

RI Sales Tax Commission Highlights: Testimony Supports Repeal or Rollback

The *Special Joint Legislative Commission to Study Repeal of the State Sales Tax* heard testimony from multiple sources that significant reductions to the sales tax will help keep Rhode Island as home to more people and businesses and will attract out-of-state shoppers to the point where our state's economy would receive a positive "shock."

Economic Benefits: *(see reverse side)* with RI shoppers staying home, and others flowing over the border or stopping in RI ...

- Complete repeal of the sales tax produces the most jobs (25,000, requiring budget savings of about \$313 million).
- Reduction of the sales tax to 3% is the best budget value (almost 14,000 jobs, requiring \$48 million in budget savings).
- All sales tax cut scenarios result in "dynamic" revenue increases in other revenue areas.
- The 0.0% and the 3.0% sales tax scenarios each result in an annual municipal revenue windfall of over \$100 million.
- Major sales tax reform would help stop the out-migration of wealth from RI, estimated at over \$2 billion in gross income.

A Regressive Tax: Repeal of sales tax would disproportionately help low-income families ...

- Sales tax relief would lessen the overall tax burden on RI low-income families, one of the highest such burdens in America.
- The thousands of new jobs created would provide increased opportunities for upward income mobility.

Empirical Evidence from Other States: shows that RI can emulate other states in implementing this reform ...

- The state of New Hampshire, and other no-sales-tax states, benefit from this policy; each has a lower unemployment rate, is growing in population, and generally does not attempt to counter-balance revenues by increasing other major tax rates.
- New Hampshire - with its 0.0% sales tax rate - has attracted over \$2 billion in retail sales from border counties in Maine, and about \$500 million from Vermont.
- The density and wealth of the border-county populations of Rhode Island's neighboring states are significantly higher than those on New Hampshire's border ... meaning RI could realize a far greater cross-border shopping impact.
- A national state tax policy expert from the Tax Foundation stated that RI must implement significant reforms to keep pace with other states that, nationally, are fiercely competing for people and business investment.
- In 2013, 18 states made economic growth a priority by "cutting" taxes.

Anecdotal Testimony: broad public support for repeal; would restore faith in state government ...

- Business owners testified how sales tax repeal would boost their businesses, giving them a better chance to survive, expand, or even remain in RI and not consider relocation across the border.
- Parents and students testified how the cost-savings on every-day items would be important to their personal savings.
- Multiple witness discussed how they and their friends often shop in other states to avoid paying high sales taxes.
- Many witnesses testified that it was sad to see friends and family move to other states, and that it would be an unexpected surprise for RI residents to see their government is working for them, for once ... and give them hope for the state's future.

Business Costs of Compliance: repeal would save money and headaches for small business owners ...

- The sales tax is a tax on business: approximately 40% of sales tax revenues come from B2B transactions.
- Regarding the unfunded mandate imposed on all restaurants and other businesses with a permit to conduct retail sales, both a video presented by the Center and testimony from the Department of Revenue talked about the sometimes costly compliance costs and the enforcement approach by the State and the costs to sustain.
- Only via complete repeal of the sales tax can savings on related compliance costs and gov't infrastructure be realized.

Economic Modeling Tools: our Center's Zero.Zero report was called into question based on the STAMP modeling tool ...

- It was also questioned whether the State's modeling tool, REMI, qualified as a credible basis to refute STAMP, given that it would tend to project a more positive outcome for increased government spending, which clearly has not been the case in RI.
- Should RI seek to preserve current levels of government spending or seek non-revenue-neutral policies that stimulate growth?

Projected Economic & Revenue Fiscal Year 2014 Impact of Changes to the RI State Sales Tax			
			
RI-STAMP Projections			
Employment and Investment	0.00% Sales Tax		3.00% Sales Tax
Private Employment	baseline	projected	projected
Number of private jobs	399,787	425,213	413,521
Change in private employment	-	25,426	13,735
% change in employment relative to baseline	-	6.36%	3.44%
Investment & Growth	baseline	projected	projected
Baseline investment (\$m)	8,235	8,744	8,512
Change in nominal investment (\$m)	-	509	277
% change in investment relative to baseline	-	6.18%	3.37%
Gross state product (\$m)	54,924	65,227	60,713
Change in state gross product	-	10,304	5,789
% change in GSP relative to baseline	-	18.76%	10.54%
Annual population change	-	13,000	7,000
State Revenue Change (\$m)		-313	-48
State sales tax (\$m)	904	-	467
<i>Static sales tax calculation (\$m)</i>	904	-	388
<i>Dynamic revenue addition (\$m)</i>	-	-	79
<i>% change based on dynamic effect</i>	-	-	20.36%
State corporate and business taxes (\$m)	238	283	265
State tax on motor fuel (\$m)	137	139	138
State motor vehicle fees (\$m)	51	52	52
State estate taxes (\$m)	35	35	35
State personal income tax/capital gains tax (\$m)	1,131	1,430	1,339
State cigarette tax (\$m)	137	198	180
State alcohol tax (\$m)	12	18	16
State other taxes (\$m)	153	180	169
Other sources (\$m)	766	916	856
Municipal Tax Change (\$m)		149	109
Local sales tax (\$m)	16	-	18
Local tax on residential property (\$m)	1,577	1,627	1,607
Local tax on business property (\$m)	585	703	665
Local other taxes (\$m)	41	48	45
Local fees (\$m)	454	492	477
Total tax change (state + local) (\$m)		-163	61
Note: Detailed tax revenue projections apply STAMP projected changes to governor's recommendation.			
Full tax analysis report, "Zero-point-Zero," at www.RIFreedom.org.			