

Raising Revenue While Making Rhode Island’s Tax Structure More Equitable: Adding Three Personal Income Tax Brackets (H5399)

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For Rhode Island to achieve its potential as a first-class place to live and do business we need to ensure that we have the public services and amenities that enhance the quality of life and work in our state. Rhode Islanders make a collective investment through taxes, fees, and other forms of revenue to fund the services that businesses and residents count on. Although Rhode Island’s Personal Income Tax (PIT) is moderately progressive, the state’s overall tax structure—including property and sales taxes—is regressive. This means that Rhode Island’s lowest income earners pay a larger percentage of their income in taxes than do the highest earners. The bottom 20 percent pay 1.5 times as much as the top 1 percent (12.1 percent of income vs 7.9 percent), as shown in *Figure 1*.¹

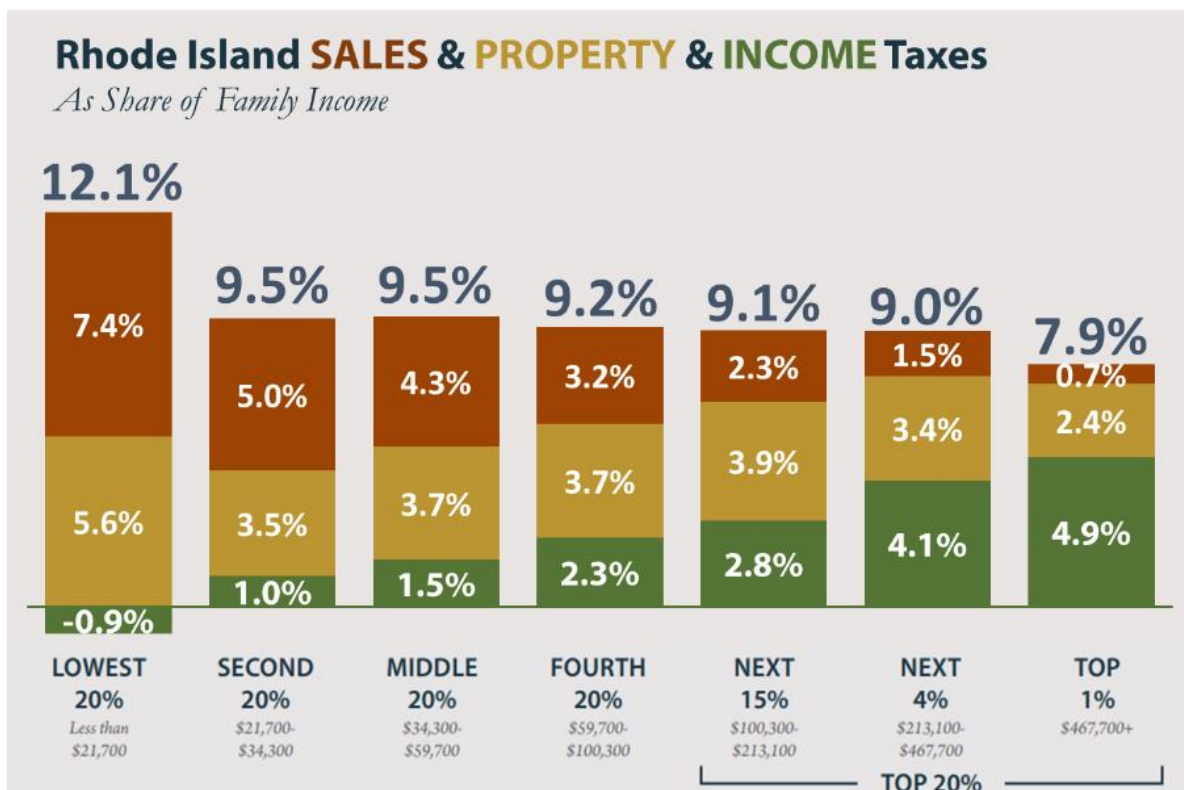


Figure 1

Representative Kislak’s bill H5399 takes an important step in decreasing the regressivity and increasing the fairness of Rhode Island’s tax structure by adding three new personal income tax brackets, for households with adjusted gross incomes above \$320,320.²

Adding these three brackets **would raise an estimated \$130.5 million in revenue** and **would impact no Rhode Islanders outside of the top 5 percent of income earners**. **Over 90 percent of the tax increase would apply to the top 1 percent**, those earning \$1,412,000 per year on average (see *Figure 2*).³

Rate	Current Income Ranges for Tax Year 2019	Proposed Income Ranges for Tax Year 2019
3.75%	from \$0 up to \$64,050	from \$0 up to \$64,050
4.75%	over \$64,050 up to \$145,600	over \$64,050 up to \$145,600
5.99%	over \$145,600	over \$145,600 up to \$320,320
7.99%		over \$320,320 up to \$582,400
8.49%		over \$582,400 up to \$1,164,800
8.99%		over \$1,164,800

Figure 2

The new rates for the additional brackets remain *lower* than Rhode Island’s highest marginal PIT rates from 2001-2010 (see Figure 3).

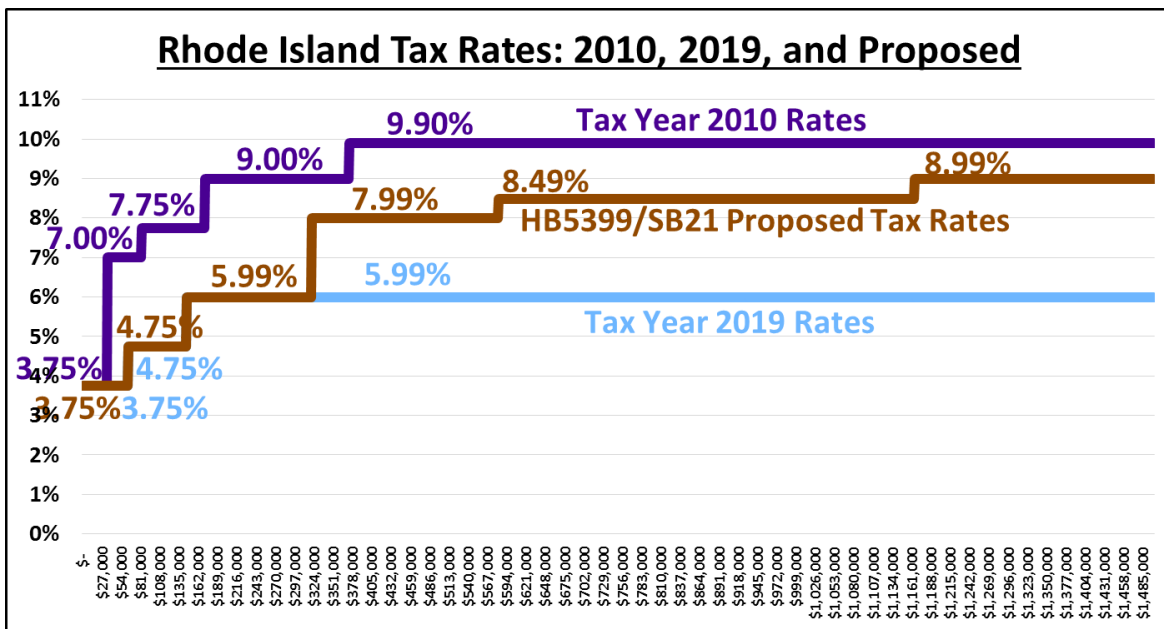


Figure 3

While Rhode Island’s income tax is moderately progressive, there is room to restore greater progressivity and improve tax fairness. The wealthiest used to pay more, and with the disproportionate benefits they received from federal tax changes passed in December 2017, they can afford to increase the share they pay for state revenues.

Creating three new tax brackets as proposed in H5399 would raise significant and much needed additional revenues. As Rhode Island faces the potential for revenue shortfalls and budget deficits, these additional monies could prove important in helping us meet today’s needs and funding necessary, sound investments for tomorrow, while simultaneously making our tax system more equitable and fair.

¹ Institute on Taxation and Economic Policy, *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*, October 2018.
² These bills call for brackets at \$275,000, \$500,000, and \$1 million; inflation adjustments already in RI state law explain the increases evident in Figure 2.
³ Institute on Taxation and Economic Policy, March 2019.