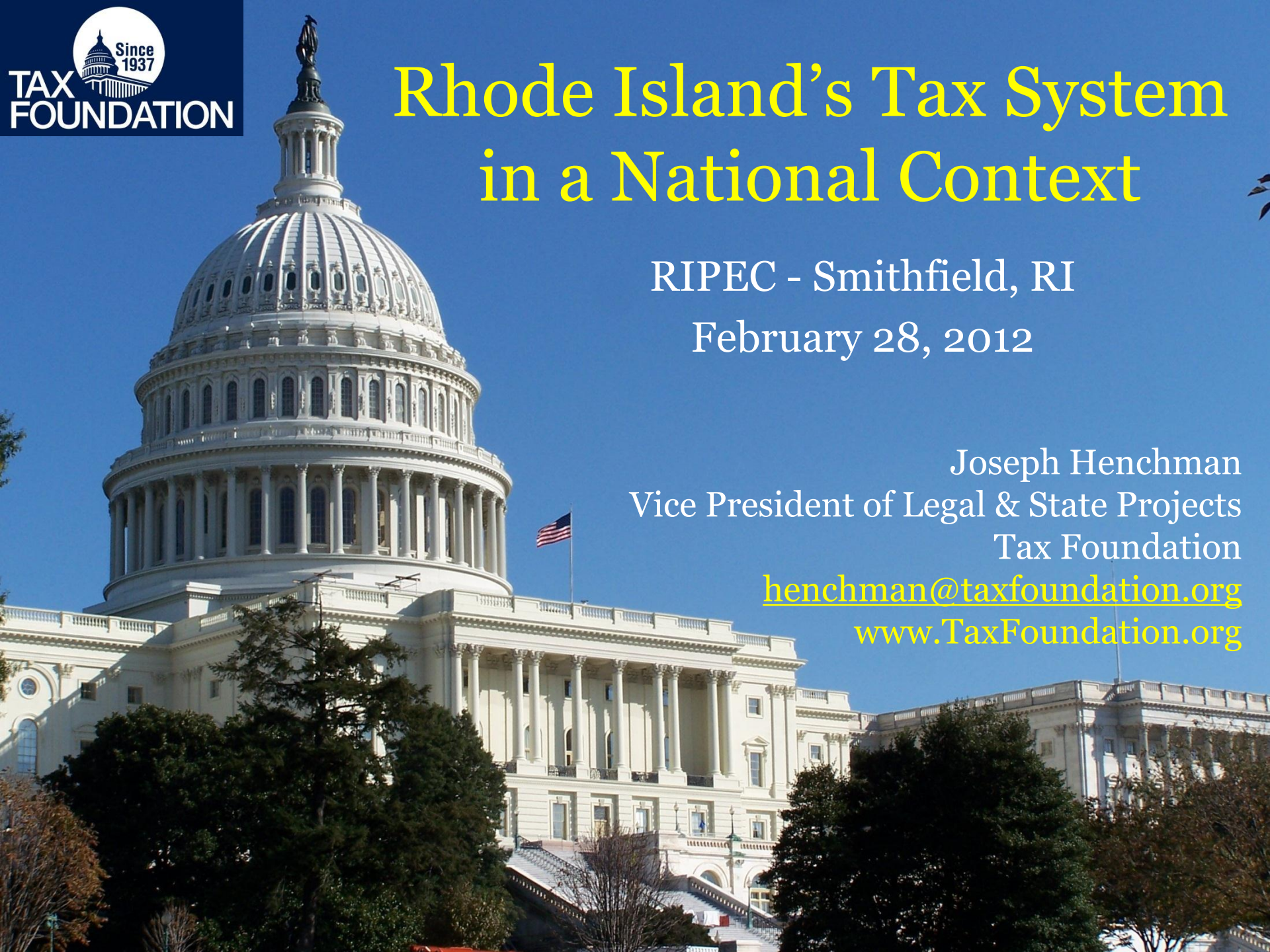

Rhode Island's Tax System in a National Context

RIPEC - Smithfield, RI

February 28, 2012

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About the Tax Foundation

- 74 years of objective research, data, and analysis
  - Federal, state, and local tax issues
  - Independent, non-profit, non-partisan
- Economically principled approach to tax policy
  - Simplicity, Neutrality, Transparency, Stability

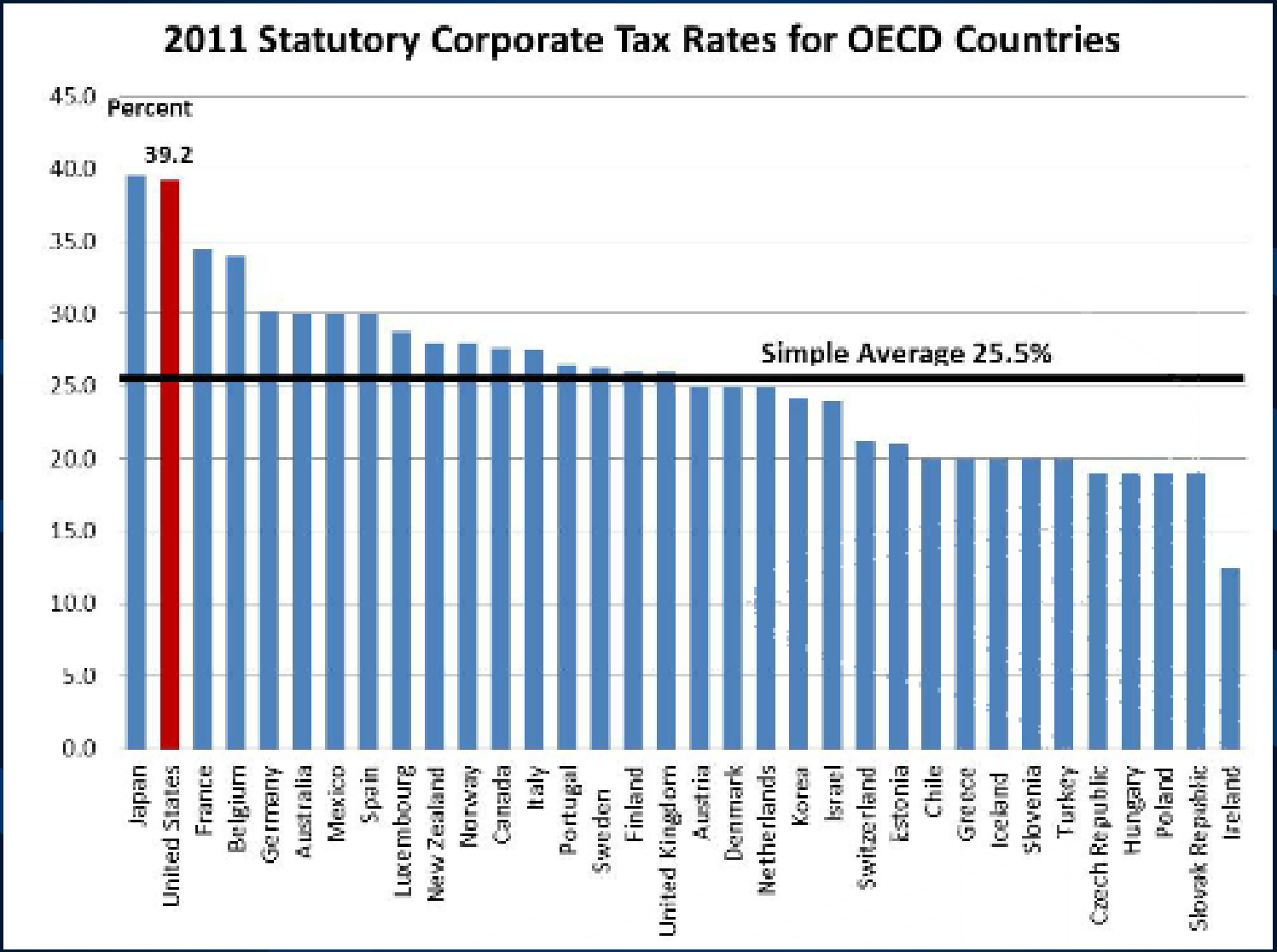
Federal Fiscal Policy Changes

- Corporate Taxes
  - Lower Rate and Eliminate Deductions & Credits?
  - Overseas Taxation (Repatriation & Deferral)
- Individual Taxes
  - 2001-03 Tax Cut Expiration
  - Alternative Minimum Tax
  - Estate Tax
  - Supercommittee Deficit Reduction
  - Presidential Candidate Proposals
- Programs (health care, UI, entitlements)

Federal Fiscal Policy Changes

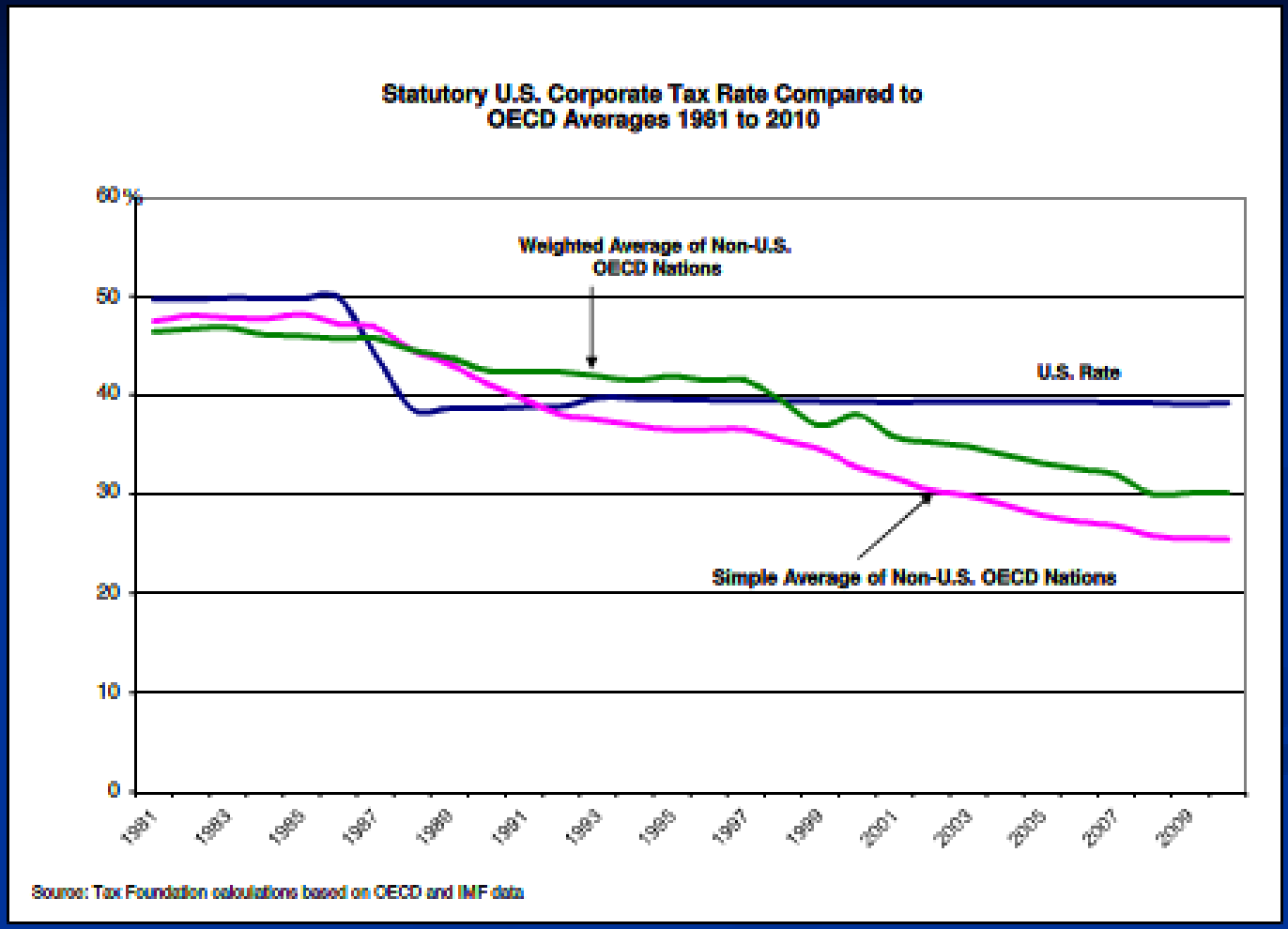
- President Obama: Buffett rule, “loopholes”
- Supercommittee: Bust
- ATR No Tax Increase Pledge
- Tea Party (Taxed Enough Already?) & Occupy (the 99% and 1%?)
- Beneficiaries of Credits & Deductions
- Entitlement reform, stimulus, jobs
- Presidential Election

Corporate Taxes



Corporate Taxes

U.S. Continues to Fall Behind by Standing Still



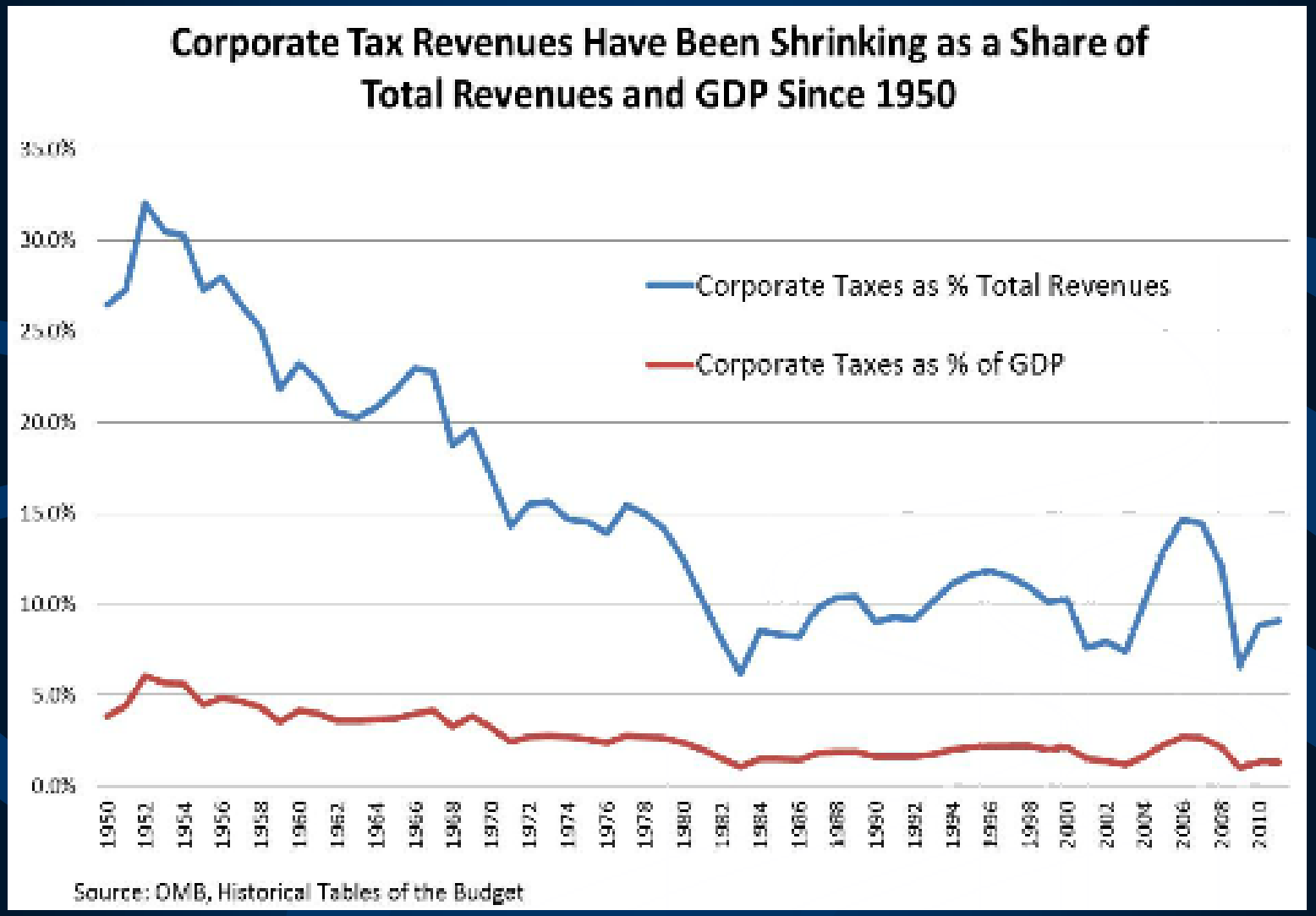
Tax Foundation Regular Studies

- State Corporate Rates in International Context

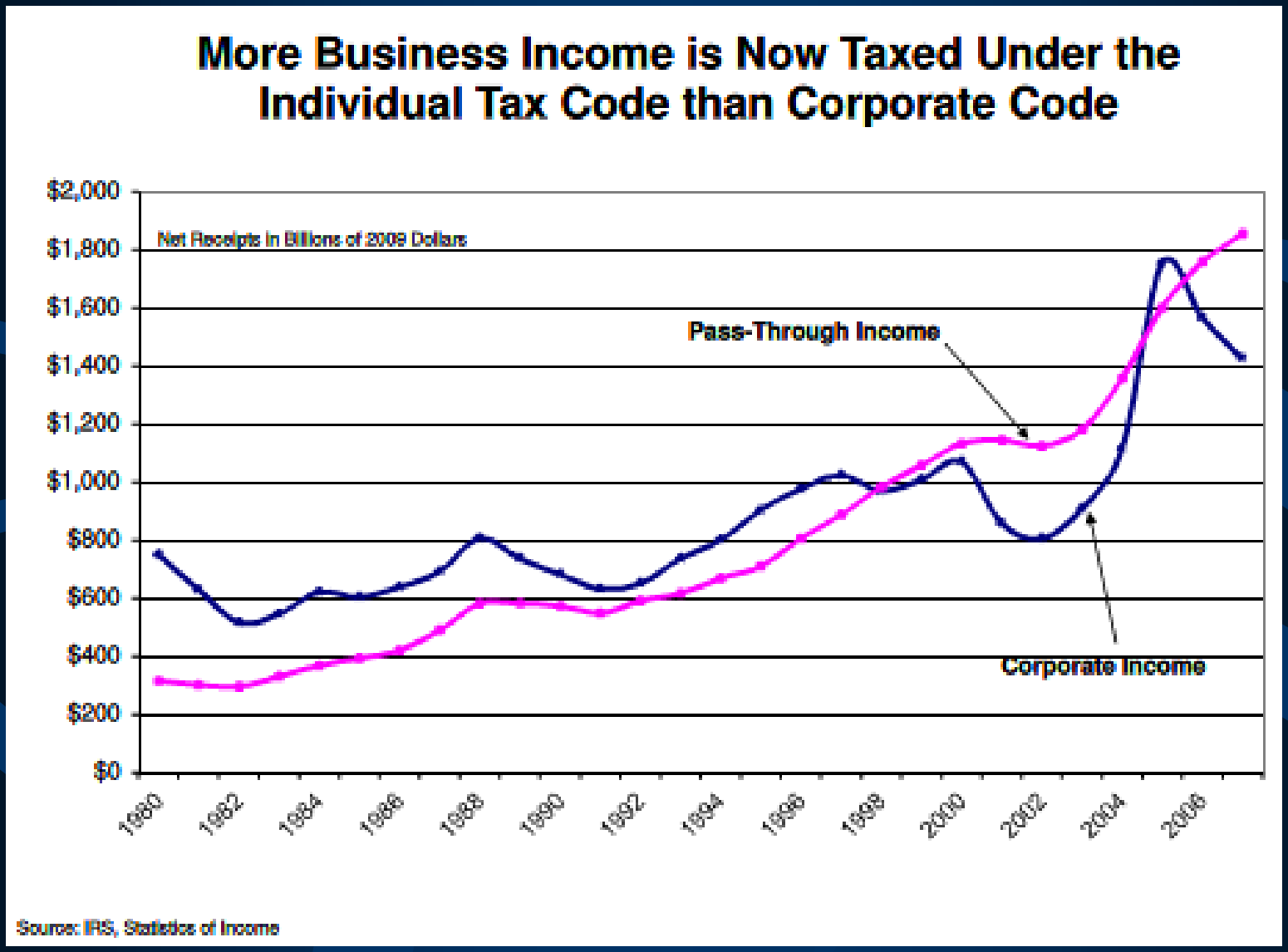
OECD Overall Rank	Country/State	Federal Rate 2010	Top State/Provincial Corporate Tax Rate	Combined Federal and State Rate (Adjusted)1
	Iowa	35	12	41.6
	Pennsylvania	35	9.99	41.5
	Minnesota	35	9.8	41.4
	Illinois	35	9.5	41.2
	Alaska	35	9.4	41.1
	New Jersey	35	9.36	41.1
	Rhode Island	35	9	40.9
	Maine	35	8.93	40.8
	California	35	8.84	40.7
	Delaware	35	8.7	40.7
	West Virginia	35	8.7	40.7
	Indiana	35	8.5	40.5
	New Hampshire	35	8.5	40.5
	Vermont	35	8.5	40.5
	Massachusetts	35	8.25	40.4
	Maryland	35	8.25	40.4
	Oregon	35	7.9	40.1
	Wisconsin	35	7.9	40.1
	Nebraska	35	7.81	40.1
	Idaho	35	7.6	39.9
	New Mexico	35	7.6	39.9
	Connecticut	35	7.5	39.9
	New York	35	7.1	39.6
	Kansas	35	7	39.6
1	Japan (2010 Rates)	30	11.51	39.54
	Arizona	35	6.97	39.5
	North Carolina	35	6.9	39.5
	Montana	35	6.75	39.4
2	United States	35	6.56	39.3
	Alabama	35	6.5	39.2
	Arkansas	35	6.5	39.2
	Tennessee	35	6.5	39.2
	Hawaii	35	6.4	39.2
	North Dakota	35	6.4	39.2
	Missouri	35	6.25	39.1
	Georgia	35	6	38.9
	Kentucky	35	6	38.9
	Oklahoma	35	6	38.9
	Virginia	35	6	38.9
	Florida	35	5.5	38.6
	Louisiana	35	8	38.5
	Mississippi	35	5	38.3
	South Carolina	35	5	38.3
	Utah	35	5	38.3
	*Michigan	35	4.95	38.2
	Colorado	35	4.63	38.0
	*Texas	35	0	35.0
	*Washington	35	0	35.0
	*Ohio	35	0	35.0
	Nevada	35	0	35.0
	South Dakota	35	0	35.0
	Wyoming	35	0	35.0
3	France	34.43		34.4

Source: OECD; Tax Foundation. 2011 Data

Corporate Taxes



Corporate Taxes



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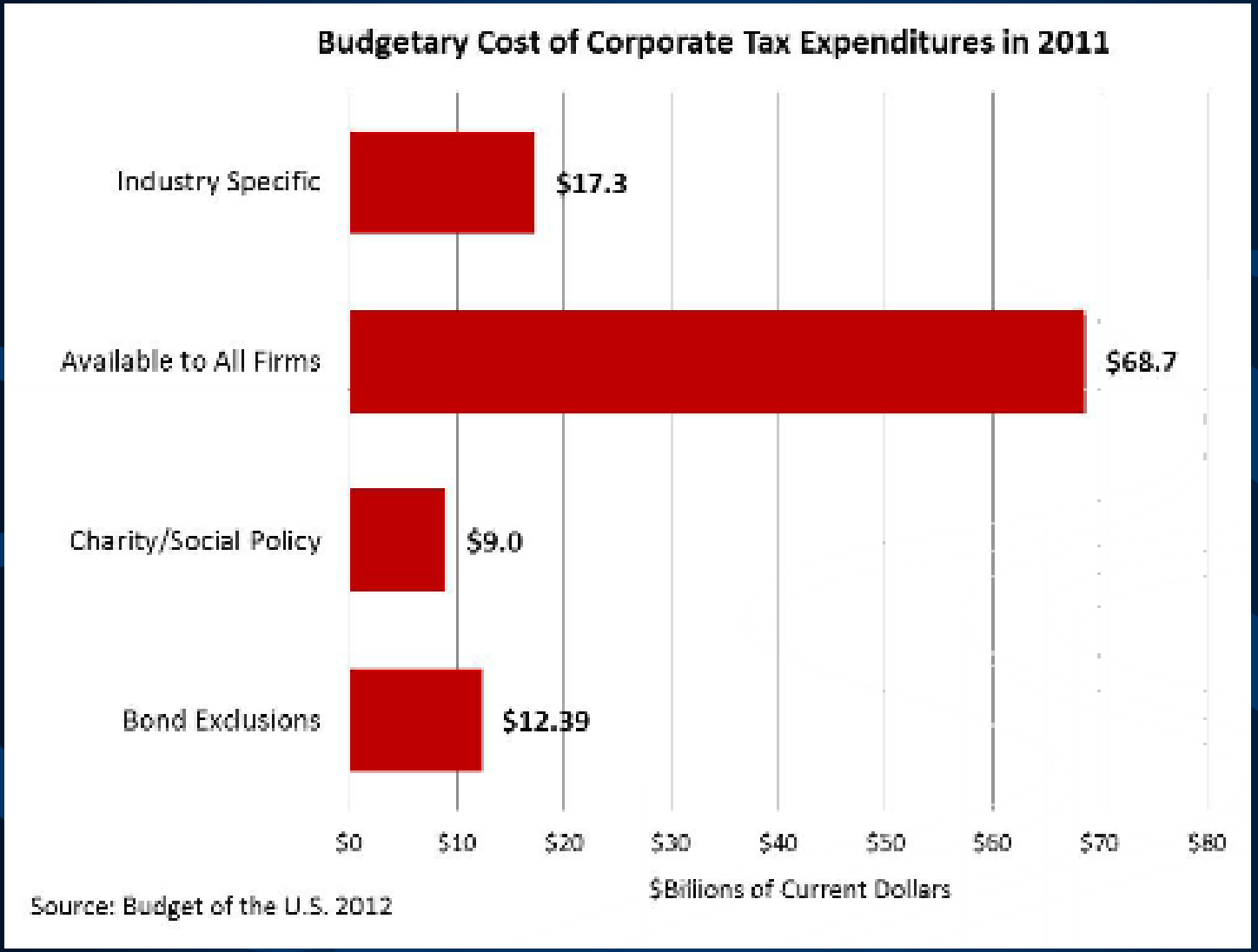
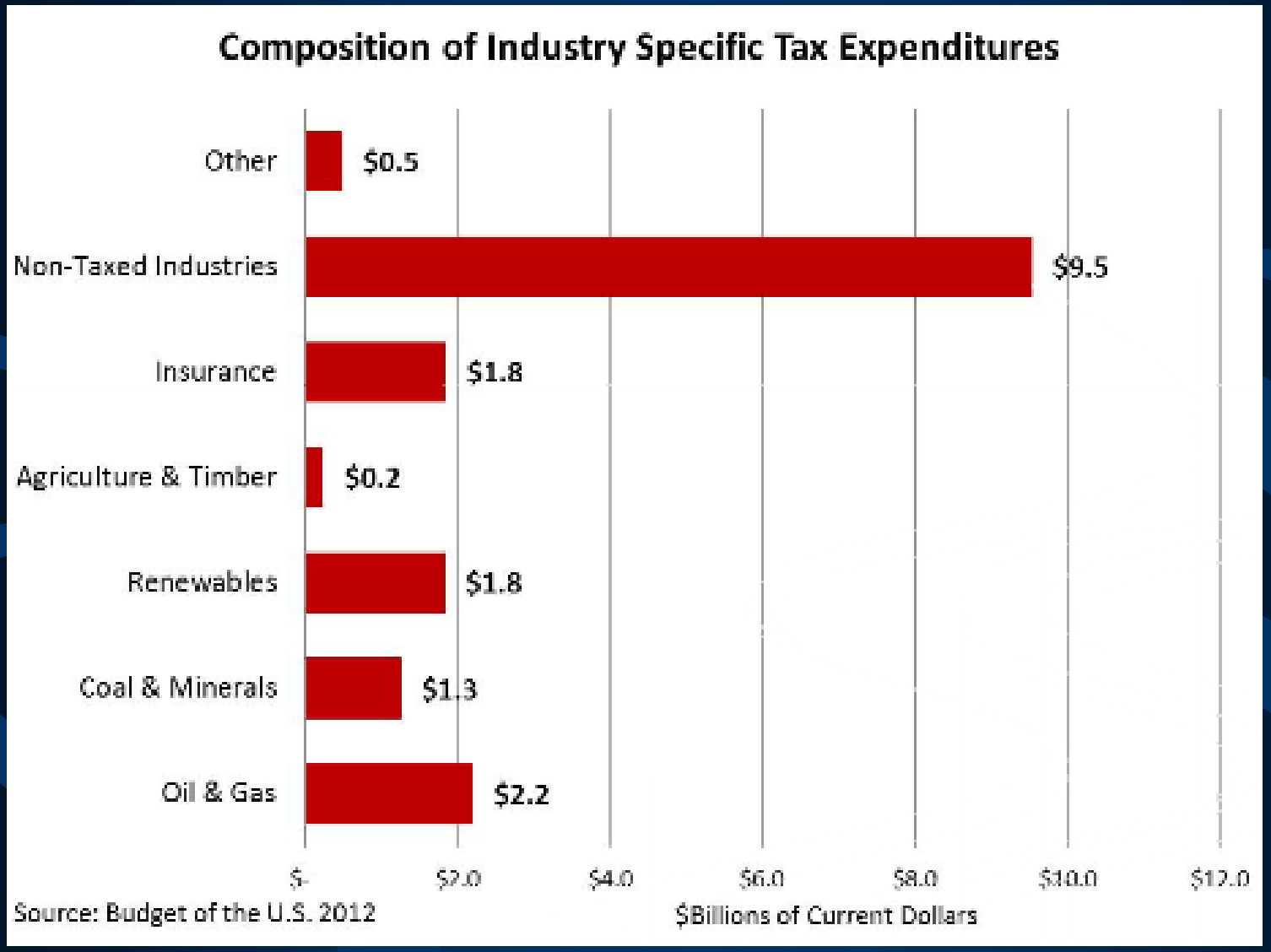


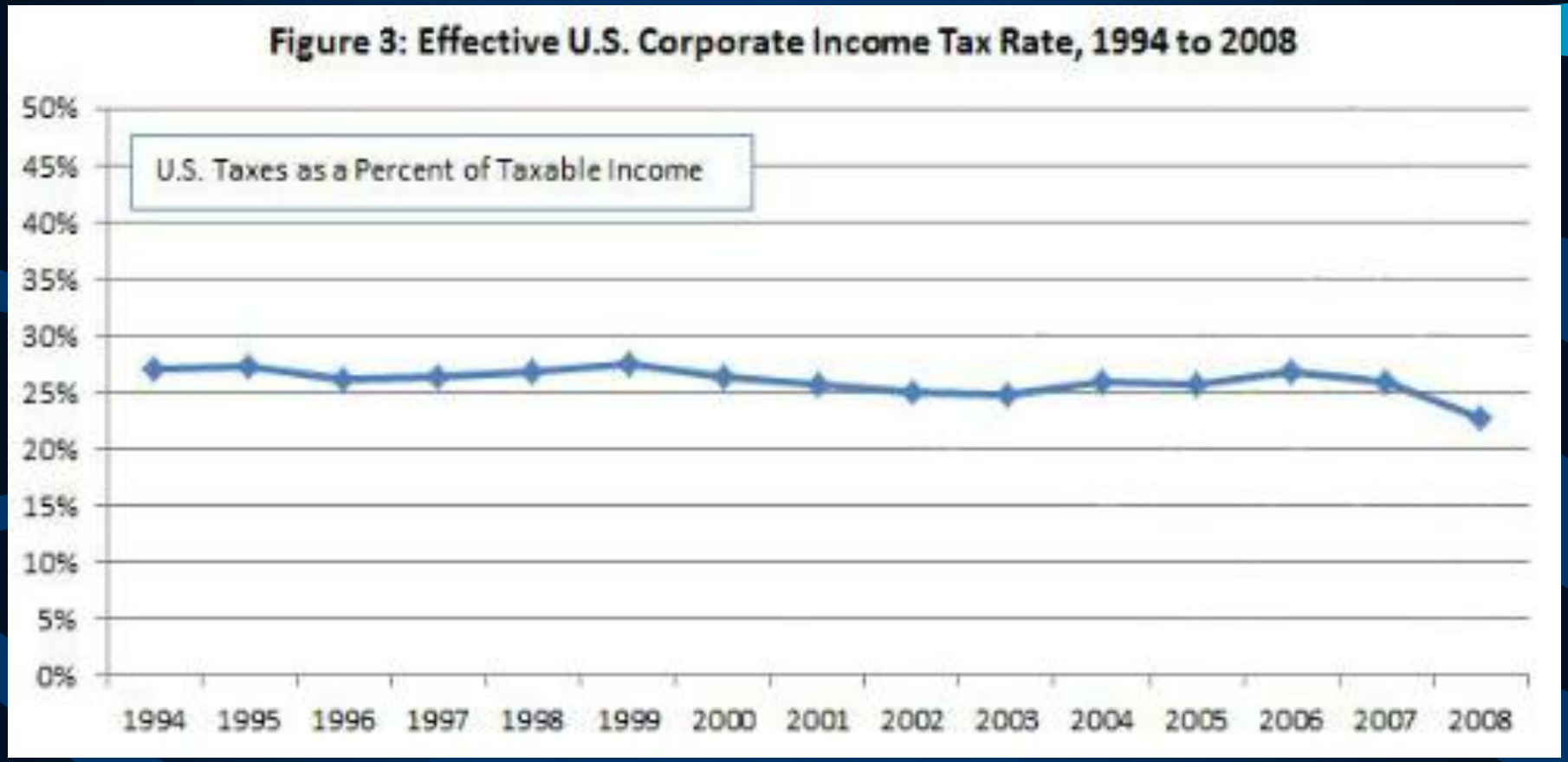
Corporate Taxes



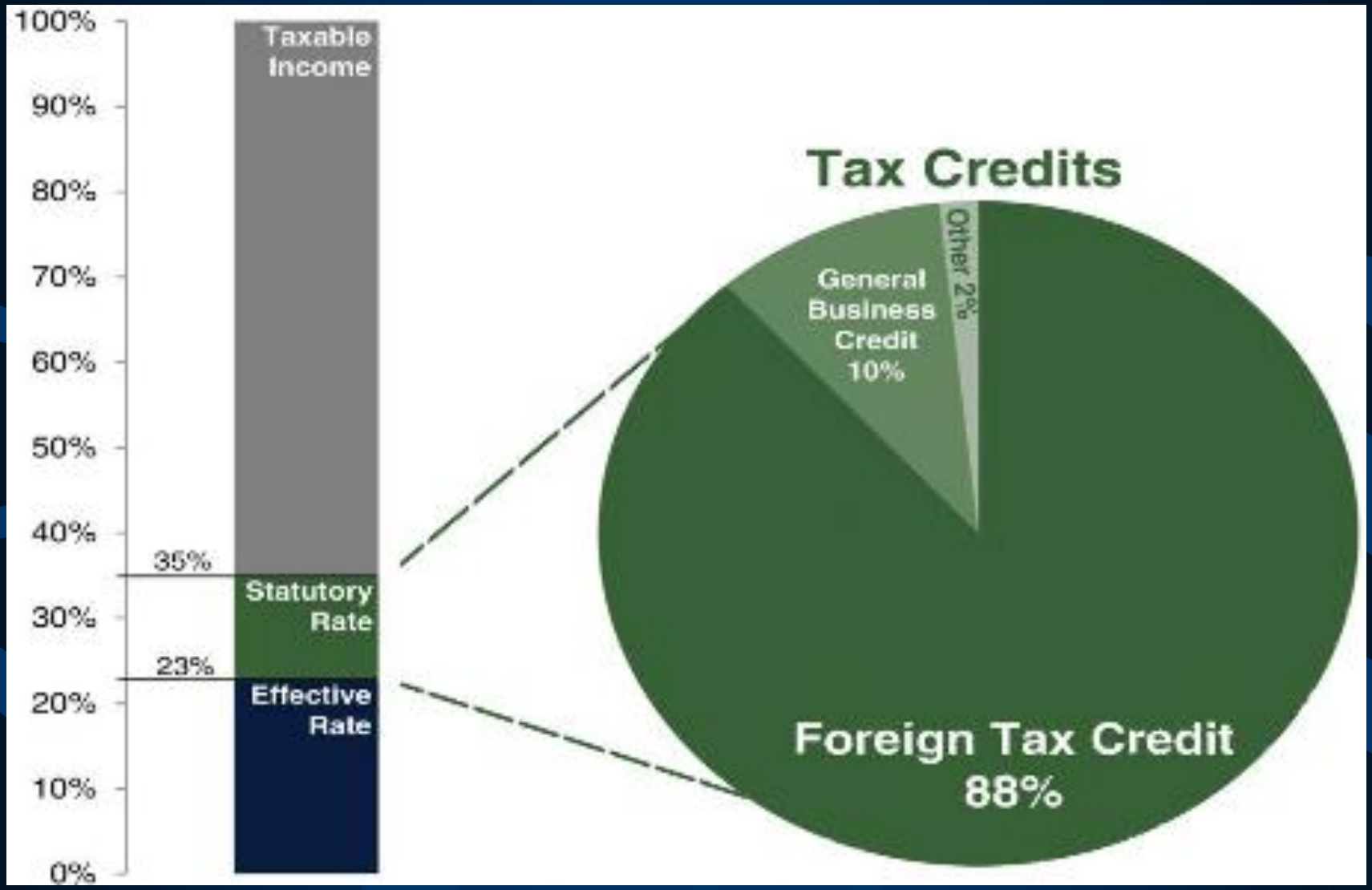
Corporate Taxes: Effective Rates

- Does Anyone Pay the 35% Sticker Price?
  - Media reports about General Electric, others
  - Effective tax rate = taxes paid divided by profits
- McBride paper (Tax Foundation)
  - Corporate ETR has averaged 26% since 1994
  - Largest source of reduction is foreign tax credit
  - Varies by industry
- Dittmer paper (Tax Foundation)
  - Survey of 13 studies finds U.S. effective tax rate is high by international standards

Corporate Taxes



Corporate Taxes



Corporate Taxes

- Consensus that rate is too high
  - President Obama, State of the Union 2011:

    "So tonight, I'm asking Democrats and Republicans to simplify the system. Get rid of the loopholes. Level the playing field. And use the savings to lower the corporate tax rate for the first time in 25 years – without adding to our deficit."

  - Congressional Democrats: 30.5%
  - Bowles-Simpson: Lower to 26%
  - Camp plan: Lower to 25%
  - Republican presidential candidates: reduce rate
- President's new plan: 28%, lower for manufacturing

Corporate Taxes

- Proposals Other than the Rate
  - Loophole elimination
  - Repatriation Holiday
  - Territorial vs. Worldwide
  - Targeted Incentives (Green industry)

Individual Taxes

- 2001-03 Tax Cuts ("Bush tax cuts")
  - Across-the-board rate reductions
  - Reduce rates on capital gains & dividends
  - "Marriage penalty" relief, doubled child tax credit, expanded EITC, adoption credit
  - Elimination of PEP and Pease
  - Reduced estate tax over time, eliminating completely in 2010
  - Everything would revert back to pre-2001 law on Jan. 1, 2011 unless extended

Individual Taxes

- Tax Relief Act of 2010 (Dec. 2010)
  - Extends almost everything 2 years
  - Democrats had sought to repeal rate reductions for high-earners, add higher rates, perhaps cap itemized deductions at 28%
- President has sought permanent AMT patch
- Estate tax expired for 2010, but is back for 2011 at 35% over $5 million, through 2012
  - Pre-2001 law is 55% over $1 million
- Will happen all over again at the end of 2012 unless resolved

Programs

- Health Care ("PPACA" / "ObamaCare")
  - Major provisions begin taking effect in 2014
  - Dems support, Reps and Inds generally oppose
  - Constitutional challenge by states
- Unemployment Insurance Taxes
  - States lowering UI taxes and not saving reserves in good times, raising taxes and borrowing in bad times
  - Program taking on need-based characteristics, unmooring from original social insurance idea
  - Reform options
- Entitlements, especially Medicaid: ?

Individual Taxes

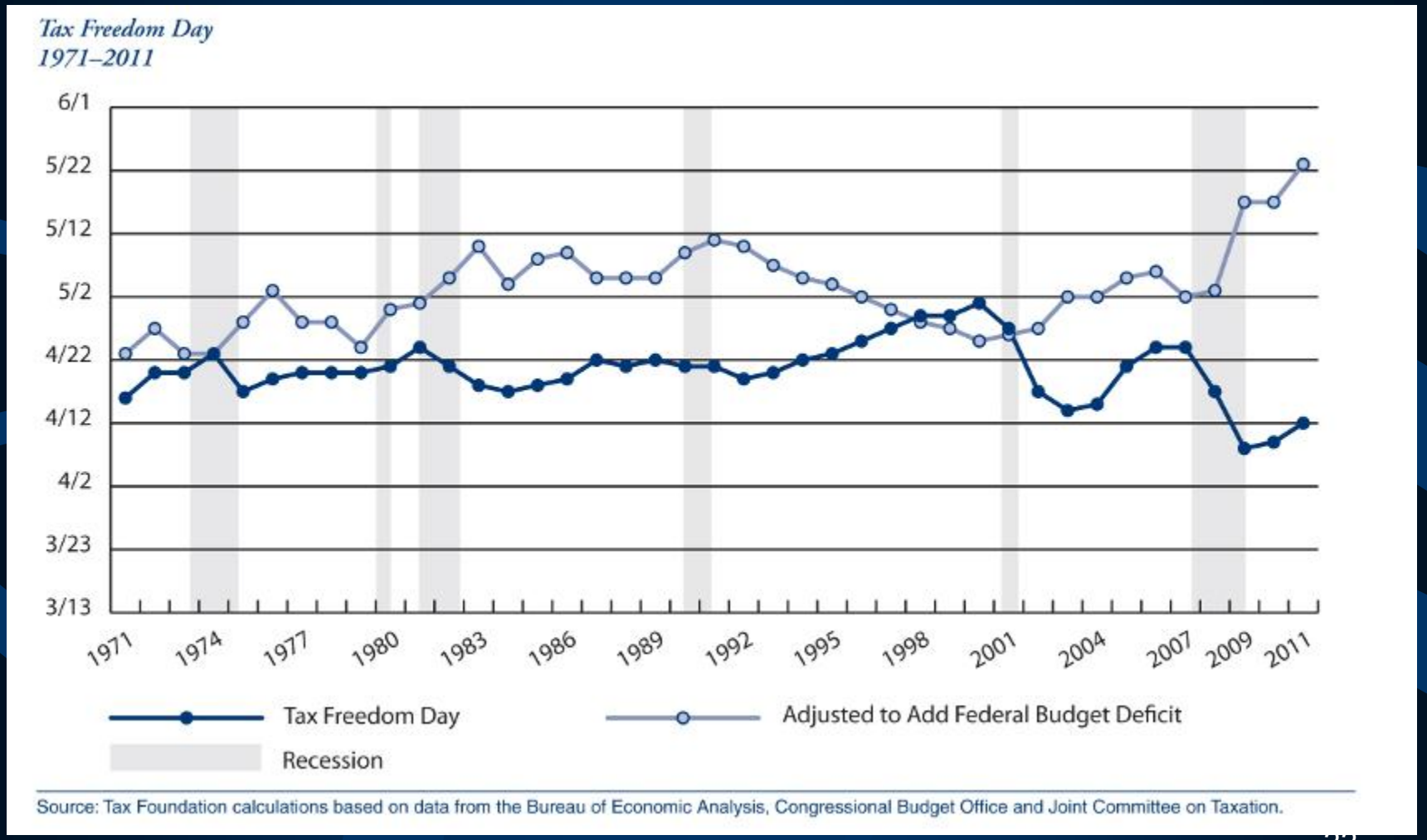
- How Federal Changes Affect the States
  - Directly
    - Many states tax federal calculations as starting point
    - Federal deductibility
    - Estate tax "pick up" (pre-2001, replaced with credit)
  - Dynamically
    - Changes behavior of taxpayers (e.g., capital gains tax change, higher tax rates)
    - Grows or shrinks the economy, affecting state income and sales tax collections
  - Dramatically
    - VAT or national sales tax: would it be a minor change or would it destroy the states?

Tax Foundation Annual Studies

- Tax Freedom Day: National Tax Bill
  - 2011: **April 12**
    - 102 days into the year
    - 27.7% of income
    - +3 days from ’10
  - Tax Freedom Day inc. federal deficit: May 23
- Each state has a Tax Freedom Day
  - Rhode Island: **April 13**
  - Earliest: Mississippi (March 26)
  - Latest: Connecticut (May 2)

Tax Foundation Annual Studies

- Tax Freedom Day



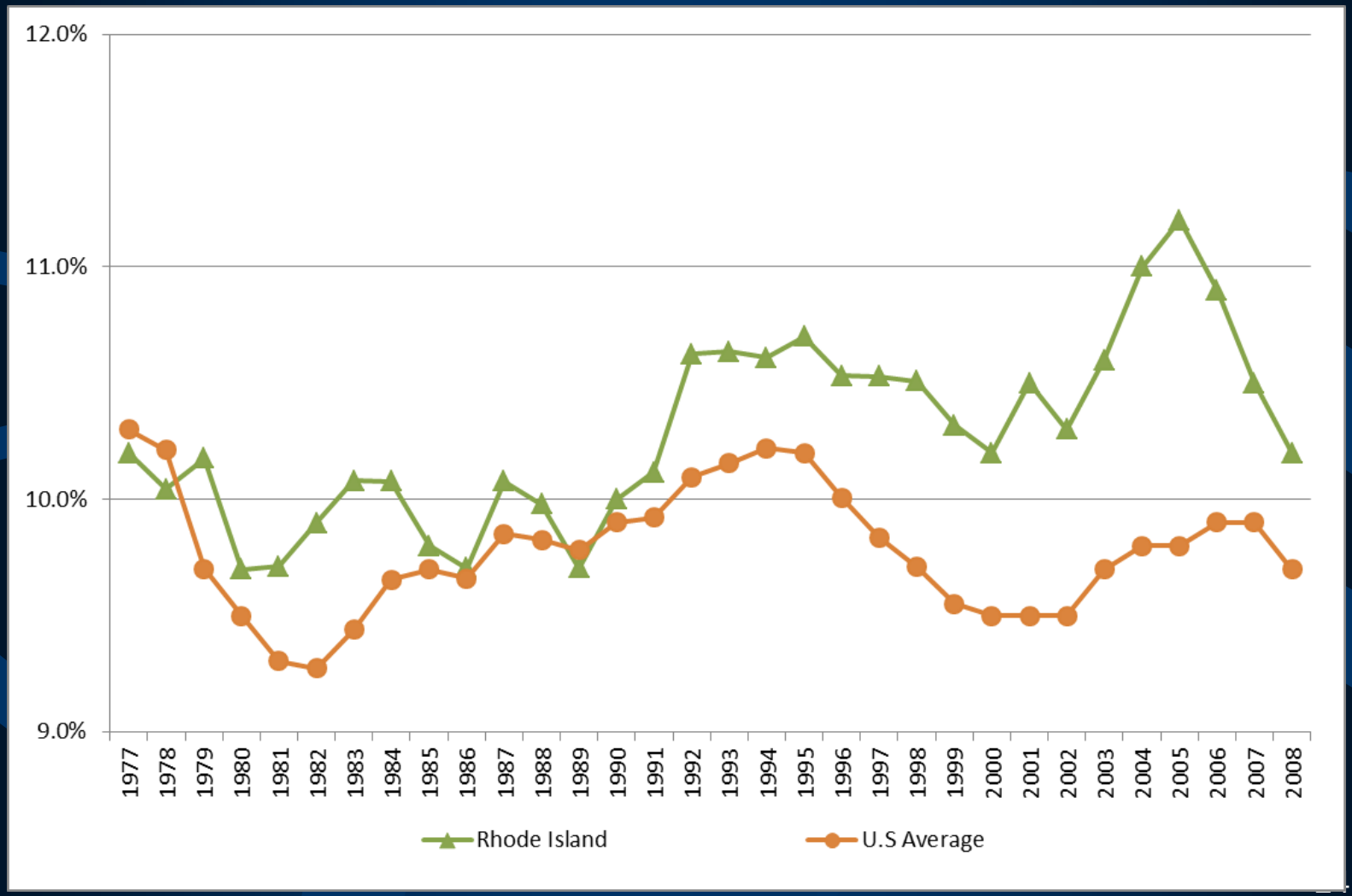
Tax Foundation Annual Studies

State-Local Tax Burdens

- Percent of residents' income paid in taxes
- Adjusts for tax exporting
- Does not account for value of government services or regulatory benefits/costs or tax collection efficiency
- U.S. Average (2009): 9.8% ($4,160)
  - Highest: New Jersey: 12.2% ($6,751)
  - Lowest: Alaska: 6.3% ($2,973)
  - Rhode Island: 10.7% ($4,647) – 5th or 8th highest

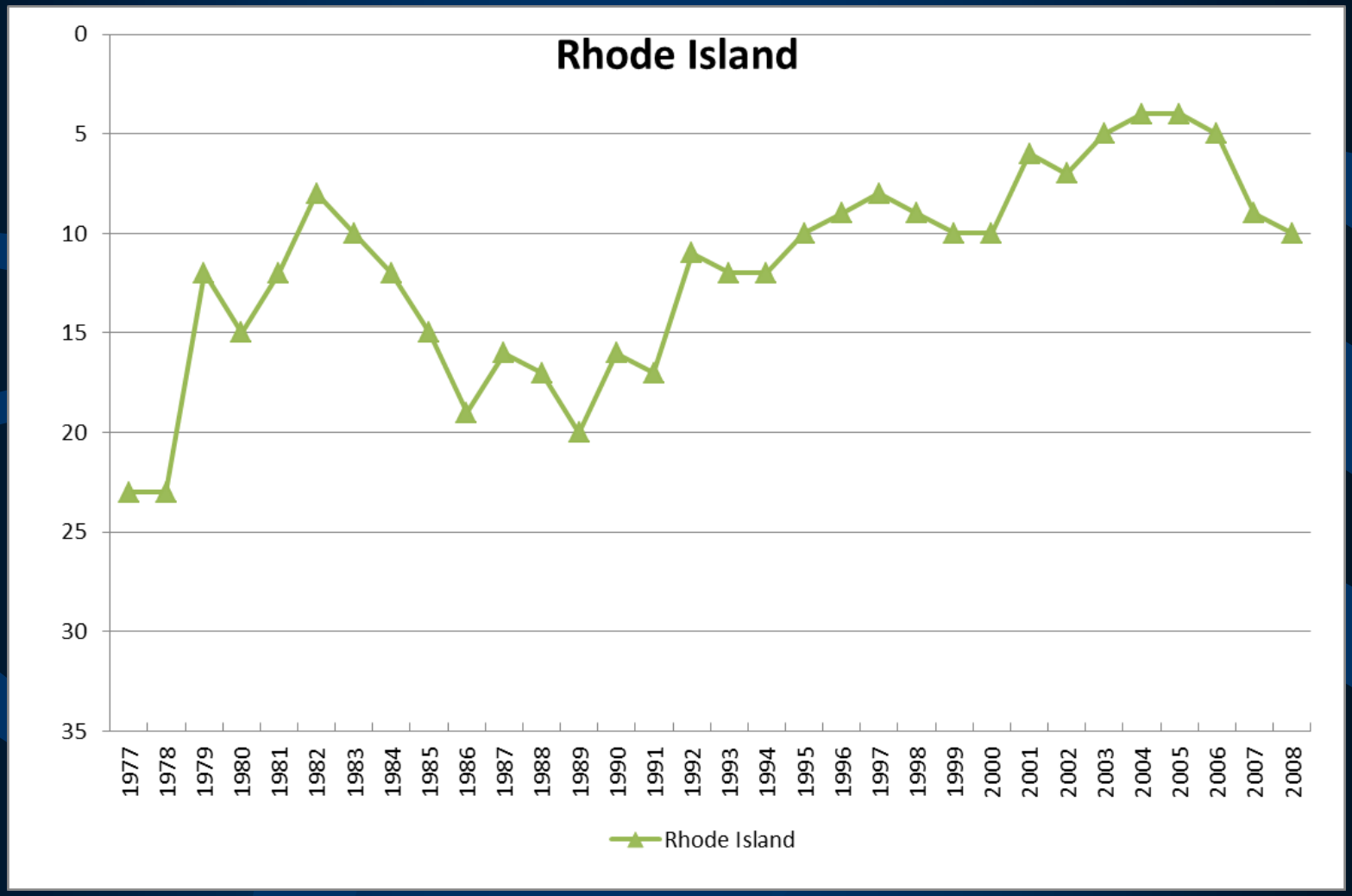
Tax Foundation Annual Studies

- State-Local Tax Burdens: Rhode Island



Tax Foundation Annual Studies

- State-Local Tax Burdens: RI Ranking



Tax Foundation Annual Studies

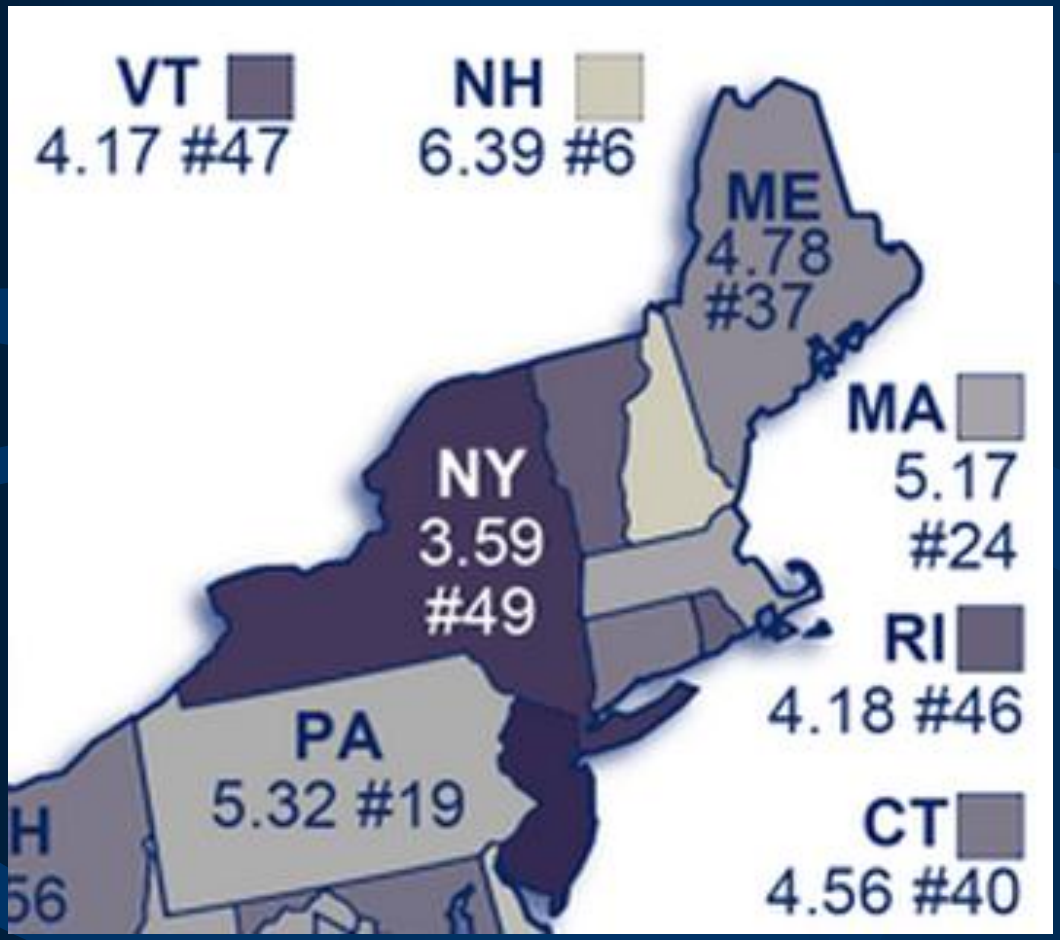
State Business Tax Climate Index

- *How* states raise their taxes
- Ranking
- Roadmap

- 2012 Index (using July 1, 2011 snapshot):
  - NY & NJ worst, South Dakota 1st (best)
  - Rhode Island: 46th
    - Corporate: 40th
    - Individual: 36th
    - Sales: 24th
    - Unemployment Insurance: 50th
    - Property: 46th

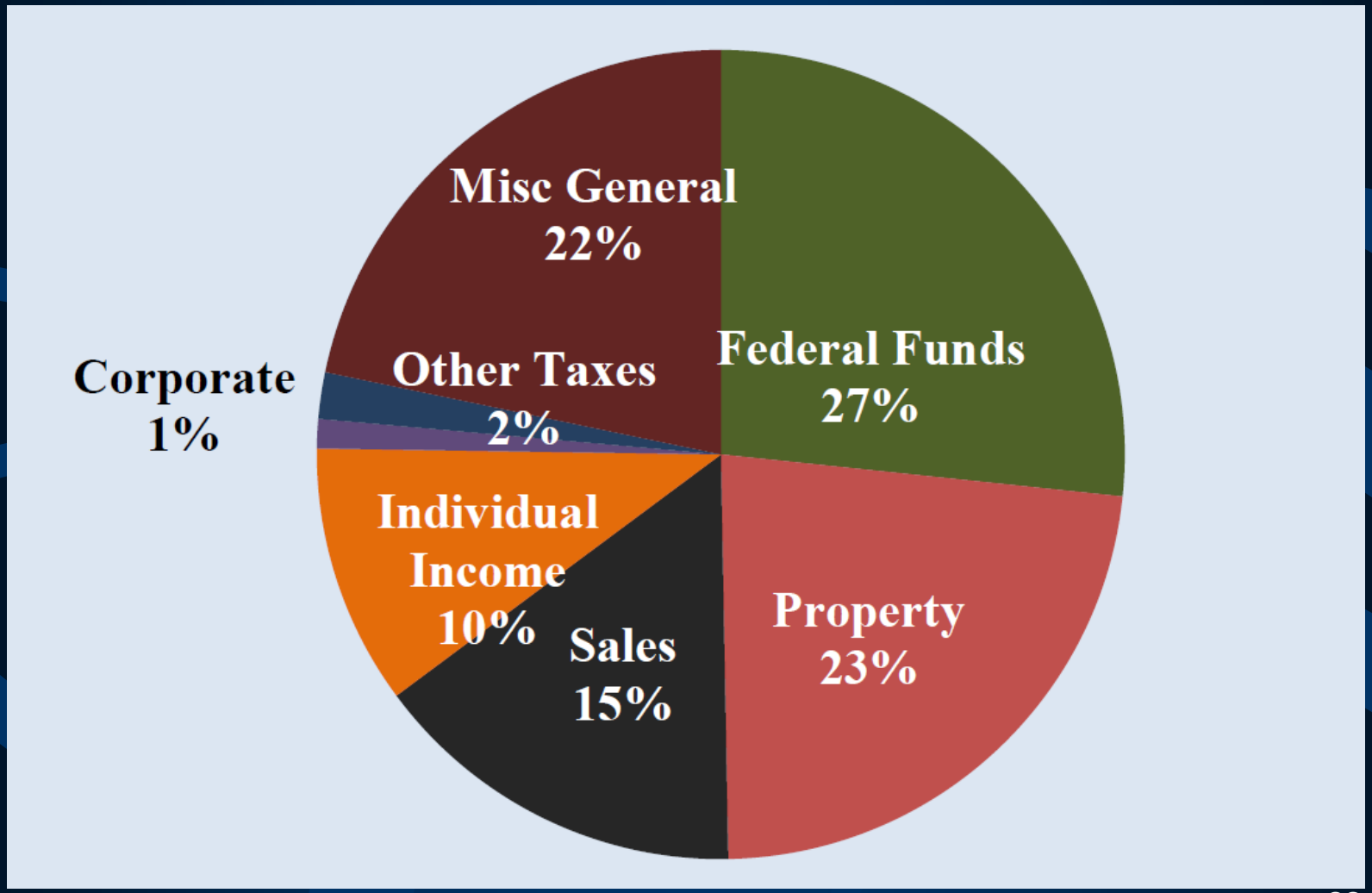
Tax Foundation Annual Studies

- State Business Tax Climate Index 2012



Tax Foundation Regular Studies

Sources of Revenue: Rhode Island



Tax Foundation Regular Studies

- Tax Collections
  - State Individual Income Tax Collections
    - Rhode Island: $864 (17th)

State	Collections per capita (2009)	Rank (2009)
U.S.	$805	--
New York	$1,889	1
Connecticut	$1,816	2
Massachusetts	$1,614	3
Oregon	$1,429	4
Minnesota	$1,324	5

Tax Foundation Regular Studies

- Combined State & Average Local Sales Tax

State	Rate	Rank
Tennessee	9.44%	1
California	9.08%	2
Arizona	9.01%	3
Louisiana	8.69%	4
Washington	8.61%	5

- Rhode Island: 7.00% (20th)

Select Cities:

New York City	8.875%
Los Angeles	9.75%
Chicago	9.75%

Source: U.S. Census Bureau; Tax Foundation; Sales Tax Clearinghouse

Tax Foundation Interactive

- Property Taxes on Owner-Occupied Housing

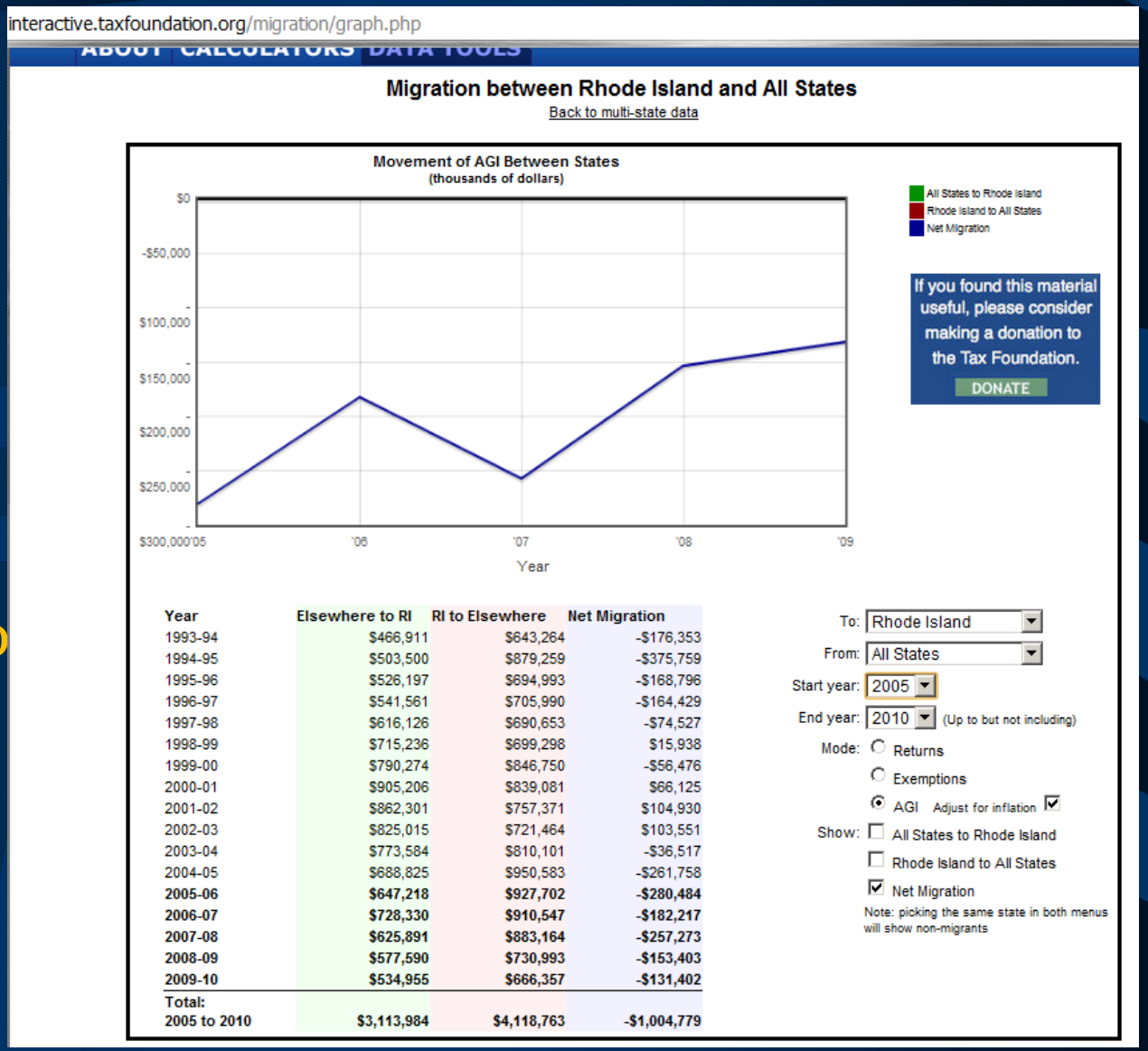
State	Tax as a Percent of Home Value (2009)	Rank
New Jersey	1.89%	1
New Hampshire	1.86%	2
Texas	1.81%	3
Wisconsin	1.76%	4
Nebraska	1.76%	5
U.S. Average	1.04%	--

- Rhode Island: 1.47% (10th)
- Visit interactive.taxfoundation.org for data by county

Source: U.S. Census Bureau; Tax Foundation. Property taxes paid by renters, businesses, and others are excluded.

Tax Foundation Interactive

- State-to-State Migration Data
- Visit interactive.taxfoundation.org for online tool



Location Matters

- Tax Foundation economists designed seven "model firms"
  - Corporate headquarters
  - Research and Development facility
  - Retail
  - Call Center
  - Distribution Center
  - Capital-Intensive Manufacturer
  - Labor-Intensive Manufacturer
- KPMG accountants calculated the tax bill for each firm in all fifty states
  - Corporate income tax, UI tax, sales tax, property tax, GRT
- Calculated both for new firm (incentives) and mature firm

Forthcoming Study

Call Center
Mature: 49th best
New: 48th best

Corporate Headquarters
Mature: 41st best
New: 37th best

R&D Facility
Mature: 33rd best
New: 47th best

Forthcoming Study

Retail

Mature: 46th best

New: 47th best

Distribution Center

Mature: 45th best

New: 46th best

Forthcoming Study

Labor-Intensive Manufacturing

Mature: 46th best

New: 38th best

Capital-Intensive Manufacturing

Mature: 33rd best

New: 12th best

Tax Foundation Annual Studies

- Facts & Figures
  - Rates, collections data, and rankings for each state and each type of tax

Specific Tax Policy Research Areas

Sales Taxes
- Broad Bases/Low Rates/Inputs
- VAT/FairTax/SSTP
- Sales Tax Holidays
- Grocery & Clothing Exemptions
- Use Taxes
- "Amazon" Taxes/Nexus Issues
- Gross Receipts Taxes
- Local Option Sales Taxes

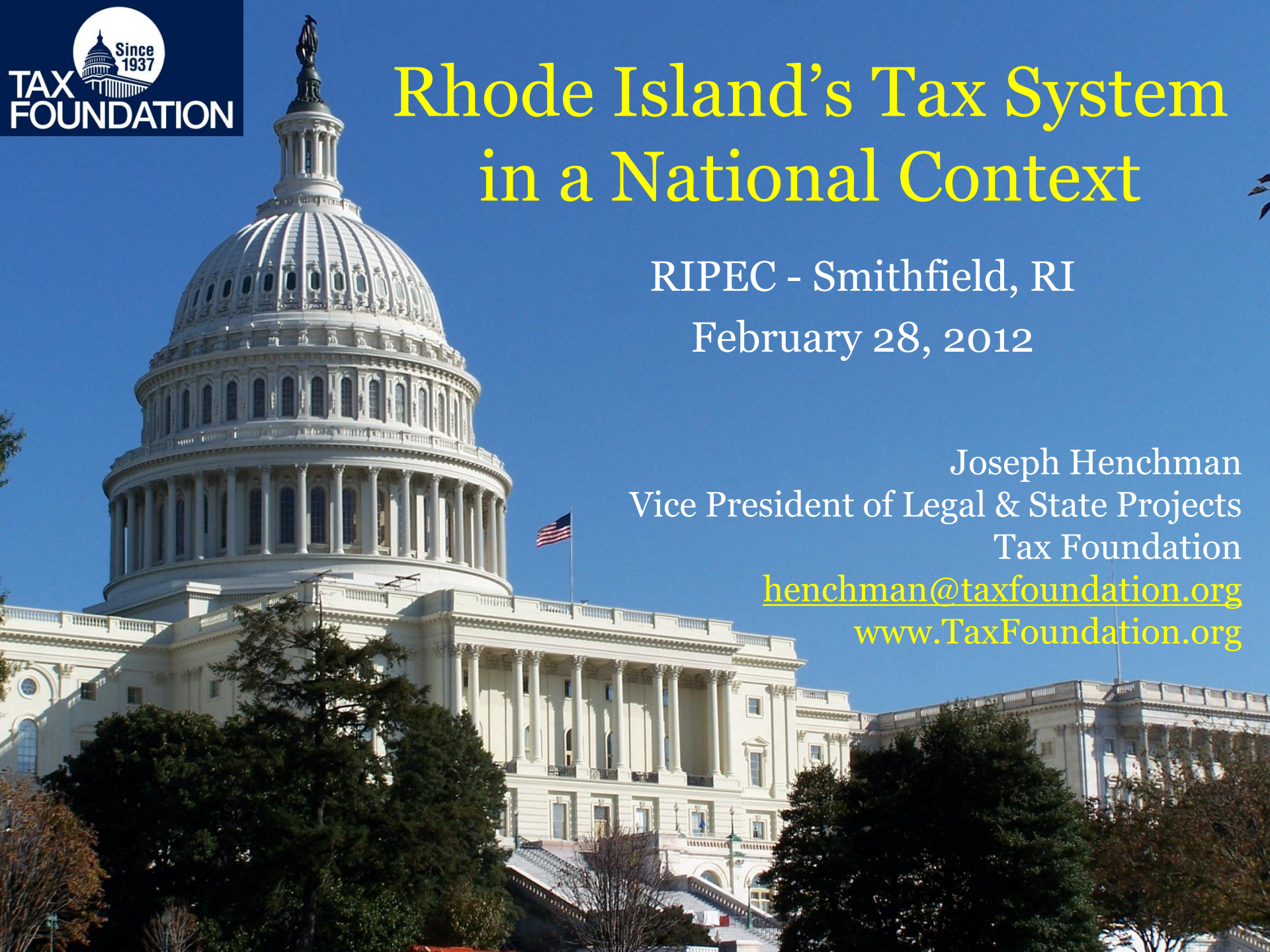
Excise Taxes
- History & Purpose/ "Pigouvian" Taxation
- Cigarette
- Alcohol
- Gasoline/Tolls/Charges/Car
- Obesity/Soda/Sugar/Salt
- Plastic Bags/Bottled Water

Business Taxes
- Incidence of Corporate Taxation
- Corporate Form/Pass-Thru
- Depreciation
- "Loopholes"
- Incentives: R&D, Job Creation, Investment, Film
- Franchise Taxes
- Inventory/Capital Stock Taxes
- Severance Taxes
- Amnesties
- High Federal Rate

Property & Wealth Taxes
- Assessments & Limitations
- Commercial vs. Residential
- Personal Property/Transfer
- TIFs and PILOTs
- Estate/Inheritance/Gift

Income Taxes
- Structure/Justifications
- Brackets/Progressivity
- Credits/Deductions/Exclusions
- Capital Gains
- "Jock" Taxes/Nonresident Taxes
- Local Income Taxes

Miscellaneous
- "Tourist" Taxes (Hotel, Meals, Car Rental)
- Cell Phone/Telecom
- Unemployment Insurance
- User Fees/State Enterprises
- Lotteries/Gambling
- Redistribution Issues
- Taxes vs. Fees
- Taxpayer Protections
- Constitutional Powers & Rights



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