

Testimony in SUPPORT of a Personal Income Surtax on Millionaires: H-7338
House Committee on Finance
May 2, 2024
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The Economic Progress Institute supports Representative Alzate’s H-7338 to create a new 3% surtax for taxable income above \$1 million. This would impact approximately only 2,134 taxpayers, those with Adjusted Gross Income (AGI) above \$1,000,000. Furthermore, the 3% would apply *only* to taxable income *above* this amount.¹ All income below it will continue to be taxed at current rates, according to the existing three-bracket system. This means, for example, that a taxpayer with AGI of \$1,001,000 would pay only an estimated \$30 more per year, and a taxpayer with \$900,000 would pay nothing additional. H-7338 would also direct the new revenue into a **Restricted Receipts account, with the funds devoted to child care and education, roads and bridges, and public transportation, policy areas including programs suffering from underinvestment.**

Tax Fairness

Although Rhode Island’s Personal Income Tax is moderately progressive, the state’s overall tax structure – including property and sales taxes – is regressive. **This means that Rhode Island’s lowest income earners pay a larger percentage of their income in taxes than do the highest earners.**

The bottom 20 percent pay 1.55 times as much as the top 1 percent (13.3 percent of income vs 8.6 percent), as shown in *Figure 1*.² H-7338 would prove a modest measure in **reducing this gap.**

Total state and local taxes
(as a share of family income)

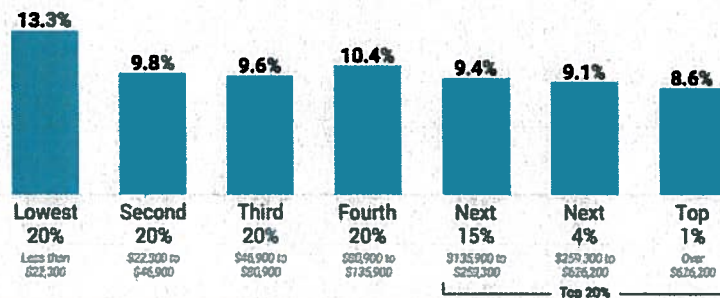


Figure 1

Revenue Planning for the Future

Although Rhode Island received a considerable amount of much-needed COVID-19 relief funds from the federal government, these funds were designed to provide temporary aid for short-term recovery needs and for one-time investments. What these relief funds did not provide was the ongoing revenue base to build for the longer term, to support the services Rhode Islanders and Rhode Island businesses require to thrive.

H-7338, once enacted, **will not take effect until Tax Year 2025**, meaning that much of the revenue will not reach the state until Rhode Islanders file and pay their taxes in 2026, not quite two years from now. **If we wait until the one-time relief funds completely disappear to address Rhode**

Island's revenue challenges, it will already be too late. We need to plan now, and H-7338 accomplishes this by raising – from millionaires – an estimated \$126 million in revenue per year. With such funds, we will be able to build upon the successes of our recovery investments in education and infrastructure.

Racial Equity and Tax Fairness

Decades of racist tax and other public policy – such as redlining for providing and denying mortgages – have resulted in large racial and ethnic disparities in both income and wealth across the country. Tax policies on the state and local levels play a role in maintaining or even worsening the existing wealth and income gaps. In Rhode Island, Black filers account for 5.8% of all filers yet only 0.7% of those in the top 5% of income. Latino Rhode Islanders account for 15.5% of filers yet only 3.9% of those in the top 5% of income.³ **A millionaires tax, which would affect less than one half of one percent of filers, would improve the situation by decreasing racial and ethnic disparities.**

Good for Small Businesses

Most small businesses simply do not have *taxable* income within range of this tax. For 2018, the median income for self-employed Rhode Islanders with incorporated businesses was \$53,794, and for those with unincorporated businesses, the median income was \$32,639.⁴ Not even all the 2,100 or so taxpayers affected by this proposal would be small business owners.

The vast majority of small business owners will see NO change in their taxes. The proposed tax would only apply to business owners whose *income after all expense deductions* is above \$1,000,000. For almost all small business owners, there will be no additional taxes. **The revenue from H-7338 will provide education, childcare, road, bridge, and public transportation investments that will benefit Rhode Island's economy and thus small businesses and small business owners.**

A Popular Proposal

Although politicians worry that no one likes any sort of increase in anyone's taxes, this is not the case. Poll after poll – across the country and in Rhode Island – demonstrate that **proposals like H-7338 win large majorities of support among constituents.** In a 2021 poll of Rhode Islanders, voters were asked specifically about creating a new tax bracket on income above the 1% threshold, and the results are striking: **72% supported a new top 1% tax bracket**, with 51% strongly supporting it, and only 25% opposing it.⁵

¹ Estimates of number of filers affected and annual revenue generated were provided to the Economic Progress Institute by the Institute on Taxation and Economic Policy.

² Institute on Taxation and Economic Policy, *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*, 7th edition, January 2024, <https://sfo2.digitaloceanspaces.com/itep/ITEP-Who-Pays-7th-edition.pdf>.

³ Data provided by the Institute on Taxation and Economic Policy; information for millionaires only was not available.

⁴ SBA 2020 Small Business Profile for RI, using (pre-pandemic) 2018 data from the Census Bureau's American Community Survey: <https://advocacy.sba.gov/wp-content/uploads/2020/06/2020-Small-Business-Economic-Profile-RI.pdf>.

⁵ Fleming and Associates statewide poll of Rhode Island voters, conducted in March 2021 using a representative sample of 350 RI voters.