which is also a leader in the Rhode Island Chamber of Commerce Coalition, identified the legislation to kill passive-investment companies as a key concern.

The newsletter noted that PICs are "special purpose companies that, if properly structured and operated, can help achieve a variety of corporate objectives, including but not limited to minimization of state and local income taxes and franchise or capital stock taxes."

Rhode Island "is one of just a few states that has a law exempting companies that manage or maintain investments, such as stocks or bonds, from paying state income tax on the income they receive from those investments," the newsletter added.

The Chamber estimated that about 15 companies in Rhode Island take advantage of the PIC provision, and it warned that users here and in other states "should be prepared for a variety of attacks," many of them using "obscure and untested theories."

The newsletter also estimates that passage of Ajello's anti-PIC bill "would result in the payment of an additional \$12.5 million to \$22 million (collectively) in corporate income taxes by companies who currently utilize a PIC."

But not all businesses are against this legislation. In a news release about its report, the Campaign for Rhode Island's Priorities quoted Doug Hammond, CEO of Relief Resources, a family-owned business based in Hatfield, Mass., that also operates in Rhode Island:

"The beneficiaries of corporate tax loopholes are frequently larger companies already enjoying the advantages of public policy not accessible to small, independently owned enterprises," he said. "Closing corporate tax loopholes, though not a panacea to the overall budget crisis, would actually benefit Rhode Island's business community while providing much-needed revenue for essential services."