



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.

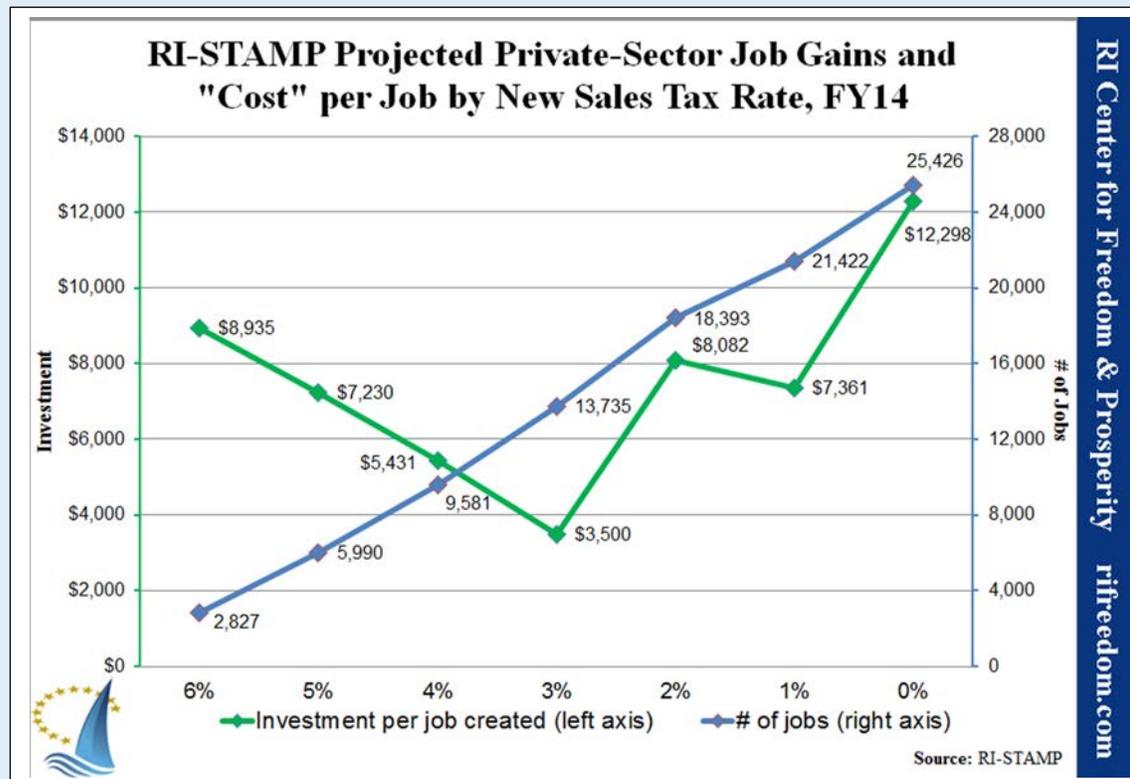
Highlights

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.

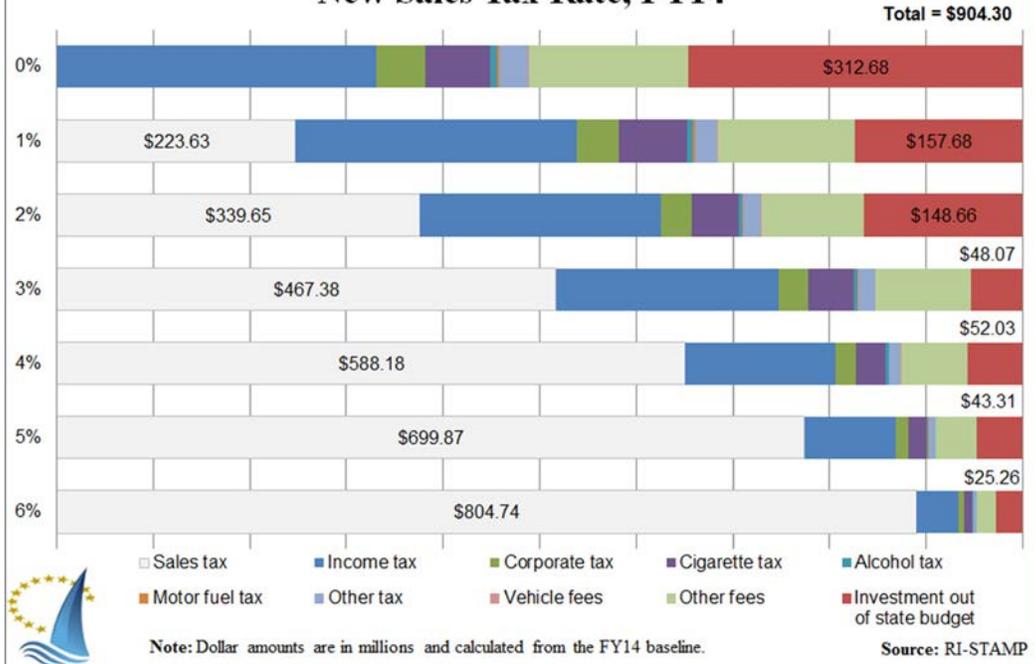


Sales Tax Rate Effect on Other Tax Collections

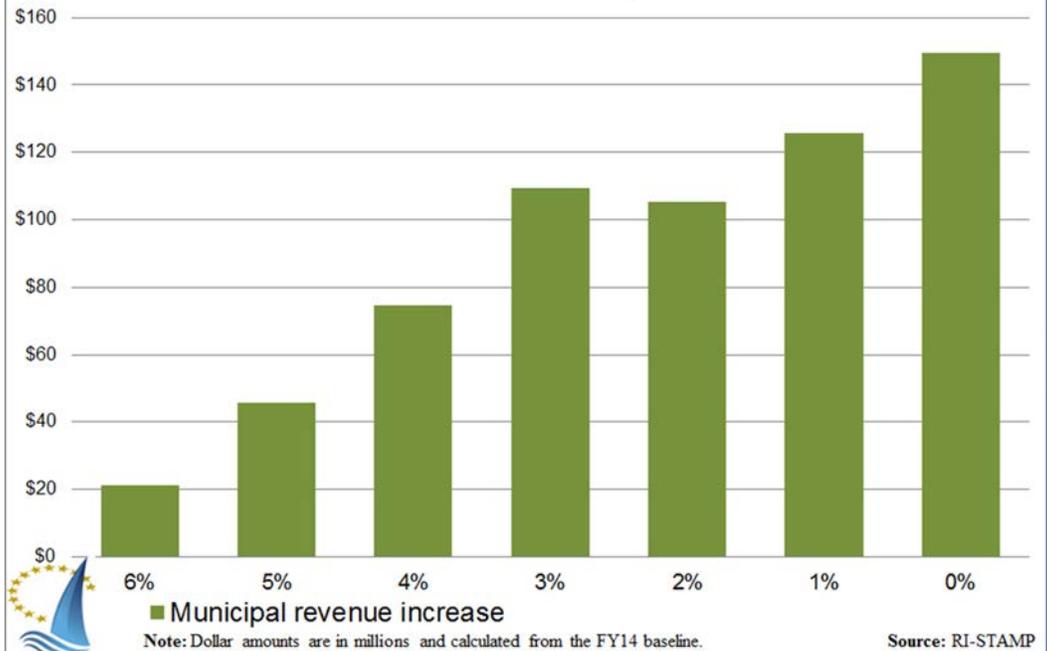
As the sales tax rate decreases, the revenue from other taxes increases, although total tax revenue does go down. At sales tax rates below 3%, the reduction in sales tax revenue outpaces increases in other tax revenue.

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

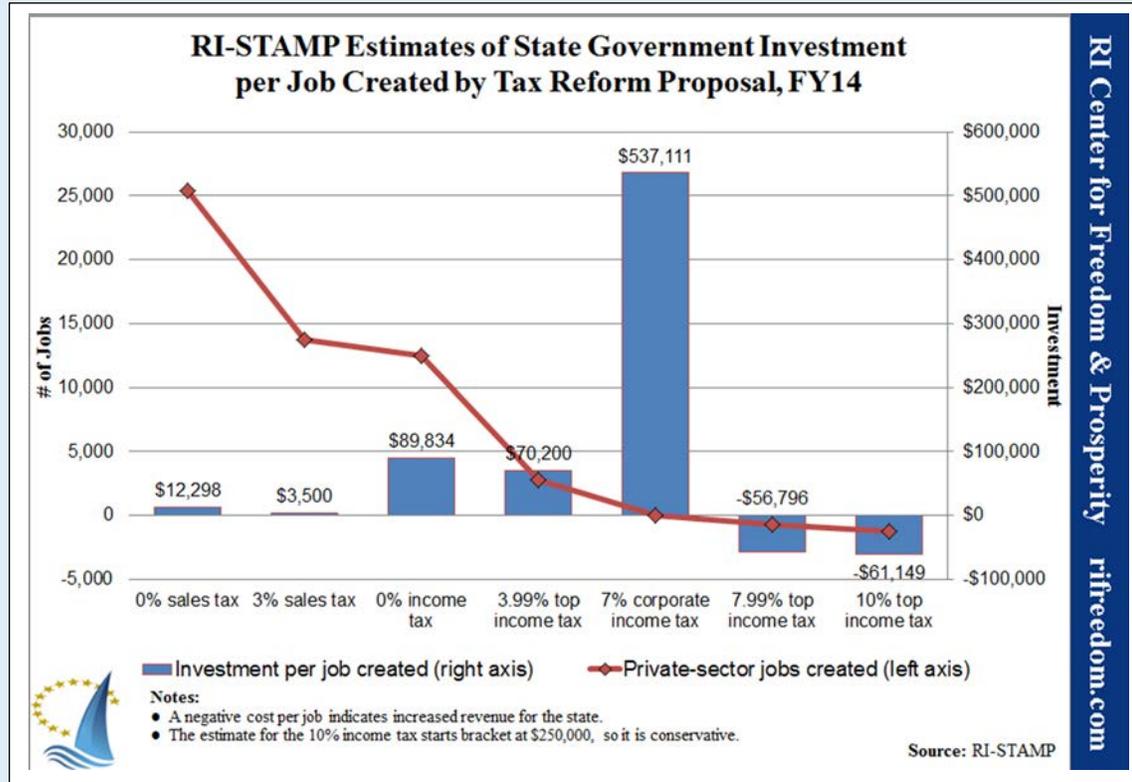


RI-STAMP Projected New Municipal Revenue by New Sales Tax Rate, FY14



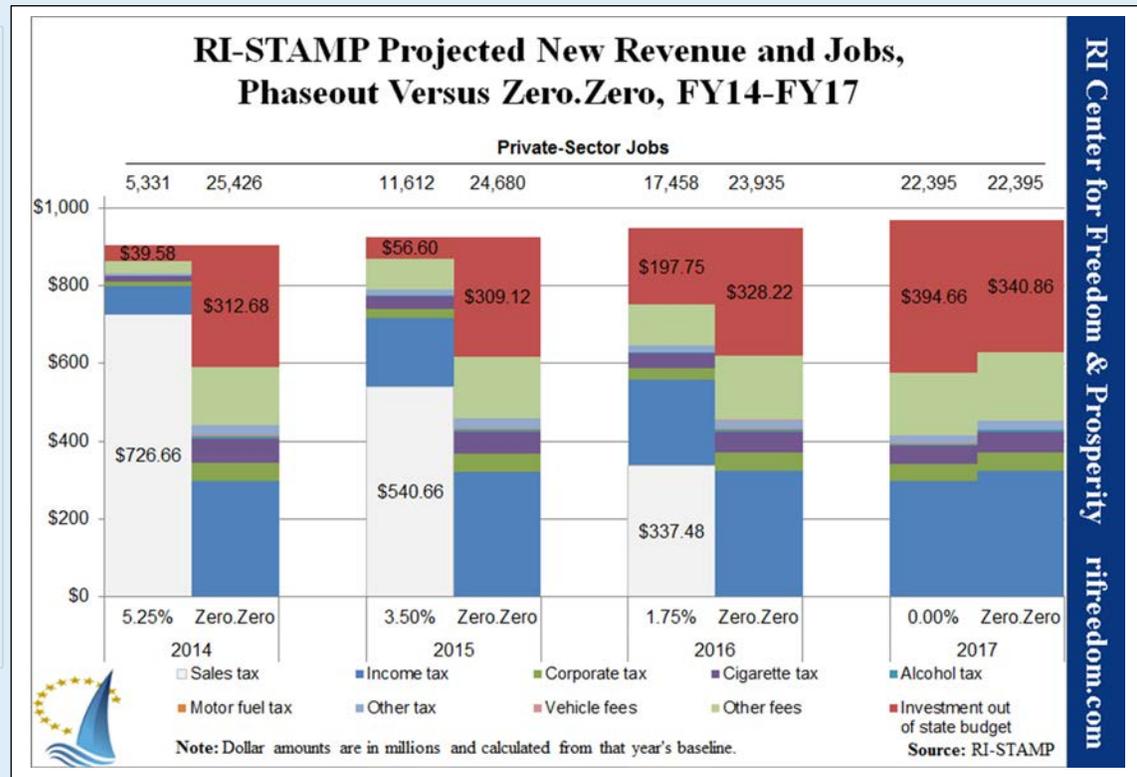
Sales Tax Elimination and Reduction Compared with Other Proposals

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.



Projected Economic & Revenue Fiscal Year 2014 Impact of Changes to the RI State Sales Tax					
RI-STAMP Projections		0.00% Sales Tax		3.00% Sales Tax	
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 .