



# Alternative Sales Tax Reduction Scenarios

## Detailed Charts of RI-STAMP Results

December 3, 2013

## Notes

In November 2013, members of the Joint Legislative Commission to Study Repeal of the Rhode Island State Sales Tax requested that the Center summarize sales tax reduction scenarios, compared with the Zero.Zero plan under review.

**Compliance costs for businesses**, it is important to note, are not eliminated in any scenarios that do not eliminate the sales tax. The unfunded mandate of identifying, calculating, charging, collecting, reporting, and remitting sales tax revenue to the state, as well as costs for bookkeeping, accounting, and legal services, would remain.

Compliance costs would theoretically be the same with a 1% or a 7% sales tax. Furthermore, businesses would still be subject to penalty and interest charges on any past due taxes owed, maintaining an obstacle to keeping their doors open.

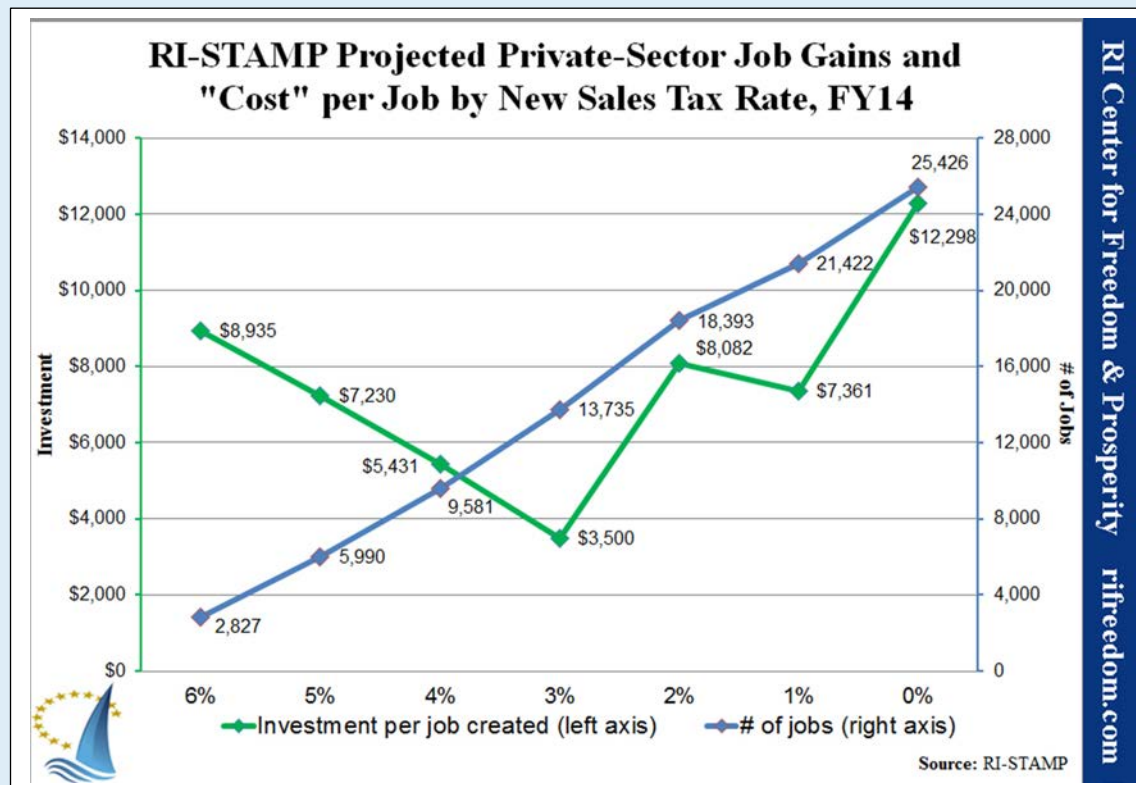
## Highlights

The charts and table in this report display some of the more critical aspects of alternative sales tax reform scenarios. Significant findings include:

- Sales tax reductions create the most jobs and the lowest budget “investment per job” compared with income and corporate tax reforms.
- In all sales tax reduction scenarios except full repeal, the state will directly realize a dynamic revenue boost from increased sales volume.
- A 0.0% sales tax rate creates the most jobs but requires the largest overall budget investment.
- A 3.0% sales tax rate yields the most value, with the lowest state-budget investment per job and a net revenue gain, with municipalities included.
- Phasing out the sales tax produces a similar number of jobs, but suppresses the dynamic increase in other tax revenue.

## Sales Tax Rate Effect on Job Creation

*Private-sector jobs increase smoothly as the sales tax rate decreases, but a 3% sales tax is the sweet spot at which the state government benefits most from the competitive advantage of a reduced rate.*

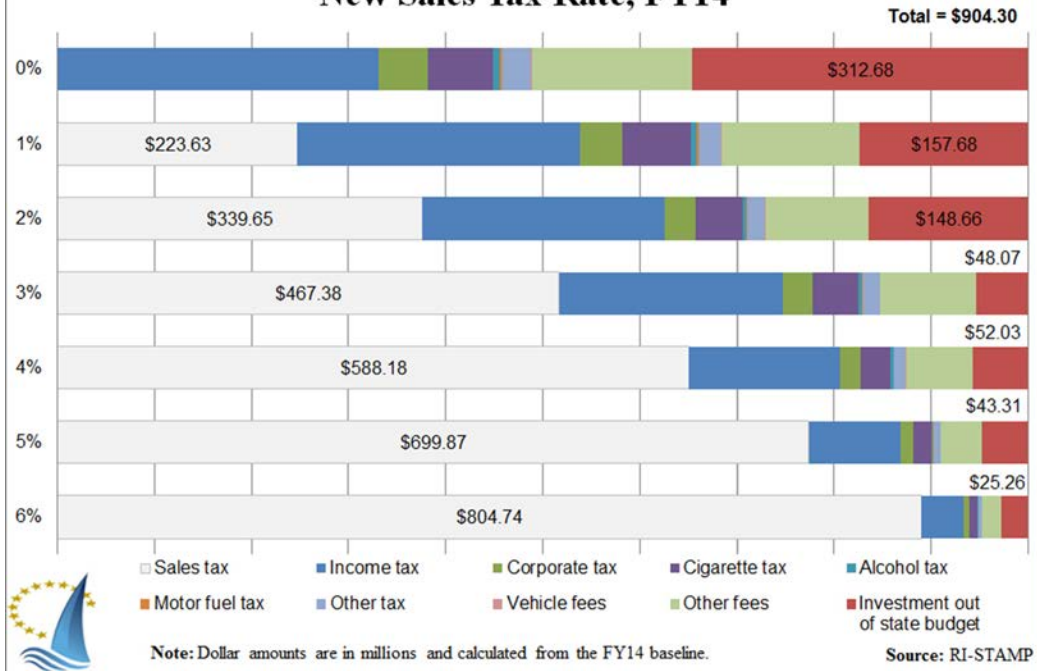


## Sales Tax Rate Effect on Other Tax Collections

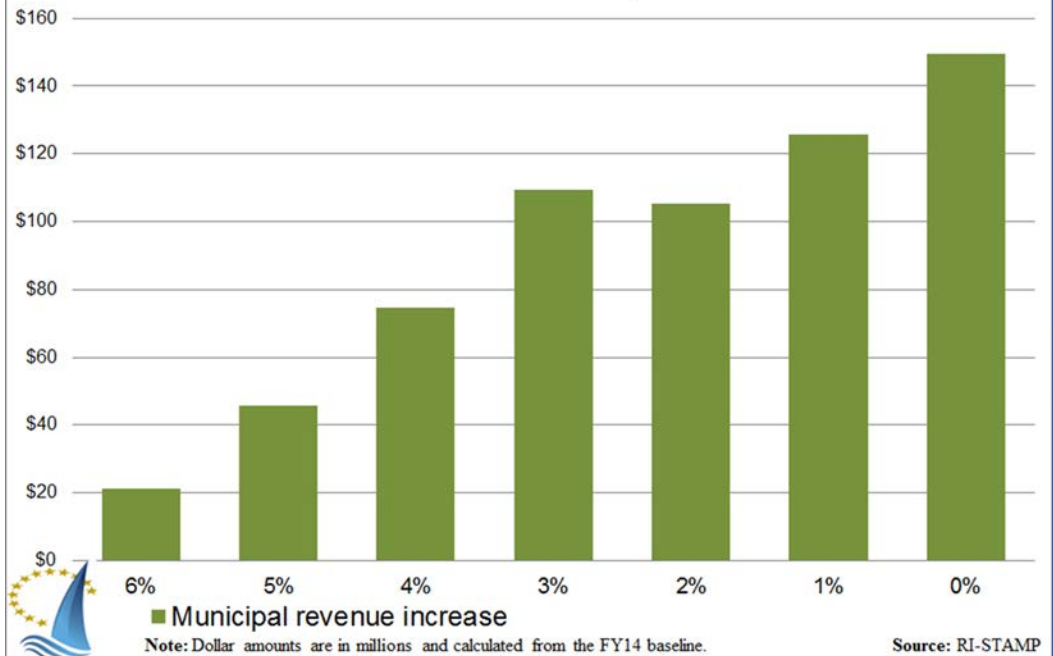
*As the sales tax rate decreases, the revenue from other taxes increases, although total tax revenue does go down. At sales tax rates below 3%, the reduction in sales tax revenue outpaces increases in other tax revenue.*

*With the anticipated increases in municipal revenue (mostly through property taxes on businesses), Zero.Zero continues to provide the greatest boost, although 3% breaks the \$100 million line and outperforms a 2% rate.*

**RI-STAMP Projected New Revenue by Source and New Sales Tax Rate, FY14**

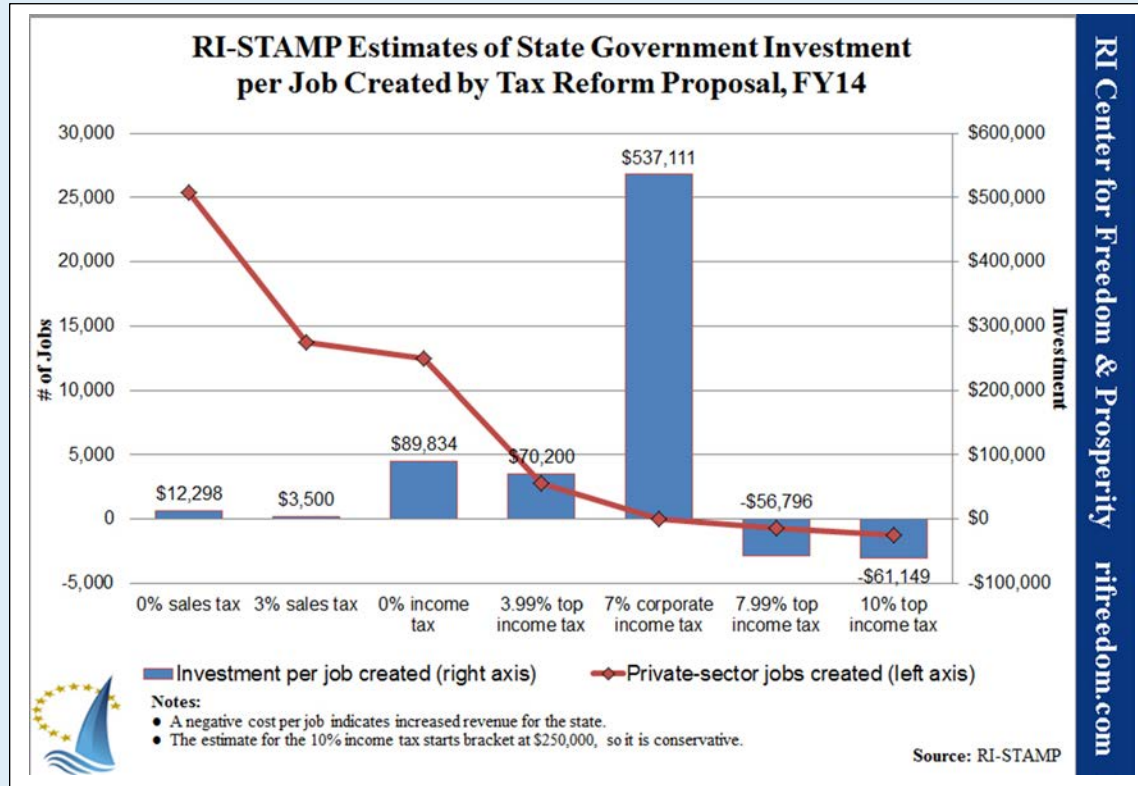


**RI-STAMP Projected New Municipal Revenue by New Sales Tax Rate, FY14**



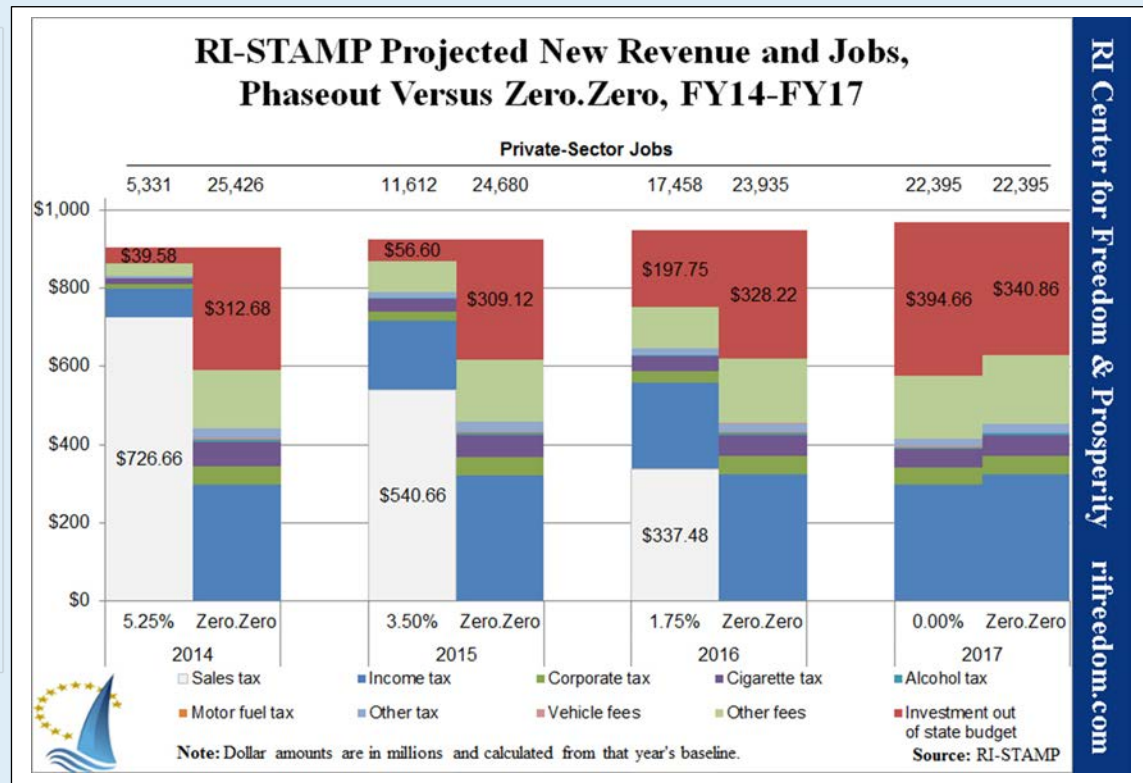
## Sales Tax Elimination and Reduction Compared with Other Proposals


*Eliminating or reducing the sales tax creates more jobs, at a lower investment per job, than other tax reform proposals. Meanwhile, increasing taxes “cashes in” Rhode Islanders’ jobs.*



## Sales Tax Phaseout Compared with Elimination

*RI-STAMP shows the same number of new jobs with a 0% sales tax whether RI gets there all at once or by phasing out the rate. However, the increases in other tax revenue are greater with a full, immediate elimination.*



<b>Projected Economic &amp; Revenue Fiscal Year 2014 Impact of Changes to the RI State Sales Tax</b>				
<b>RI-STAMP Projections</b>		<b>0.00% Sales Tax</b>		<b>3.00% Sales Tax</b>
<b>Employment and Investment</b>		<b>0.00% Sales Tax</b>		<b>3.00% Sales Tax</b>
<b>Private Employment</b>		baseline	projected	projected
Number of private jobs		399,787	425,213	413,521
<b>Change in private employment</b>		-	<b>25,426</b>	<b>13,735</b>
% change in employment relative to baseline		-	6.36%	3.44%
<b>Investment &amp; Growth</b>		baseline	projected	projected
<b>Baseline investment (\$m)</b>		8,235	8,744	8,512
Change in nominal investment (\$m)		-	<b>509</b>	<b>277</b>
% change in investment relative to baseline		-	6.18%	3.37%
<b>Gross state product (\$m)</b>		54,924	65,227	60,713
Change in state gross product		-	<b>10,304</b>	<b>5,789</b>
% change in GSP relative to baseline		-	18.76%	10.54%
<b>Annual population change</b>		-	<b>13,000</b>	<b>7,000</b>
<b>State Revenue Change (\$m)</b>			<b>-313</b>	<b>-48</b>
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
<b>Municipal Tax Change (\$m)</b>			<b>149</b>	<b>109</b>
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
<b>Total tax change (state + local) (\$m)</b>			<b>-163</b>	<b>61</b>

**Note:** Detailed tax revenue projections apply STAMP projected changes to governor's recommendation.

**Full tax analysis report, "Zero-point-Zero," at [www.RIFreedom.org](http://www.RIFreedom.org) .**