September 30, 2013

TO:	**Joint Sales Tax Study Commission**
FROM:	**Mike Stenhouse, CEO**
SUBJECT:	**Testimony re. House Bill 5365**

Dear Chairman Malik and Commission members:

My name is Mike Stenhouse, CEO for the RI Center for Freedom & Prosperity. A lifelong RI resident, I have a degree in Economics from Harvard University, and I am a two-time small business owner in the state of RI, among other experiences.

Our Center is a non-partisan, public policy think tank committed to free-market principles as the means to improve our state's competitiveness.

We are here today largely because of the Zero.Zero Sales Tax report we initially published in 2012 and updated earlier this year. This reform likely represents the largest tax relief and economic stimulus plan ever considered by our state. It is my assumption that the purpose of this commission is to determine IF our state is in need of a game changing reform of this magnitude, if sales tax reform produces the desired benefits, and if this reform can be viably implemented.

Understanding that today's hearing has a focus of state-to-state comparisons, I am handing out a copy of our 2013 report today merely for the reference of each commission member. You will find that the report answers many of the questions that were posed at the first commission hearing.

On a broader state comparison measure, please also see the Report Card we've handed out, which provides comparisons in 52-categories, again for your reference.

I just returned from a national conference in Oklahoma City of our peer think thanks from all other states, and I think it's important for you to be aware that many other states are aggressively seeking major reforms to improve their states' competitiveness, to grow their economies, and to create jobs for their residents. It is our goal to convey to you that the elimination or reduction of our state's burdensome sales tax in not an unachievable, pie-in-the-sky policy goal: but instead is a bold and sound policy reform, on a level consistent with what other states are doing. Indeed, our current tax policy is not working for us right now.

Before I get into some state-to-state analysis, may I suggest that in addition to the many facts and figures that will surely be reviewed by this commission in the coming months … that we should also think of the families who represent those numbers. I'd like you to keep an image in mind as we proceed with these hearings: (see the Family Dinner Table cartoon poster)

Mr. Chairman and commission members … public policy in this state is tearing families apart. Our Center believes that major reform of our state sales tax will help bring family members back to the dinner table by ensuring that renewed opportunities exist – here in the Ocean State - for those who wish to succeed.

We are all aware of - and are likely embarrassed by - our state's perpetually poor national rankings. Indeed, the status quo is the enemy of our future: A new tax policy path is required.

If there is only one takeaway I hope will take root from my testimony today it is this: that as a state, as public officials, and as opinion leaders, that it IS IN OUR HANDS to create OUR OWN path for economic growth that will provide better lives for our neighbors. Other states are acting boldly, and so can Rhode Island. This commission has the power to recommend that our state start down that path.

So what are the national trends and relevant state-to-state comparisons? As compared with other states, RI Exhibits most all of the classic symptoms of a state in the throughs of a death spiral:

- Losing population in terms of state-state migration
- Higher income people leaving Rhode Island, while attracting lower income people
- Yet, budget continues to increase … increased burden on a smaller tax base … unsustainable … further perpetuates the death spiral

How do the other NO-SALES-TAX states do it? Please now refer to the state-comparison handout …

ALL STATES WITH 0.0% SALES TAX SAW POPULATION "GROWTH" – while Rhode Island is losing in terms of state-to-state migration of taxpayers. Additionally, Rhode Island is the only state among this group that saw a loss of wealth from this destructive out-migration trend <u>… losing over $2 billion</u> in adjusted gross income! Two billion dollars.

And these micro-findings in the Ocean State are consistent with national findings. Over the last decade, on net, more than 4.2 million individuals have moved out of the 10 states with the highest state and local tax burdens. Conversely, more than 2.8 million Americans migrated to the 10 states with the lowest tax burdens.

Tax policy does affect the migration of people, and it is indeed, people – families – that are the lifeblood of any state.

And it is JOB opportunities that attracts people. In this regard, again RI, with its high sales tax, lags far behind:

- RI, by far, has highest unemployment rate vs 0.0% sales tax states, almost double that of NH.
- 0.0% sales tax states saw a 191% - 323% higher jobs growth in past year vs RI
- All 0.0% sales tax states also weathered the recent recession far better than we did in RI. In fact, RI has the poorest record for recovering jobs, and it's getting worse, as compared with pre-recession peak levels, among all states - except Michigan, which recently is starting to improve. Soon, we will be last.

The findings are clear … other states without a sales tax are attracting people by growing jobs!
From a tax rate perspective, other 0.0% sales tax states do not resort to the philosophy of charging higher tax rates in other areas to produce revenues. In fact:

- Every 0.0% sales tax state has a lower corporate tax
- Every 0.0% sales tax state has a lower gasoline tax
- Every 0.0% sales tax state has a lower cigarette tax
- Every 0.0% sales tax state has a lower estate tax
- 3 of 5 0.0% sales tax states have a lower capital gains tax rate
- 2 of 5 0.0% sales tax states have a lower top income tax rate

In short, other 0.0% sales tax states, are not counter-balancing the absence of these revenues by increasing other tax rates as a general policy.

In terms of budgetary considerations, there are also a few notable findings:

First, with regard to revenues, and following up on the tax rate findings we just reviewed, the strategy the other 0.0% sales tax states apparently are pursuing is consistent with the findings in our Zero.Zero report:

that it is via a healthier economy, and the subsequent growth in the tax base and revenues derived from other tax areas, that states can produce the funds they need … without imposing high rates.

Each of these no-sales-tax states have healthier economies than Rhode Island, and each of these states collects the revenues they need to manage their affairs from other areas … due to increased economic activity – not due higher tax rates. Perhaps no other state provides a better example of this than Delaware, which, because of its stable and attractive overall corporate policy, is able to rake in significantly higher corporate tax revenues, even with a lower corporate tax rate than RI: in fact $236 per person more in revenues ($236 million in RI?)

Therefore, our Center suggests that in order to produce the revenues that Rhode Island needs to pay for all of the promises that it has made, that we must move towards a tax policy path that creates rapid economic growth. Sales tax reform is one giant step along that new path.

Second, with regard to spending, all of the non-sales-tax states simply spend less per resident than does Rhode Island, except Delaware. As you can see from our handout, all four 0.0% sales tax states spend less on public welfare, less on interest on debt, and less on utility expenditures.

Simultaneously, all four states are able to spend at higher levels in arguably more important areas to our personal daily lives: more on highways, natural resources, more on parks & recreation, as well as more on education and corrections (except New Hampshire in these last two areas).

Third, with regard to actual budgets, it is not an impossibility to consider actual cuts to our state budget. Nationally, according to The Tax Foundation, over the past few years, multiple states have made real reductions to their general fund budgets.

And finally, Mr. Chairman, if I may, just one additional item … regarding state-to-state, cross-border shopping, a question that was raised at the first commission meeting. There have indeed been studies conducted in this area. May I ask you to refer to page-5 of our report, which documents how just the border counties in Maine lost as much as $2 billion in retail sales to New Hampshire, because of its 0% sales tax; and Vermont suffering similarly and with a loss of over 3000 jobs.

But there's more. In fact, based on testimony from the House Finance Committee hearing earlier this year, Paul Bachman, of the Beacon Hill Institute in Massachusetts, has concluded that Rhode Island is likely to benefit significantly more from cross-border shopping than what New Hampshire currently enjoys:

From a cross-border perspective, Rhode Island's unique geography positions us well to attract shoppers from other states. Rhode Island is a small state that borders Connecticut and Massachusetts, states that have the fourth and fifth highest household incomes respectfully (much higher than Maine and Vermont that border NH). Moreover, all three states are connected by the heavily travelled Interstate 95 which runs through the heart of Rhode Island. This route not only provides a great conduit to transport shoppers from Connecticut and Massachusetts to Rhode Island, but also tourists from other states that travel to Cape Cod, Boston, and other New England destinations in the summer months.

Even more significantly, Rhode Island also has a higher population density on its borders than New Hampshire. The counties in Maine, Massachusetts and Vermont that border New Hampshire have an average population density of about 400 persons per square mile. The Massachusetts and Connecticut counties that border Rhode Island have a population density of over 1,500 persons per square mile. Almost 4X as much.

In short, Rhode Island has many more – and much wealthier - potential shoppers on its borders than does New Hampshire. Sales tax reform should produce even more dramatic results than we have seen in New Hampshire.