



Testimony in Support of Creating a New Personal Income Tax Bracket on the Top One Percent: H7440

House Committee on Finance

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The Economic Progress Institute supports Representative Alzate’s H7440 to create a new tax bracket for Rhode Island taxpayers in the top 1%. This would impact only approximately 5,000 taxpayers, those with Adjusted Gross Income (AGI) above \$500,000. Furthermore, the 8.99% rate of this new tax bracket is a *marginal rate*, meaning *it will apply only to any income above the threshold*. All income below it will continue to be taxed at current rates. This means, for example, that a taxpayer with AGI of \$525,000 would pay only an estimated \$750 more per year.

Revenue Planning for the Future

Although Rhode Island has received a considerable amount of much-needed COVID-19 relief funds from the federal government, these funds are designed to provide temporary aid for short-term recovery needs and for one-time investments. What these relief funds do not do is provide the ongoing revenue base to build for the longer term, to support the services Rhode Islanders and Rhode Island businesses require to thrive.

H7440, once enacted, will not take effect until Tax Year 2023, meaning that much of the revenue will not reach the state until Rhode Islanders file and pay their taxes in 2024, two years from now.

If we wait until the one-time relief funds disappear to address Rhode Island’s revenue challenges, it will already be too late. We need to plan now, and H7440 accomplishes this by raising – from the top 1% – an estimated

\$144.5 million in revenue per year. With such funds, we will be able to build upon the successes of our recovery investments in jobs and education.

Racial Equity and Tax Fairness

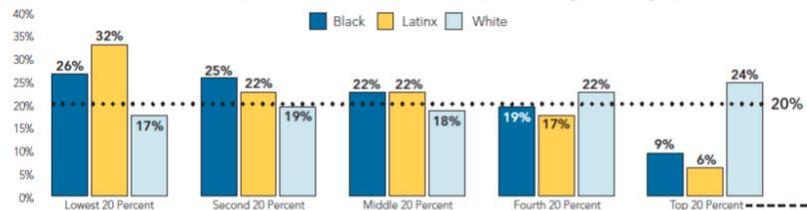
In a system of equitable income, we would expect Black, Latinx, and white Rhode Islanders to be distributed proportionately among the lowest and highest income groups. Yet, Rhode Islanders with the highest incomes are

Racial and Ethnic Inequities Span the Income Scale in Rhode Island

Black and Latinx Rhode Islanders find themselves underrepresented in the higher income groups and overrepresented in the lower and middle groups. If income distribution were equal, all the bars would be at 20% each, reaching to the dotted line.

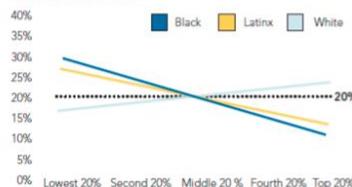
Income is Not Distributed Equally in the Ocean State

Black and Latinx Rhode Islanders overrepresented in lower-income, and underrepresented in higher-income groups.



Income Distribution Trends Are Inequitable in Rhode Island

With racial and ethnic equity in income, all lines would match the dotted line.



Race/Ethnicity of the Top 20% Does Not Reflect Proportional Distribution of Total Population

Focusing on the top 20%, one can see the stark disproportionality, with White households making up 75% of Rhode Island’s overall population yet comprising 89% of the state’s top 20%.

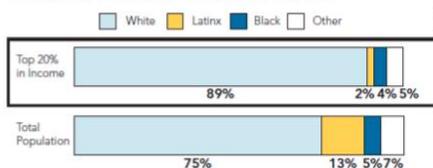


Figure 1

disproportionately white, and those with the lowest incomes are disproportionately Black and Latinx, as Figure 1 shows.

Only 9% of Black and 6% of Latinx Rhode Islanders are among the top 20% of income, whereas 26% of Black and 32% of Latinx Rhode Islanders fall in the lowest 20%. And while Latinx Rhode Islanders make up 13% of the state’s population, they account for only 2% of those in the top 20%, white Rhode Islanders account for 89% of the top 20% although they make up only 75% of the overall population.

Decades of racist tax and other public policy – such as redlining for providing and denying mortgages – have resulted in large racial and ethnic disparities in both income and wealth across the country. Tax policies on the state and local levels play a role in maintaining or even worsening the existing wealth and income gaps. **H7440 would improve the situation by decreasing racial and ethnic disparities.**

Although Rhode Island’s Personal Income Tax 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 1.76 times as much as the top 1 percent (14.1 percent of income vs 8.0 percent), as shown in Figure 2. H7440 would prove a modest measure in reducing this gap, to 1.5 times as much, and bring the top 1% in line with the rest of the top 40%.

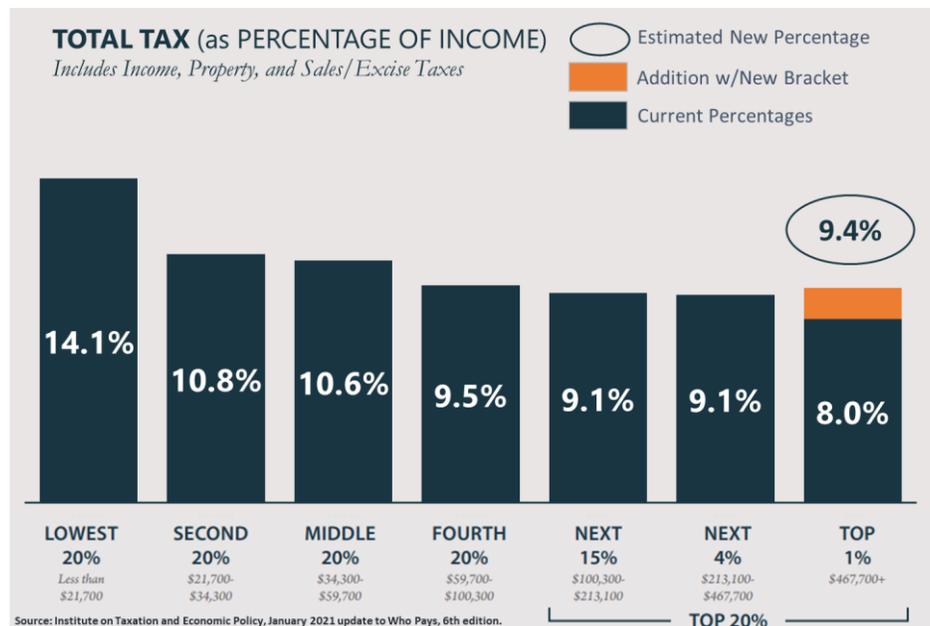


Figure 2

Highest Income Rhode Islanders are Staying in the Ocean State

Many detailed studies have found no evidence to substantiate the claim that wealthy people flee states over marginal tax rates. There is no evidence of any correlation between tax policy and interstate migration, in Rhode Island or elsewhere. **Very few people move each year, and those with the highest incomes are even less likely to move. The wealthy have great motivation to stay in the places where they are already doing well and have family and social and business networks.** For 20 years from 1997-2016, less than 2.5% of Rhode Islanders moved out of state in any one year, and most of this loss was compensated for by those moving to the state. The annual average incomes of those leaving and those arriving were almost the same, between \$50,000 and \$51,000. When surveyed about top reasons for moving, people overwhelmingly cite jobs, housing,

and family, not taxes. The wealthiest Rhode Islanders are *not* fleeing the state, and the decades of historical data tell us they will not.

Good for Small Businesses

Most small businesses simply do not have taxable income within the new bracket, which begins at about \$500,000. The median income for self-employed Rhode Islanders is \$51,816.¹ Overall, between 93% and 96% of business owners would not have enough taxable income to be affected by this proposal.²

The vast majority of small business owners will see NO change in their taxes. The proposed tax would only apply to business owners whose income after all expense deductions is above \$500,000. For almost all small business owners, there will be no additional taxes.

State tax policy and rates have little impact on small business creation and growth. Business decisions, including hiring, are driven by demand. Business owners rarely cite taxes as a major factor in location and relocation decisions. The revenue from H7440 will provide education, job, and community investments that will benefit Rhode Island’s small businesses and small business owners.

A Popular Proposal

Although politicians worry that no one likes any sort of increase in anyone’s taxes, this is not the case. Poll after poll – across the country and in Rhode Island – demonstrate that **proposals like H7440 win large majorities of support among constituents**. In the most recent Rhode Island poll, voters were asked specifically about the proposal included in H7440, and the results are striking: **72% support the new top 1% tax bracket**, with 51% strongly supporting it, and only 25% opposing it.³

¹ SBA 2020 Small Business Profile for RI, using (pre-pandemic) 2018 data from the Census Bureau’s American Community Survey: <https://cdn.advocacy.sba.gov/wp-content/uploads/2020/06/04144224/2020-Small-Business-Economic-Profile-US.pdf>.

² Economic Progress Institute analysis of IRS Statistics of Income (SOI) Table 2. Individual Income and Tax Data, by State and Size of Adjusted Gross Income, Tax Year 2018, <https://www.irs.gov/statistics/soi-tax-stats-historic-table2>.

³ Fleming and Associates statewide poll of Rhode Island voters, conducted in March 2021 using a representative sample of 350 RI voters.