

CREATING A FAIR TAX SYSTEM WITH ADEQUATE REVENUES FOR INVESTING IN RHODE ISLANDERS

The following three icons highlight some of the many issues addressed in the budget and legislative session. Absence of an icon generally indicates that work needs to be done on the issue or that the item simply provides information.

 One of the legislative priorities identified by EPI prior to this year's session.

 Significant progress.

 Mixed bag—some, yet inadequate, progress.

 **New Tax Bracket for Top 1%:** No changes to Rhode Island's personal income tax were enacted this year. Several proposals—including the EPI-supported Revenue for RI campaign to create a new tax bracket affecting only the top 1% and their income above \$475,000—received hearings in the House and Senate, yet no committee votes. Enacting the Revenue for RI proposal now for 2022 would have resulted in new revenue in 2023—an estimated \$128 million annually—when federal relief aid begins to subside.

 **Payroll Protection Program (PPP):** By partially decoupling from the historically unusual federal tax treatment of PPP loans, the budget preserves \$47.8 million in general revenue. Under federal policy, those businesses with forgiven PPP loans are able to deduct business expenses paid with these loans while not counting as taxable the income from these loans. Rhode Island businesses will still be able to take advantage of the full federal bonus, while on the state level, those with forgiven loans will be able to deduct up to \$250,000 in forgiven loan expenses without counting the same loan funds as income. Those businesses not taking out PPP loans do not have access to the federal or state tax advantages. Although EPI supported a complete break from the federal policy and preserving the full amount of revenue (\$128.7 million), preserving \$47.8 million of much needed revenue was a positive result.

 **Earned Income Tax Credit (EITC):** The EITC provides a refundable federal and state benefit to low-income workers and phases out as a worker's wages increase. The 80,000 low-income Rhode Islanders who benefit from this tax credit program will not see their state benefits increase beyond 15% of the federal benefit, the level set in 2017. Connecticut this year increased their rate to 30.5%, and Massachusetts is at 30%.

Car Tax Phase-Out: The car tax phase-out will be fully funded for FY2022, the fifth of six years. The car tax is a local tax, not a state tax, and in order to make the local governments whole, the state must reimburse them for the lost revenue. At present, there is no plan to address ongoing state revenue challenge resulting from the nearly quarter of a billion dollars it will cost the state each year to fulfill this commitment.

Repayment of Rainy Day Fund into Rhode Island Capital Plan (RICAP) Fund: For FY2020, the General Assembly withdrew \$120 million from the state's Rainy Day Fund and by law must place into RICAP the same amount. Although the enacted FY2021 budget split payments over FY2021 and FY2022 and the Governor's original FY2022 budget proposed shifting the largest payment to FY2023, the final FY2022 budget paid the entire amount in FY2021. This means both that the Capital Plan Fund will be fully funded and that the Rainy Day Fund will be at its maximum 5% of general revenue collections.

Enhanced FMAP Reserve: The federal government's declaration of a state of emergency for COVID-19 has resulted in enhanced Medicaid payments to states through a higher Federal Medical Assistance Percentage (FMAP), bringing approximately \$39 million to Rhode Island each calendar quarter since the beginning of 2020. Although earlier this year President Biden assured governors that the state of emergency and enhanced rates would remain in effect through the end of 2021, Rhode Island's FY2022 Budget sets aside \$39M in case the federal emergency is not renewed for the last quarter of 2021.