

6 May 2021

House Finance Committee  
Testimony in support of H5227  
to raise marginal rates on wealthy citizens

Honorable Committee Members:

My name is Tom Sgouros and I have been researching and monitoring tax policy in Rhode Island since 1988.

Since 1995, when the state tax administrator chose to ignore a law imposing a surtax on wealthy taxpayers, our state's tax policy has been all about giving money to rich people in the hope that they would do something constructive with it.

We cut the income tax by 10% across the board in 1997–2002, and then we cut the capital gains taxes shortly afterward, established tradable tax credits for several purposes, and offered the wealthy a “flat tax” option in 2007. That was supposed to be temporary, but it was baked in permanently in the 2011 changes.

That's over a quarter-century of indulgence to the idea that tax cuts promote economic growth. I see no evidence that we got what we were promised, but the evidence is overwhelming that we lost out on important investments in the meantime. Over these past 25 years, these tax cuts represent over \$2 billion in foregone income, more than two years of income tax collections.

When the legislature made those cuts, they were never paid for. Nobody identified the spending that would be cut to pay for them. So we didn't invest in our state's schools, just for example. Accounting for inflation, local school funding next fiscal year might just barely reach the level it was at in 2003. That was before No Child Left Behind, and a whole host of state education mandates as well.

We didn't change mandates to municipalities for clean water, elections, policing, or anything else, either. The state just moved responsibilities onto cities and towns while patting itself on the back for cutting taxes.

Property taxes, of course, fall most heavily on the poor. So at the same time we were making life easier for rich people, we were making things more miserable for the poorest Rhode Islanders. While also failing to invest in education, public transit, affordable housing.

It's a shame to run a state this way. They say the best time to plant a tree is 25 years ago and the second best time is now. We made some serious mistakes in tax policy 25 years ago, but now is the time to fix them.