

Zero.Zero

Executive Summary: *How Elimination of the State Sales Tax Would Create Jobs for RI*

Competition among states is real, and it is clear that the Ocean State is losing its bid for people, money, businesses, and jobs. Public policy is not enacted in a vacuum; when a state makes changes to its policies — whether dealing with taxes or regulations — its overall image and competitiveness are affected.

Rhode Island needs a reboot. Our state must reverse course and embark on a different path that will restore prosperity, beginning with a firm statement of its future intentions. A new culture must take root — one that appreciates the power of unleashing, rather than restricting, the great potential of individuals and businesses.

In seeking the single most-effective tax reform providing the most-immediate impact to the most-pressing problem in the Ocean State - *jobs* - the Center for Freedom & Prosperity determined that the state sales tax would be the best place to start. Mainly, the more mobile the factors being taxed, the larger and more immediate the response to tax rate changes. Consumer shopping habits are highly mobile, and cross-border shopping is especially convenient for Rhode Islanders and their neighbors.

If the state retail sales tax were to be eliminated, the Ocean State would realize multiple economic benefits. As projected by RI-STAMP, our economic modeling tool, Rhode Island would see the following:

- Over 21,000 new private sector jobs, reducing unemployment by over three points
- Up to \$160 million in additional annual tax revenue to cities and towns
- An additional \$1 billion in disposable income available to spend in the state's economy
- An increase of over \$500 million in other tax receipts and fees
- Almost \$500 million in new capital investment in the state
- Lower tax compliance costs to businesses

Because of these benefits, the dynamic nature of tax reforms would mitigate the assumed shock to the public budget. A lower retail sales tax would spur additional retail sales. Longer term, revenue from other taxes would grow.



The image shows a side-by-side comparison of two game boards. The left board, labeled 'Player: 38 Studios', shows a 'Game Over' screen with a 'Projected Jobs' of 400 and a 'Cost' of \$75 Million. The right board, labeled 'Player: Zero.Zero', shows a 'Winner!' screen with a 'Projected Jobs' of 5000 and a 'Cost' of \$68 Million. The boards are filled with colorful blocks, and the Zero.Zero board has a significantly higher score and lower cost.

See Our Zero.Zero Sales Tax Report
www.RIFreedom.org

75-38-400 or 68-0-5000?

For less than the \$75 million the state wasted on 38 Studios chasing after 400 jobs, only \$68 million in first year budget cuts to pay for a 0.0% sales tax would produce 5000 jobs!

Nonetheless, Rhode Island would have to adjust its budget to account for lower sales tax receipts. The estimated amount, however, is not overwhelming and is within the range of the midyear budget adjustments that are typical of the past decade. Simply controlling the growth of the state's budget could potentially cover the entire reduction if spending were returned to a little below its level as recently as 2011.

Alternately, the four-year phase-out could largely be covered by elimination of corporate welfare and state could apply its FY12 budget surplus. Ongoing, it could reduce social service spending as a more prosperous public would require less direct assistance.

The full report provides multiple perspectives to support the viability of the concept:

- Discussion of past and future problems with the current sales tax structure
- Theoretical discussion why this tax will have the greatest impact on the state economy
- Credible projections on revenue and economic growth from a proven economic modeling tool
- Actual, empirical results from other states
- Multiple options to implement the cuts
- Practical suggestions to balance the budget

To view the entire report, including economic and revenue projections, go to www.RIFreedom.org/0-0-sales-tax