Testimony in Support of Creating a New Personal Income Tax on the Top One Percent: SB232
Senate Committee on Finance
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The Economic Progress Institute supports Senator Murray’s SB232 to create a **new 3% surtax for income above the top 1% of income**. This would impact approximately 5,000 taxpayers, those with Adjusted Gross Income (AGI) above $557,000. Furthermore, the 3% would apply **only** to taxable income **above** this amount. All income below it will continue to be taxed at current rates, according to the existing three-bracket system. This means, for example, that a taxpayer with AGI of $575,000 would pay only an estimated $540 more per year. SB232 would also direct the new revenue into a **Restricted Receipts account**, with the funds devoted to child care and education, as well as to roads, bridges, and public transportation.

**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.

SB232, once enacted, **will not take effect until Tax Year 2024**, meaning that much of the revenue will not reach the state **until Rhode Islanders file and pay their taxes in 2025**, 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 SB232 accomplishes this by raising **– from the top 1% – an estimated $169 million in revenue per year**. With such funds, we will be able to build upon the successes of our recovery investments in education and infrastructure.

**Racial Equity and Tax Fairness**

In a system of equitable income, we would expect Black, Latino, and White Rhode Islanders to be distributed proportionately among the...
lowest and highest income groups. Yet, Rhode Islanders with the highest incomes are disproportionately White, and those with the lowest incomes are disproportionately Black and Latino, as Figure 1 shows.

Only 9% of Black and 6% of Latino Rhode Islanders are among the top 20% of income, whereas 26% of Black and 32% of Latino Rhode Islanders fall in the lowest 20%. And while Latino 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. SB232 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. SB232 would prove a modest measure in reducing this gap.

Good for Small Businesses

Most small businesses simply do not have taxable income within the new bracket, which begins at about $557,000. The median income for self-employed Rhode Islanders is $51,816. Overall, between 93% and 96% of business owners would not have enough taxable income to be affected by this proposal.

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 $557,000. 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 SB232 will provide education, childcare, road, bridge, and public transportation investments that will benefit Rhode Island’s economy and thus 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 SB232 win large majorities of support among constituents. In a 2021 poll of Rhode Islanders, voters were asked specifically about creating a new tax bracket on income above the 1% threshold, and the results are striking: **72% supported a new top 1% tax bracket**, with 51% strongly supporting it, and only 25% opposing it.³

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