

3.0%: A Matter of Fairness

Four Reasons the Sales Tax Is Unfair

Justin Katz

Taxation > Sales Taxes > 3.0% > 3a

Stating his rationale for eliminating the state's car tax (as his campaign for reelection puffed toward the election day finish line), Rhode Island Speaker of the House Nicholas Mattiello (D, Cranston) told reporters that the tax is "regressive" and "unfair."¹ The same can be said of the sales tax, which the RI Center for Freedom & Prosperity believes should be reduced to a rate of 3.0%.

That the *sales tax* is regressive — meaning that it disproportionately affects poorer people — is so uncontroversial that the point needn't be argued, so here are four reasons the sales tax is *unfair*, too.

The Sales Tax Was Implemented for Specific Purposes... and Failed

When the General Assembly imposed the sales tax on Rhode Islanders for the first time in 1947 and revised its rationale in 1956 and 1988, legislators emphasized an "obligation to grant pay increases for teachers" and a dire need to provide more state money to "the several cities and towns now confronted with financial crisis."²

As Rhode Islanders continue to face high levels of taxation with no reduction in teachers' claim to deserve higher pay or municipalities' insistence that their finances are threatened without help from the state (even with the looming pension calamity having gone dormant for the time being), nobody can plausibly claim that the sales tax solved the problem that it was implemented to solve.

To the extent that the state's tax burden drives Rhode Islanders out of the state to shop, to live, and to start businesses, thus harming the revenue of the state and

¹ Ted Nesi and Steph Machado. "Mattiello promises to cut car tax if he's re-elected." *WPRI.com*. October 4, 2016. Available at: <http://wpri.com/2016/10/04/mattiello-promises-to-cut-car-tax-if-hes-re-elected/> (Accessed 2/3/17.)

² Rhode Island General Assembly. "RIGL 44-18-2: Sales and Use Taxes — Liability and Computation. Declaration of necessity." Available at: <http://webserver.rilin.state.ri.us/Statutes/TITLE44/44-18/44-18-2.HTM> (Accessed 2/3/17.)

its municipalities, the tax is actually undermining the very purpose for which it was implemented.

The 7% Rate Was Supposed to Be Temporary

Faced with a banking crisis in the early '90s, the people of Rhode Island accepted a higher rate on the sales tax. As the *New York Times* reported in 1992, "To provide [the Rhode Island Depositors Economic Protection Corporation (Depco)] with money to repay the bonds, the state raised the sales tax to 7 percent from 6 percent, with six-tenths of 1 percent, or \$31.8 million in 1992, earmarked for Depco."³

The expectation was that the increase was temporary, but that turned out to be yet another broken promise from the state government.

The Rate Is Supposed to Go Down with Internet Sales

Similarly, when legislators wanted to sell voters on the idea of taxing online sales, as through Amazon.com, they put a provision into the law to drop the 7% rate down to 6.5% "upon passage of any federal law that authorizes states to require remote sellers to collect and remit sales and use taxes."⁴ Well, the federal government never passed such a law, but over the years, the state has cracked down on online retailers in a variety of ways.

Just this year, as part of her budget proposal, Democrat Governor Gina Raimondo has suggested a Remote Seller Sales Tax Collection program that would increase the reporting requirements on online retailers and pressure Rhode Islanders to pay the use tax.⁵

³ Michael Quint. "Rhode Island Plans Payout in Deposit Insurance Crisis." *New York Times*. May 28, 1992. Available at: <http://www.nytimes.com/1992/05/28/business/rhode-island-plans-payout-in-deposit-insurance-crisis.html> (Accessed 2/4/17.)

⁴ Rhode Island General Assembly. "RIGL 44-18-18: Sales and Use Taxes — Liability and Computation. Sales tax imposed." Available at: <http://webserver.rilin.state.ri.us/Statutes/TITLE44/44-18/44-18-18.HTM> (Accessed 2/3/17.)

⁵ State of Rhode Island and Providence Plantations. "Fiscal Year 2018 Budget: Executive Summary." January 19, 2017. Available

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Her budget assumes \$34,715,462 from the tightening of the taxation screws. Since the budget's release, Amazon has stated that it will voluntarily begin collecting sales taxes for Rhode Island.⁶

No elected officials have even hinted that the sales tax rate might go down accordingly.

Use Tax Crackdown Could Double-Tax Purchases

One of the measures the state recently implemented in order to impose a *de facto* online sales tax was, essentially, a minimum tax for purchases the government assumes people make online or out of state.

Under state law, Rhode Islanders are supposed to pay a “use tax” equaling the sales tax they avoided on any purchase from a non-Rhode Island retailer.⁷ As part of the fiscal 2015 budget,⁸ the state began requiring people filing their income tax returns to either catalog their out-of-state and online purchases and pay the appropriate use tax or to pay a minimum of \$8 use tax for every \$10,000 in income. In effect, that assumes that a household with income of \$50,000 spent around \$571 on purchases without paying a sales tax. (Naturally, the state set the minimum to go up with inflation every year.)

At the time this minimum use tax was implemented, the state budget experts estimated that the new requirement would raise about \$2.2 million in revenue.

at: http://www.omb.ri.gov/documents/Prior%20Year%20Budgets/Operating%20Budget%202018/ExecutiveSummary/0_Complete%20FY%202018%20Executive%20Summary.pdf (Accessed 2/4/17.)

⁶ Justin Katz. “Online Sales Tax: Circling the Money-Prey.” *Ocean State Current*. January 20, 2017. Available at: <http://oceanstatecurrent.com/analysis/online-sales-tax-circling-the-money-prey/> (Accessed 2/4/17.)

⁷ Rhode Island General Assembly. “RIGL 44-18-20: Sales and Use Taxes — Liability and Computation. Use tax imposed.” Available at: <http://webserver.rilin.state.ri.us/Statutes/TITLE44/44-18/44-18-20.HTM> (Accessed 2/4/17.)

⁸ Justin Katz. “State Government Tightening the Screws: Goes After the Use Tax.” *Ocean State Current*. June 6, 2014. Available at: <http://oceanstatecurrent.com/longer-twitter/state-government-tightening-the-screws-goes-after-the-use-tax/>

The combination of this minimum use tax with the new online retail program and Amazon sales tax collections means that many Rhode Islanders will surely be *double-taxed* on their online purchases. The budget does not change the calculation of the minimum, meaning that it still assumes online purchases, so any taxpayers who do not begin keeping records of all purchases — online, in Rhode Island, and elsewhere — and sorting through their receipts while filling out their income tax forms will by default pay a use tax on Internet purchases that were already taxed.

Indeed, the state seems to be relying on this double-taxation, because the budget documents do not change the use tax law (to account for online sales tax collections). Moreover, use tax estimates for the upcoming year do not appear to have been reduced as they would have to be if Rhode Islanders were to begin itemizing online purchases.

Rage Against the Unfair Sales Tax

In summary, Rhode Island's sales tax — the highest in New England and 30th out of 50 in the country⁹ — was first implemented to solve a problem that it did not solve, has been increased with the promise of reductions that never happened, and is leading to a stealth double tax.

Not only is it unfair and regressive, but the Ocean State's high sales tax confiscates resources Rhode Islanders could better spend elsewhere and acts as a drag on the economy and a job killer. *The least* the state can do is to drop the rate to 3.0%, which ultimately wouldn't lose the government much more revenue than it expects to gain from online sales and would cost much less than the car tax elimination.¹⁰

⁹ RI Center for Freedom & Prosperity. “Report Card on Rhode Island ‘Competitiveness.’” 2014. Available at: <http://rifreedom.org/wp-content/uploads/Report-Card-2014.pdf> (Accessed 2/4/17.)

¹⁰ Justin Katz. “Choosing an Economic Strategy: Spending Cuts, the Path to Job Creation.” RI Center for Freedom & Prosperity. March 20, 2017. Available at: <http://rifreedom.org/wp-content/uploads/ricfp-carsalestaxes-spendingcuts.pdf> (Accessed 2/4/17.)