FOR IMMEDIATE RELEASE

Media Contacts
Juan Espinoza, Economic Progress Institute
jespinoza@economicprogressri.org or 401-456-2752 (office) 813-526-3043 (cell)
Jon Whiten, Center on Budget and Policy Priorities
jwhiten@cbpp.org or 917-655-3313

Flawed 'Tax Freedom' Analysis Shouldn't Prevent Rhode Island Lawmakers from Raising Revenues Needed to Meet Ocean State Needs and Invest in Prosperity

Providence, RI—Although the Tax Foundation has released its annual "Tax Freedom Day" report finding that Rhode Island is one of the last states in the nation to reach this day, there are some serious methodological problems with this report. In fact the entire *concept* of "tax freedom," is problematic as we noted in our recent op-ed highlighting the importance of state revenues for building vibrant communities and a prosperous Rhode Island.

"Rhode Islanders understand that smart investments lay the foundation for thriving communities today and widely shared prosperity in the future," said Rachel Flum, executive director of the Economic Progress Institute. "Investments in our schools set our children on a path to success, investments in workforce development help working people and their employers to thrive, and investments in infrastructure — roads, bridges, green buildings — help keep our families safe, facilitate commerce, and help to preserve the Ocean State's abundant natural resources."

Here are some important things to keep in mind about "Tax Freedom Day":

The Idea of 'Tax Freedom' is Nonsensical
The Tax Foundation's report says that people spend part of the year working for the government, and then obtain "freedom" and work the rest of the year for themselves. But the reality is that taxes pay for services that Rhode Islanders use each and every day. Few Ocean State residents would feel more "free" if the tradeoff for an earlier-in-the-year "Tax Freedom Day" was paying tolls to use every road, fewer police and firefighters, closed public parks and no public schools for their kids.

The Tax Foundation's State Estimates Are Seriously Flawed
The Tax Foundation's proclamations of state Tax Freedom Days are meaningless because the report's state-by-state estimates are flawed. They are not useful for discussing the level of taxes paid by typical households or for assessing the tax choices made by a given state's policymakers, for at least four reasons:

- **They overstate middle-class tax levels.** About two-thirds of the taxes in the Tax Foundation calculations are federal taxes. The amount of federal tax paid by the residents of a state thus has a large impact on that state's Tax Freedom Day. Since the Tax Foundation methodology substantially overstates the federal taxes for middle-class families, the Tax Freedom Day figures for each state also substantially exaggerates the taxes of middle-class families in that state.

- **They reflect state affluence rather than state taxes.** Because the federal income tax system is progressive, states with greater numbers of high-income residents – like Rhode Island - pay more federal taxes than states with fewer high-income residents. As the Tax Foundation acknowledges, “This means higher-income states celebrate Tax Freedom Day later.” Yet by trumpeting state-level Tax Freedom Days that differ across the states, the Tax Foundation presentation is likely to lead to the misimpression that state and local policies account for the differences, when that is not the case.
- **They include taxes paid in other states.** The Tax Foundation uses a procedure to allocate state corporate, severance and tourism taxes that leads to further misimpressions about the impact of a state’s tax policies on the level of taxes its residents pay.
- **They rely heavily on old data.** While the Tax Foundation uses Congressional Budget Office (CBO) data to project total federal tax collections, there is no equivalent of the CBO for state and local governments. Rather, the Tax Foundation uses its own proprietary (non-public) model to estimate taxes that will be collected during the year in tens of thousands of state and local jurisdictions around the country. This model is based in part on data that are several years old. If the estimates turn out to be even slightly wrong, the rankings are likely to be completely askew.

For more on the Tax Foundation’s report, see this Center on Budget and Policy Priorities paper: *https://www.cbpp.org/research/federal-tax/tax-foundation-figures-do-not-represent-typical-households-tax-burdens-2*.

###

About The Economic Progress Institute
The Economic Progress Institute is a nonpartisan research and policy organization dedicated to improving the economic well-being of low- and modest-income Rhode Islanders. For more information visit www.economicprogressri.org.