

# Rhode Island Taxes Hit Poor & Middle Class Far Harder than the Wealthy

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Low- and middle-income families in Rhode Island pay a considerably higher share of their income in state and local taxes than do the richest Rhode Island families, according to a new study by the Institute on Taxation & Economic Policy.

“State and local governments are being called upon to take on more and more responsibilities,” said Robert S. McIntyre, ITEP’s tax policy director and lead author of the study, titled *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*. “Unfortunately, when it comes to paying for services, Rhode Island has a very unfair tax system.”

## Rhode Island’s Tax Code: Tax the Poor & Middle Class Far More Than the Rich

When all Rhode Island taxes are totaled up, the study found that:

- The richest Rhode Island taxpayers—with average incomes of \$826,000—pay 7.6% of their income in Rhode Island state and local taxes before accounting for the tax savings from federal itemized deductions. After the federal offset, they pay only 5.5%.
- Middle-income taxpayers in Rhode Island—those earning between \$27,000 and \$43,000—pay 11% of their income in Rhode Island state and local taxes before the federal deduction offset and 10.7% after the offset—or almost twice the share the rich pay.
- Rhode Island families earning less than \$16,000—the poorest fifth of Rhode Island non-elderly taxpayers—pay 11.5% of their income in Rhode Island state and local taxes which is more than twice the share the best-off Rhode Islanders pay.

“Rhode Island’s income tax fails to offset the regressivity of its sales and excise taxes, giving the state an unfair, regressive tax system,” McIntyre said. “Taxes ought to be based on people’s ability to pay them, which means that the share of income paid in taxes should rise as income grows, not fall as is the case in Rhode Island.”

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## **Tax Regressivity Has Grown Since 1989**

The study also examined the impact of changes in the regressivity of Rhode Island taxes since 1989, when the last cycle of state government shortfalls began. The study's findings include:

- Tax burdens have risen generally in Rhode Island, but the largest increases fell on low- and middle-income families.

“Low- and middle-income taxpayers in Rhode Island were not helped by the cut in the sales tax because of other regressive hikes,” said McIntyre. “As lawmakers consider budget-balancing strategies in 2003, they should remember that their past actions have served to shift a greater share of the tax burden onto low-income taxpayers.”

### **Two pages of tables detailing the Rhode Island findings of the study follow**

The Institute on Taxation and Economic Policy is a nonpartisan Washington-based research group. The full *Who Pays?* report is available in PDF format at [www.itepnet.org](http://www.itepnet.org). Printed copies can be ordered by calling ITEP at 202-737-4315.

*Who Pays?* examines the tax systems of all 50 states and the District of Columbia, using the Institute on Taxation & Economic Policy Microsimulation Tax Model. The ITEP Model is similar in methodology and data sources to the elaborate computer models used by the U.S. Treasury and the congressional Joint Committee on Taxation, except that the ITEP Model adds state-by-state estimating capabilities.

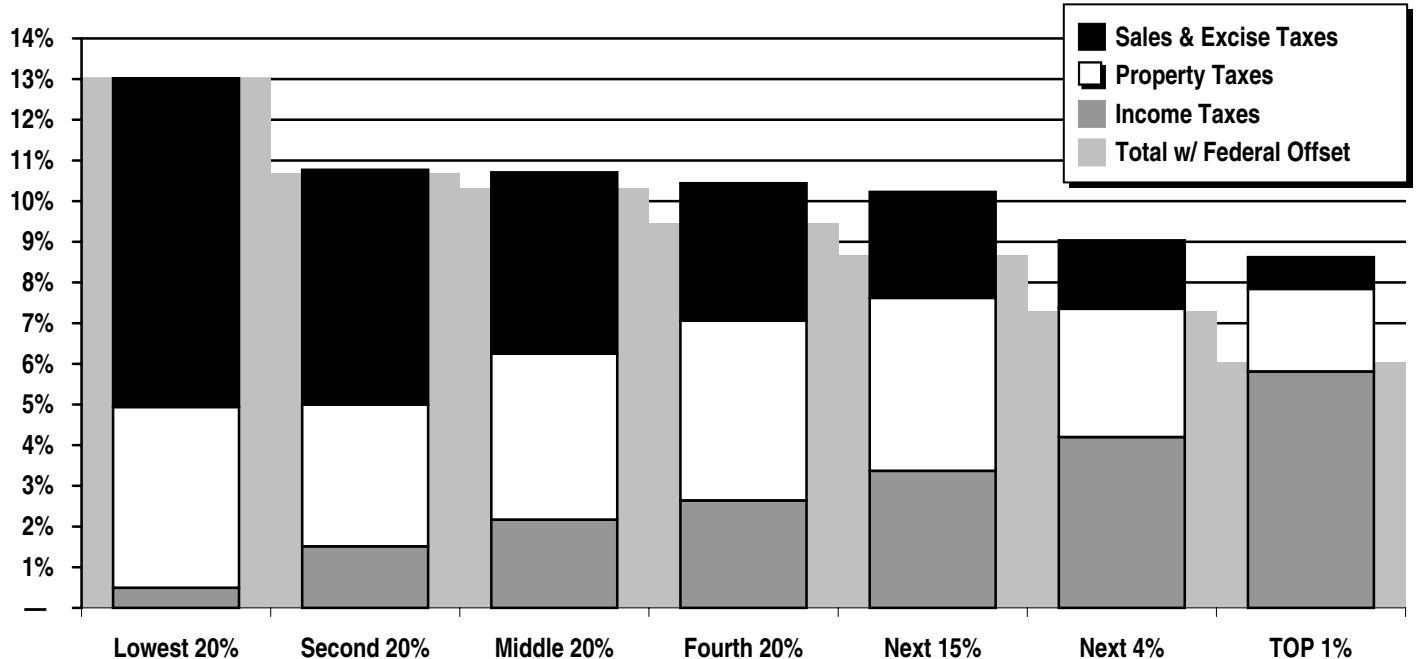
The findings published in the study detail state and local taxes paid by non-elderly couples and individuals. The study includes all major state and local taxes: personal and corporate income taxes, property taxes, and sales and excise taxes.

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# Rhode Island

## State & Local Taxes in 2002

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$15,000	\$15,000 – \$29,000	\$29,000 – \$47,000	\$47,000 – \$71,000	\$71,000 – \$144,000	\$144,000 – \$272,000	\$272,000 or more
Average Income in Group	\$8,400	\$21,500	\$36,000	\$57,900	\$96,100	\$189,000	\$757,000
<b>Sales &amp; Excise Taxes</b>	<b>8.1%</b>	<b>5.8%</b>	<b>4.5%</b>	<b>3.4%</b>	<b>2.6%</b>	<b>1.7%</b>	<b>0.8%</b>
General Sales—Individuals	3.2%	2.6%	2.1%	1.7%	1.4%	0.9%	0.4%
Other Sales & Excise—Ind.	3.0%	1.7%	1.3%	0.9%	0.6%	0.4%	0.1%
Sales & Excise on Business	1.9%	1.5%	1.1%	0.8%	0.6%	0.4%	0.2%
<b>Property Taxes</b>	<b>4.4%</b>	<b>3.5%</b>	<b>4.1%</b>	<b>4.4%</b>	<b>4.3%</b>	<b>3.2%</b>	<b>2.0%</b>
Property Taxes on Families	4.3%	3.3%	3.9%	4.2%	4.0%	2.7%	1.3%
Other Property Taxes	0.1%	0.2%	0.1%	0.2%	0.3%	0.4%	0.7%
<b>Income Taxes</b>	<b>0.5%</b>	<b>1.5%</b>	<b>2.2%</b>	<b>2.6%</b>	<b>3.4%</b>	<b>4.2%</b>	<b>5.8%</b>
Personal Income Tax	0.5%	1.5%	2.2%	2.6%	3.3%	4.1%	5.7%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%
<b>TOTAL TAXES</b>	<b>13.0%</b>	<b>10.8%</b>	<b>10.7%</b>	<b>10.4%</b>	<b>10.2%</b>	<b>9.0%</b>	<b>8.6%</b>
Federal Deduction Offset	—	-0.1%	-0.4%	-1.0%	-1.6%	-1.8%	-2.6%
<b>TOTAL AFTER OFFSET</b>	<b>13.0%</b>	<b>10.7%</b>	<b>10.3%</b>	<b>9.5%</b>	<b>8.7%</b>	<b>7.3%</b>	<b>6.0%</b>

Note: Table shows 2002 tax law at 2000 income levels.

# Rhode Island Tax Trends

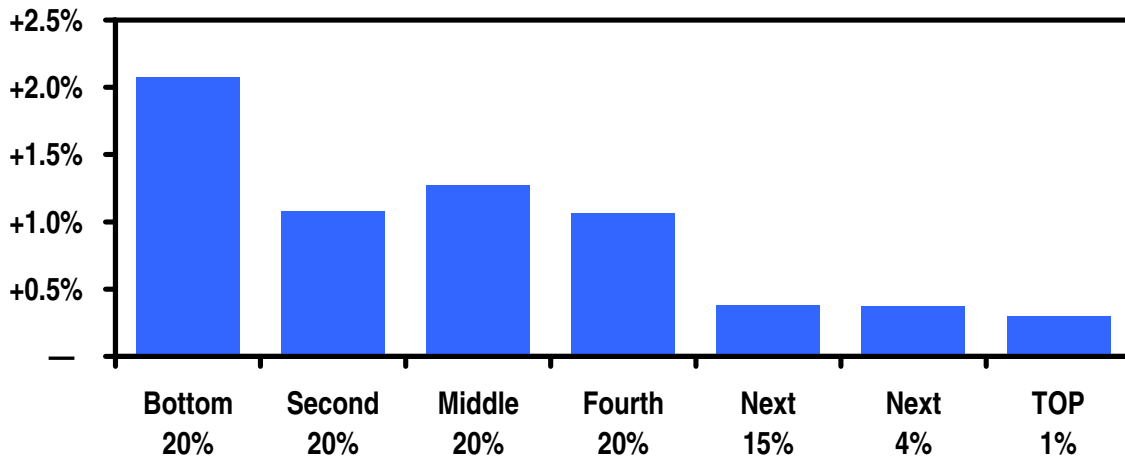
## Progressive Features

- ✓ Income tax based on progressive federal tax

## Regressive Features

- ✗ High sales tax rate
- ✗ One of the highest cigarette taxes in the nation

## Changes in Taxes as Shares of Income, 1989 – 2002

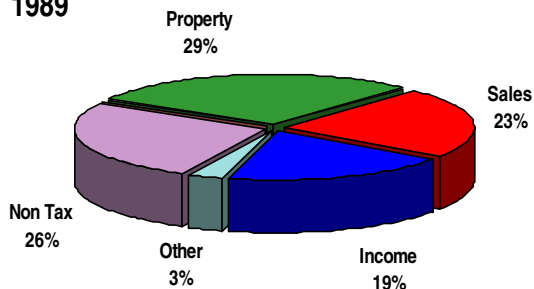


	Bottom 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Sales & Excise	+1.6%	+0.8%	+0.6%	+0.4%	+0.3%	+0.2%	+0.0%
Property	+0.6%	+0.5%	+0.7%	+0.9%	-0.0%	-0.5%	+0.1%
Income	-0.1%	-0.2%	+0.1%	+0.3%	+0.5%	+0.6%	+1.0%
Federal Offset	—	-0.0%	-0.2%	-0.5%	-0.3%	+0.0%	-0.9%
<b>Overall Change</b>	<b>+2.1%</b>	<b>+1.1%</b>	<b>+1.3%</b>	<b>+1.1%</b>	<b>+0.4%</b>	<b>+0.4%</b>	<b>+0.3%</b>

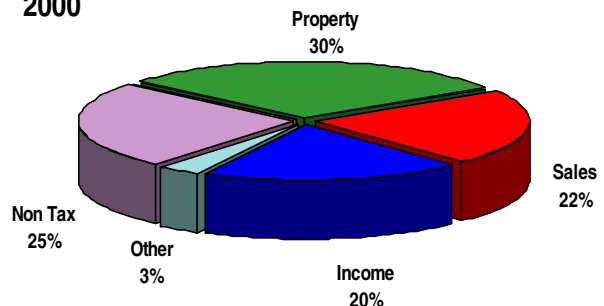
Until the state decoupled from the federal system in 2001, Rhode Island state income tax was calculated as a percentage of federal income tax. This simple tax system became more progressive in the 1990s as the federal tax became more progressive, and Rhode Island maintained its strong progressivity by using the tax brackets as they stood before the regressive 2001 rate reductions. Unfortunately these progressive changes in the income tax were not enough to offset a regressive 1% hike of the general sales tax and an enormous cigarette tax hike of \$1.24.

## Composition of Revenues

1989



2000



Source: Government Finances, US Department of Census