



RIPEC

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Representative Marvin L. Abney
Chair, House Committee on Finance
Room 35
Rhode Island State House
Providence, RI 02903

May 6, 2025

RE: House Bill 5473— Relating to Taxation — Personal Income Tax

Dear Chairperson Abney,

I am writing on behalf of the Rhode Island Public Expenditure Council (RIPEC) in strong opposition to House Bill 5473— Relating to Taxation — Personal Income Tax. This legislation would impose a 3.0 percent personal income tax surcharge on taxable income over approximately \$625,000—raising the tax rate on such income from 5.99 percent to 8.99 percent—beginning on or after January 1, 2026.

RIPEC found in its recent policy brief, “Taxing Top Earners,” that this proposal to sharply increase Rhode Island’s top marginal tax rate by 50.0 percent carries long-term and significant risk to state revenues and the economic opportunities of all Rhode Islanders.¹

Rhode Island already has a highly progressive and uncompetitive income tax system which relies heavily on the tax revenues supplied by higher-income individuals and small businesses. Our analysis found that in 2022 the top 1% of Rhode Island tax filers—individuals and families earning \$500,000 or more—paid 35% of the total state income tax liability. Using one measure of income tax progressivity (the multiple of average earnings at which the top rate is applied), Rhode Island has the 13th most progressive income tax in the U.S. By another measure (the difference between top income and marginal tax rates on income \$25,000 or greater), Rhode Island ranks 11th highest.²

¹ RIPEC, “[Taxing Top Earners: The Potential Effects of a Proposed Income Tax Hike in Rhode Island](#),” April 2025. Find the one-page executive summary [here](#).

² Ibid.

This proposal comes at a time when the overwhelming trend among states has been to reduce income taxes. Between 2020 and 2025, a total of 20 states reduced their top marginal tax rate, including six states which moved to a flat income tax structure. In contrast, only Massachusetts moved away from its flat tax structure in this period. Massachusetts' new top rate of 9.0 percent is the highest in New England and essentially equivalent to the 8.99 percent top rate proposed in this legislation. However, given that Rhode Island's top rate would be applied to income above \$625,000, taxpayers with income above this level but below \$1,083,150 (the minimum income level corresponding to the top rate in Massachusetts) would be subjected to tax at a substantially higher rate than in Massachusetts.³

Moreover, unlike Rhode Island, the Bay State does not have a marriage penalty. In fact, Rhode Island is one of only 15 states in the U.S., and the only New England state aside from Vermont, to effectively penalize married couples with higher tax rates in filing jointly by not doubling their standard deduction and/or earnings amount for each tax bracket. A majority of higher earner returns in Rhode Island represent married couples filing jointly.⁴

This proposed tax hike also would affect Rhode Island businesses, most of which are pass-through entities reporting their income through personal income tax. In 2022, over half (56%) of filers with taxable income over \$500,000 declared business income or losses. Business income also makes up a significant portion of the total income of these top earners: 20% in 2022.⁵ Higher personal income taxes therefore would directly affect business operations and job creation in the Ocean State—limiting opportunities for businesses to invest in their own growth and expansion.

If House Bill 5473 went into effect, there is substantial evidence that Rhode Island would experience a net outmigration of higher earners and businesses, resulting in a substantial loss of investment activity, tax revenues, and philanthropic contributions. Rhode Island is already a net loser with respect to the migration of income taxpayers, and data from the U.S. Census and the IRS indicate that Americans generally moved from high income tax states to lower income tax states in recent years. The data also indicate that this trend applies to those higher-income tax filers, who not only represent a large share of state tax revenues, but who also have been shown to bring significant economic benefit to the communities and states in which they reside.⁶

³ Ibid. Massachusetts applies a tax rate of 5.0 percent on income below \$1,083,150.

⁴ In 2022, over four-fifths (83 percent) of returns declaring over \$500,000 in income represented joint filers. Ibid.

⁵ Ibid.

⁶ Ibid. See, Tax Foundation, "[Americans Moved to Low-Tax States in 2024](#)," January 7, 2025; "[Taxes and Interstate Migration: 2024 Update](#)," Tax Foundation, September 3, 2024; Henrik Kleven, et. al., "[Taxation and Migration: Evidence and Policy Implications](#)," *Journal of Economic Perspectives* 2020 vol. 34(2): 119-42; Chris Edwards, "[Tax Reform and Interstate Migration](#)," Cato Institute Tax and Budget Bulletin, September 6, 2018. Higher earners are often business owners who may move their businesses with them when they migrate from one state to another, resulting in the loss in income taxes paid on business profits, as well as income taxes that may be paid by the individuals those businesses employ. Many wealthy business owners are moreover venture investors, often deploying their wealth in the region in which they live. Those with higher incomes also pay a disproportionate share of other state taxes. See:

Numerous studies, including experience from states that have sharply raised taxes on high wage earners, have found that relatively high state personal income taxes have negatively affected economic growth, as individuals and capital move in response to differences in state tax rates.⁷

Finally, this proposal to hike Rhode Island's top income tax rate comes on the heels of robust growth in personal income tax revenues in Rhode Island. From FY 2019 to FY 2025, state income tax revenues increased at an annual rate of 6.2 percent. This large increase substantially exceeded inflation (3.7 percent). Rhode Island does not have a revenue problem—it has a spending problem.⁸

While this legislation may sound appealing, a dramatic increase in tax rates for higher income taxpayers threatens to undermine Rhode Island's already weak competitive standing. Any potential revenue gains would likely be eroded over time by the increased out-migration of high earners. Even more significant than the loss of income tax revenues is the likely loss of business activity, investments, and other tax revenues—a negative outcome for all Rhode Islanders.

I strongly urge that the Finance Committee reject HB 5473.

Sincerely,



Michael DiBiase
President & CEO
Rhode Island Public Expenditure Council

RIPEC is a nonpartisan and nonprofit public policy research organization dedicated to providing objective research and analysis that addresses the critical challenges surrounding public finance and economic opportunity in Rhode Island.

Chris Edwards, "[Tax Reform and Interstate Migration](#)," Cato Institute Tax and Budget Bulletin, September 6, 2018; Mark Zandi, "[U.S. Economic Outlook: Wealth Effects](#)," Moody's Analytics, March 25, 2024; Nicolas Duquette, "The Evolving Distribution of Giving in the United States," *Nonprofit and Voluntary Sector Quarterly* 2021, vol. 50(5) 1102-1116.

⁷ For example: Mark Rider, "The Effect of Personal Income Tax Rates on Individual and Business Decisions—A Review of the Evidence," International Studies Program, Working Paper 06-15, 2006; William Gentry and R. Glenn Hubbard, "[Success Taxes, Entrepreneurial Entry, and Innovation](#)," National Bureau of Economic Research 2005, vol. 5. Xavier Giroud and Joshua Rauh, "State Taxation and the Reallocation of Business Activity: Evidence from Establishment-Level Data," *Journal of Political Economy* 2019 Vol. 127(3): 1262-1316; Anthony Davies and John Pulito, "[Tax Rates and Migration](#)," Mercatus Center, George Mason University, August 2011; Joshua Rauh and Ryan Shyu, "Behavioral Responses to State Income Taxation of High Earners: Evidence from California," *American Economic Journal: Economic Policy* 16(1): 34-86. See also Andrew Mikula, "[How a 2012 income tax hike cost California billions of dollars in economic activity](#)," Pioneer Institute, 2021; Roger Cohen, Andrew Lai, and Charles Steindel, "[State Income Taxes and Interstate Migration](#)," *Business Economics* 2014, vol. 49(3); Philip Olsen, "[Impact of state's millionaire tax, two year in](#)," *Massachusetts Lawyers Weekly*, February 6, 2025.

⁸ RIPEC, "[Taxing Top Earners: The Potential Effects of a Proposed Income Tax Hike in Rhode Island](#)," April 2025.

