



**Testimony in Opposition to Bill Relating to Minimum Wage and Tax Credits:  
SB137  
Senate Labor Committee  
February 3, 2021**

The Economic Progress Institute opposes SB137 which, *if enacted, could result in a revenue loss to the state of Rhode Island in the hundreds of millions of dollars per year.*

SB137 would provide tax credits to employers for wages they pay their hourly workers. Although SB137 clearly excludes salaried employees, what is not clear is if it applies to *all* hourly workers, or only to those receiving the minimum wage. If it applies to all, then **the state revenue loss could be staggering, possibly above a billion dollars annually after the first year.**

As written, the bill appears so broad that the tax credit would go to large and not just small businesses, to out-of-state ones and not just local ones. The bill would provide tax credits, not merely deductions against income. A dollar credit would mean a \$2,080 credit per year for full-time hourly employees. There are more than 300,000 hourly workers in Rhode Island. At a \$2,080 tax credit per person, the consequence would be at least **\$624 million in lost revenue in the first year alone.** This amount would need to be **doubled** and **tripled** as the minimum wage goes up.

The bill specifically references the \$11.50/hour minimum wage that went into effect in October 2020, suggesting that **the bill could apply retroactively** to tax year 2020. Notably, **the bill does not include any start date or end date or phasing out of the credit**, so this great revenue loss could continue in perpetuity.

If the bill applies exclusively to minimum wage workers, then this **could encourage employers to lower to the minimum level the wages of those now earning a dollar or two or three above the minimum**; doing so would allow employers to take advantage of the tax credit. An employer would receive a dollar per hour credit when paying \$11.50/hour, though not when paying \$12.00/hour. This bill in no way limits its scope to employers facing hardship in raising wages to meet new minimum wage levels. It does authorize the tax administrator to promulgate rules and regulations, yet it is difficult to imagine how such rules and regulations could be designed in such a way as to distinguish eligible employers and employees and limit the credit in this fashion. This legislation might also incentivize employers to convert salaried workers to hourly status.

Even if the bill is intended to apply only to minimum wage workers, there are tens of thousands of minimum wage workers in Rhode Island, so **the revenue impact would begin in the tens of millions of dollars and eventually surpass \$100 million per year.**

Finally, we know what encourages people to start and grow small businesses: good schools, qualified workers, and wonderful places to live. **Losing tens or hundreds of millions of dollars in revenue would likely result in cuts to the very services that attract and benefit small businesses.**