



Testimony in OPPOSITION to the Surplus Tax Credit Act: H-7548

House Finance Committee

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The Economic Progress Institute **opposes H-7548** which would return surplus revenue to taxpayers based upon personal income tax liability. We oppose this legislation for the following reasons:

- Because the reimbursement is based upon a proportional application of tax liability, **any tax refund under this framework will disproportionately benefit the highest income Rhode Islanders, with little benefit for the lowest income Rhode Islanders, and no benefit for Rhode Islanders so poor they have no personal income tax liability.**
- The reimbursement framework is flawed because **although the trigger is surplus revenue due to any source, including higher sales tax or lottery collections, the refund is based upon personal income tax liability only.** Therefore, personal income tax revenue could be *lower* than estimated, yet if overall revenue collections are higher, the refund would go out upon the basis of personal income tax liability. Sales tax liability, by contrast, is spread out in a much more equitable way, as even people without much or any personal tax liability pay sales taxes.
- Finally, if we are fortunate to have a revenue surplus, **we would be better served by bolstering our rainy day funds.** Although the state's primary rainy day fund is constitutionally capped, the secondary fund set up recently could hold the funds. Rhode Island trails our New England neighbors and does not match national best practices, which recommend rainy day fund levels to be at least 10% of General Revenue collections, whereas Rhode Island is at about 6%. This leaves us inadequately prepared for the next recession.

For these reasons, we urge you not to advance this proposal to the full House.