October 21, 2013

TO: **Joint Sales Tax Study Commission – Meeting #3**
FROM: **Mike Stenhouse, CEO**
SUBJECT: **Testimony re. House Bill 5365**

Thank you Mr. Chairman. Thank you commission members for allowing me to work with you again.

First, after considering some of the testimony from the last meeting, I'd like to make it clear that the reason our Center identified the sales tax for reform is not because we think there is anything particularly wrong with the way we implement it here in RI. Rather, in 2012, we asked ourselves, what major tax reform would create the most jobs in Rhode Island: What can we do to bring business to our state and more family members back to the dining room table? We analyzed the income tax, the corporate tax, and the estate tax … and, by far, the biggest job stimulus reform was to eliminate the sales tax.

Indeed, it is JOBS that is the key to unlocking our state's problem. With more people working, being productive and paying taxes … our state's tax base is expanded, and in this way, more revenues can be available to our state, with everybody benefiting: a true WIN-WIN policy reform.

Today we are here to discuss the potential benefits that repeal of the state sales tax might bring to our state. I can tell you right off, that there are many. And I ask you to keep an open mind … and not box ourselves in.

If you believe like we do that our state needs an <u>**out-of-the-box**</u>, game-changing policy to give our economy a much needed boost – to produce good jobs - and to bring family members back to our state - may I suggest, for the sake of this argument – and just for today … that we <u>not box ourselves in</u> by concerns over budget. According to Chairman Mailik, we'll be taking a close look at that in future meetings. But for today, let's just imagine – unconstrained - what our state could look like if we dare to be bold.

In discussing the projections we have made in our ZERO.ZERO report, our Center utilized a proven economic modeling tool called STAMP – *State Tax Analysis and Modeling Program* – customized for RI, RI-STAMP, and previously used in a few dozen states and about a half-dozen major municipalities, including New York City. In just a few moments, you'll hear from Paul Bachman from the Beacon Hill Institute, who will explain how this modeling tool works, and will answer any questions you have about its assumptions and projections.

But let me first briefly layout the economic assumptions that our report, and RI-STAMP, are predicated on. By eliminating the sales tax, a number of economic gears begin to rapidly turn:

- As we saw with the ABC-6 news piece Chairman Malik just showed us, retail shoppers and dollars are the most mobile, when it comes to people changing their habits to avoid taxes. People will change their buying habits TOMORROW, if they are incentivized to do so.
- Next, the lower cost of retail goods – combined with that mobility - will immediately increase demand for those goods; in-state shoppers, neighboring state shoppers, and drive through shoppers
- With more shoppers fueling increased retail and overall sales, existing businesses will expand, and new businesses will start up: retail shops, warehouses, big box companies, trucking, shipping, construction and related service industries, and professional services.
- With business expanding, more employees and contractors will be hired, and more income taxes will be paid to the state
- Also, with more people working and shopping in the state, new revenues from other fees and taxes will be realized – WITHOUT raising rates.
- Finally, with more Rhode Islanders working, fewer will require public assistance, naturally reducing budget pressures in this area

What I just described is a “dynamic” economic scenario. As Paul will expound upon RI-STAMP is a “dynamic modeling tool” to fit the dynamic economic scenario … as opposed to a static scenario and other static modeling tools.

When we ran a Zero.Zero sales tax scenario through RI-STAMP, the impacts are enormous. In short ZERO.ZERO means MORE! Consider these projected benefits:

- 0.0% means **more jobs** – up to 25,000. *Imagine – about half of our unemployment problem gone!*
- 0.0% means **more dollars back in the pockets of RI shoppers** and our economy – almost $1 Billion … *quite an economic boost!*
- 0.0% necessarily means **increased (shopper) demand**, because of the 7% lower cost.
- 0.0% means more Rhode Islanders **staying in our own state to shop**
- 0.0% means **more shoppers** flowing over our borders to spend out-of-state money right here in RI. *Imagine parking lots in RI stores with MA cars in their lots, instead of vica versa.*
- 0.0% means **more people moving to live into our state**
- 0.0% means about $300 million **more in income taxes**, plus another new $250 million or so **more in other revenues from fees and taxes** … without raising rates
- 0.0% means **more savings** on everyday items for every FAMILY in the state (about $500 million collectively)

  0.0% especially means **more savings** for LOW-INCOME families. As a highly regressive tax, RI low-income families suffer from one of the most burdensome overall state tax policies of any state in the nation. A recent study by a left-leaning think tank confirms this, citing state’s sales tax as one of the major contributors to this problem.

  The sales tax is a regressive tax: a tax that disproportionately burdens lower-income families. Zero.Zero means more money directly in their pockets - and more jobs so many can begin earning paychecks instead of receiving welfare checks!
- 0.0% means **more savings** for every BUSINESS in the state (about $400 million) in B2B sales taxes … *imagine the lower product prices across the board, and higher profits subject to taxes.*
- 0.0% means **more time and money to spend on business matters** – **ZERO COMPLIANCE COSTS** - instead of collecting and remitting taxes on behalf of the state – FOR FREE.
  - *At our next hearing we will show you a video from a small business owner who was driven out of business, in large part, by the unyielding actions of the Department of Revenue.*
- And finally 0.0% means **more revenues for cities and towns (up to $150 million) due to increased commercial property tax receipts …** that will put downward pressure on local residential and commercial property taxes … so that taxpayers can enjoy lower rates, and maybe decide to stay at home here in RI. *Think of the new revenues that can be used for schools, security, and roads!*

In short, 0.0% means **more economic growth**: higher GDP, more investment in our state, population growth, and increased tax revenues in other areas.

Let me make two points about the 25,000 jobs projection: as large as it may seem, it is not an unreasonable estimate. First, many of these jobs will be created almost immediately, and today you will hear from Vince Bilotti about what happened to his RI store when in 2010 Massachusetts added a sales tax to liquor sales;

immediately increasing his sales, and immediately hiring new employees. This is an important point to keep in mind.

Also, with over 31,000 RI businesses registered for state sales permits, if they were to average just one additional employee because of sales growth… that would account for 30,000 jobs on its own. Not to mention additional jobs created by the new businesses that would be formed, or by other businesses who don't collect sales taxes, but that would benefit from the new, booming economy.

News from just this past week gives us even more reason why we need to think out of the box. According the Federal Reserve, Rhode Island is the only state that's lost middle-wage jobs the last few years. Coincidentally, it's also seen a decline in high-wage jobs, meaning virtually all of our job growth has been in occupations that pay low wages. We all know that this trajectory must change.

These dismal stats are consistent with the findings also in a recent book, How Money Walks, which looked at an 18-year time period, from 1992 to 2010. During that time, Rhode Island experienced a net loss of **$1.68 billion in AGI.** It becomes impossible to ignore that nearly two-thirds of Rhode Island's total loss was to states with far more attractive tax climates. (see handouts)

Think of the lessons we have learned on our own in recent years regarding the sales tax border wars on liquor, cigarettes, gas, luxury boats, and other items. If increases in sales tax differentials result in a loss of business in some industries, while decreases in sales tax differentials mean gains in other targeted industries, why would any of us believe that an across the board sales tax cut would not result in across the board gains?

In summary, a Zero.Zero sales tax is a **WIN-WIN** policy. How often do you come across a policy that would provide so many benefits to so many people?

In light of continued bad news for our state, Mr. Chairman, may I once again remind the commission that the status quo is the enemy of our future?

That this commission may represent the next best hope to propose a bold, game-changing reform for our state, that will help ensure that opportunities do exist for those who want to succeed.

Thank you.

<u>Full Statement from the author of How Money Walks, Travis Brown</u>

How Money is Walking Away from Rhode Island (see County charts)

The groundbreaking book, *How Money Walks,* proves conclusively for the first time that Americans are moving away from high-tax states and into low- and no-income tax states at alarming rates. The book examines how millions of Americans moved among the states between the years 1995 and 2010, taking with them more than $2 trillion in adjusted gross income (AGI), what we commonly refer to as "working wealth." Using definitive data mapping of publicly available Internal Revenue Service (IRS) taxpayer data, we developed a model that shows where money is leaving and where it is going, from state to state and all the way down to the county level.

The *How Money Walks* website expands the picture to cover an 18-year time period, from 1992 to 2010, which is the most recent year for which data is currently available. During that time, Rhode Island experienced a net loss of $1.68 billion in AGI. At $1.01 billion, the lion's share of the lost wealth migrated to Florida, a no-income tax state. Other states that benefitted from Rhode Island's loss include Massachusetts ($1.77 million); North Carolina ($134.59 million); Virginia ($126.24 million); and New Hampshire ($99.55 million). Interestingly, it becomes impossible to ignore that when you combine the wealth lost to no-income tax states Florida and New Hampshire, at almost $1.10 billion, nearly two-thirds of Rhode Island's total loss was to states with far more attractive tax climates.

Overall, *How Money Walks* shows how some states, such as no-income tax Florida, saw tremendous gains ($86.4 billion in a 15-year period), while other states, such as New York, experienced crippling losses ($58.6 billion in that same time frame), demonstrating an undeniable correlation between the migration of wealth away from high-tax states and into low-tax states.

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