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Jeff McLynch: Protect income-tax progressivity in R.I.

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IT ISN'T VERY OFTEN that one of life's maxims can be applied to state tax policy. Many hands make for . . . a lot of exemptions? A penny saved is a penny . . . deducted? Yet, judging from how officials in Rhode Island have sought to mimic Massachusetts in recent years, it is no great stretch to say that the grass always seems greener on the other side of the tax-policy fence.

In the mid-1990s, Massachusetts adopted two costly and regressive tax breaks: a reduction in the tax rate for capital gains and a modification to its corporate income tax designed to benefit such large and profitable companies as Raytheon and Fidelity. Over the past few years, Rhode Island has followed suit, lowering its tax rate for capital gains by two-thirds and offering millions in tax inducements to lure Fidelity to Smithfield. More recently, the prospect of Massachusetts ending its personal income tax via this fall's ballot has dominated airwaves and front pages around the region.

It should come as little surprise, then, that Gov. Donald Carcieri voiced his support for doing away with Rhode Island's income tax late last month.

Of course, Massachusetts has, to some extent, come to understand the threat that such tax breaks pose to both fiscal stability and economic security. In 2002, to help generate the revenue needed to close a substantial structural budget deficit, it abandoned its capita-gains tax preferences. Last Tuesday, to prevent cuts of up to 70 percent in some program areas, its voters rejected the proposed income-tax repeal by a resounding margin.

Governor Carcieri and legislative leaders in Rhode Island should take these lessons to heart. Rather than seek to diminish the income tax still further or to demolish it entirely, they should strive to defend it, for a progressive personal income tax is absolutely essential if Rhode Island is to have a fair and sustainable tax system, now and in the future.

Most of the taxes that state and local governments impose are regressive. They require low- and moderate-income taxpayers to devote a larger share of their incomes to paying taxes than upper-income taxpayers do. Sales taxes, excise taxes (paid on such items as gasoline and alcohol), and property taxes all fit this description, yet they make up nearly 60 percent of all state and local tax dollars collected in Rhode Island. Consequently, a progressive personal income tax is indispensible if Rhode Island is even to come close to having a tax system that, on the whole, requires those with the greatest ability to pay to bear the greater responsibility for maintaining public services.

Similarly, if Rhode Island is to have a tax system that, over the long run, grows along with the economy and produces a reliable and adequate stream of revenue, it must preserve the progressive character of its income tax. Over the past two decades, the growth in family incomes, both nationally and locally, has been tremendously unequal. Indeed, from the late 1980s to the middle part of this decade, income inequality grew more in Rhode Island than in all but one state; the richest fifth of families in Rhode Island saw their average income shoot up more than 40 percent, while the average income for the poorest fifth of families didn't even move. Given this reality, a less progressive income tax would probably mean less — and less rapidly growing — income-tax revenue.

Unfortunately, several of the latest changes that policymakers have made to Rhode Island's income tax have done just that. Changes such as the aforementioned capital-gains tax break and an alternative flat tax that, in practice, benefit only the very wealthiest have weakened the income tax's progressive character and, in so doing, imperiled such principled goals as equity, adequacy and sustainability. As many of these same policymakers weigh their options for addressing a budget deficit that now stands at more than $370 million for this year alone, undoing such changes should be at the top of their list.

After all, who hasn't heard the old tax-policy saying about a stitch in time?

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