

Legislation before the Rhode Island General Assembly would shine a brighter light on Rhode Island's "hidden budget," the Tax Expenditures Report (TER). This extremely important, yet often overlooked, budget document provides vital information about the amount of revenue the state forgoes to tax credits, deductions, and preferential rates that reduce tax liability for selected firms and individuals. Essentially, tax expenditures represent state spending through the tax code. The 2008 TER estimated that tax expenditures were at least \$1.3 billion. This amount may be understated, however, because of the lack of reliable information contained in the report.

Tax expenditures are similar to direct spending programs in that they cost money and can be used to accomplish policy priorities and goals. Unlike direct spending programs, however, tax expenditures become permanent provisions of the tax code and can continue indefinitely. They are not included as part of the annual budget appropriations process and therefore receive much less scrutiny from both inside and outside government.

Policymakers must make difficult choices in order to balance the state's budget. A meaningful tax expenditures report can give both policymakers and the public a more complete picture of the state's finances and an opportunity to evaluate whether or not tax expenditures are achieving their intended goals. Only then can informed decisions be made about whether limited resources are being used in the most effective way possible and whether certain tax expenditures should be maintained, reformed, or eliminated.

Rhode Island's Tax Expenditures Report Considered One of the Worst

The Center on Budget and Policy Priorities' recent report "Promoting State Budget Accountability through Tax Expenditure Reporting" found Rhode Island's TER to be among the least useful in the country because it omits certain taxes and fails to provide cost estimates and other vital information about many tax expenditures.¹

For example, according to the Center the most important piece of data contained in such reports is each tax break's cost to the state. The report criticizes Rhode Island's "highly misleading practice" of listing an item's cost as \$0 when the cost of the item is uncertain. This may leave users to conclude that the state has estimated the cost and found it to be \$0, although the TER indicates that for most items estimated as "\$0" no reliable data exists.²

The TER is inadequate because it fails to provide reliable estimates for over half of the tax expenditures reported. The Poverty Institute's analysis of the 2008 Tax Expenditures Report found that 118 out of the 211 listed expenditures could not be reliably estimated by the Division of Taxation.³

Making Rhode Island's Tax Expenditures Report More Meaningful and Useful

According to the Center's report, the most useful tax expenditures reports are accessible, comprehensive, detailed, and analytical.

Legislation has been introduced that would make Rhode Island's TER a more useful budget tool for policymakers and the public as the budget is developed. The legislation states that the Tax Expenditures Report should:

Be published annually, coincide with the state fiscal year and be included as part of the budget submission.

Tax expenditures should be treated as any other state expenditure and included as part of the budget debate. Lawmakers need to have the Tax Expenditures Report

available during the development of the budget if they are to get a complete picture of Rhode Island's finances in order to make decisions to maintain, reform, or eliminate certain tax expenditures.

Provide historical data and future projections of revenue forgone for each tax expenditure. This will offer a better understanding of trends in "state spending" on tax expenditures and allow lawmakers to project costs in out years.

Include a stated purpose for each tax expenditure and determination as to whether the item is achieving its stated purpose. This will allow policymakers to determine if the expenditure is promoting the policy goal that was intended and whether it is doing so in a cost effective manner.

Show the distribution of each tax expenditure's benefit by income level or company size. A distributional analysis helps determine which households and companies are truly benefitting from a particular tax break.

Provide information about implicit tax expenditures such as the total revenue forgone from excluding certain services from the sales tax base, exempting certain property from local taxation, and conforming state taxes to federal tax laws. Implicit tax expenditures are those that are not explicitly stated in the tax code. For example, the Rhode Island code applies a sales tax to goods unless specifically exempted. The value of many services, however, could be subject to a sales tax but are not referenced in the tax code.

Table 1. 2008 Tax Expenditures Report Results Summary

CATEGORY	Number of tax preference items	Number of items not estimated	No similar provision in other NE states	Estimated revenue forgone
PERSONAL INCOME TAX	38	11	12	\$529,821,335
SALES AND USE TAX	72	43	20	\$625,575,000
BUSINESS CORPORATION TAX	25	24	9	\$36,700,000
MISCELLANEOUS TAXES	47	31	31	\$27,446,000
PREFERENCE ITEMS FOR MORE THAN ONE TAX	29	9	16	\$71,923,475
TOTAL	211	118	88	\$1,291,465,810

¹ Jason Levitis, Nicholas Johnson, and Jeremy Koulisch, "Promoting State Budget Accountability through Tax Expenditures Reporting," Center on Budget and Policy Priorities, April 2009.

² "Promoting State Budget Accountability through Tax Expenditures Report" at page 21.

³ "Tax Facts: 2008 Tax Expenditures Report Analysis", The Poverty Institute, June 2008.