


Why Chafee's sales tax plan had fair-weather friends

 April 18th, 2011 at 10:55 am by [Ted Nesi](#) under [Nesi's Notes](#)

Governor Chafee's original sales tax plan may be [gone](#), but it's not forgotten. One of the problems the proposal ran into was that it had many critics and few defenders.

Take The Poverty Institute, which advocates on behalf of government support for low-income Rhode Islanders, and therefore often backs efforts to raise tax revenue rather than cut programs.

The organization did wind up coming out in support of Chafee's proposal last week. But included in the group's explanation of its position was this chart showing how much more sales tax different groups of Rhode Islanders would pay if the plan passed:

Table 1
The Impact of Governor Chafee's Sales Tax

INCOME GROUP	AVERAGE TAX CHANGE PER YEAR	TAX CHANGES AS PERCENT OF INCOME
Lowest 20% (Less than \$18,000)	\$83	+0.8%
Second 20% (\$18,000-\$32,000)	\$163	+0.7%
Middle 20% (32,000-\$57,000)	\$224	+0.5%
Fourth 20% (\$57,000-\$90,000)	\$341	+0.5%
Next 15% (\$90,000-\$169,000)	\$413	+0.3%
Next 4% (\$169,000-\$396,00)	\$546	+0.2%
Top 1% (More than \$396,000)	\$1,732	+0.2%

The analysis was done by The Institute on Taxation and Economic Policy, which is nobody's idea of a right-wing think tank. If you look at the percentages, rather than the flat dollar amounts,

this shows Chafee's plan was unquestionably regressive – the less income you have, the bigger a share of it you'd wind up paying.

While business opposition to the sales tax proposal garnered the most attention, I think this was another key reason for its demise – while the governor was proposing to raise revenue instead of relying solely on cuts to balance the budget, his chosen method for accomplishing that wasn't particularly liberal.

That's likely why, in The Poverty Institute's case, its support for the sales tax plan was tied to passage of a more generous Earned Income Tax Credit, which boosts poor and working-class Rhode Islanders' incomes – but which was not really a part of the discussion, particularly with the state already facing a large deficit next year.

The dynamic was on display at The Poverty Institute's annual state budget conference last month, where the Center on Budget and Policy Priorities' John Shure [admitted](#) it would have been preferable for Chafee to have proposed raising the income tax rather than the sales tax.

But "I'm also not here to let the perfect be the enemy of the good," he said that day. "In states where the only option seems to be to raise the sales tax, you need that money," and he argued governors who are willing to propose higher taxes needed liberal groups' support either way.

Similarly, another organization that spoke in support of Chafee's plan last week – the union-backed advocacy group Ocean State Action – sounded perfectly willing to throw it overboard late last week and pivot instead to a more general call for raising taxes on upper-income Rhode Islanders.

"In light of growing opposition to Gov. Chafee's sales tax plan we need real solutions to our fiscal crisis," the group said in a press release Friday that called for "closing corporate tax loopholes, reforming our regressive personal income tax structure, and taxing our state's top earners at a reasonable rate."

With battle-ready enemies and fair-weather friends, then, perhaps it's no wonder Chafee's original proposal crashed and burned.

Tags: [budget](#), [chafee administration](#), [economics](#), [fy2012](#), [liberals](#), [ocean state action](#), [poverty institute](#), [regressive](#), [sales tax](#), [taxes](#)