



RIPEC

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

March 3, 2026

RE: House Bill 7127—FY 2027 Appropriations Act—Article 5, Section 6

Dear Chairperson Abney,

I am writing on behalf of the Rhode Island Public Expenditure Council (RIPEC) in strong opposition to House Bill 7127—FY 2027 Appropriations Act—Article 5, Section 6. This provision of the governor’s budget proposal would impose a tax rate of 8.99 percent on taxable income over \$1.0 million, thereby raising the tax rate on such income by 50 percent over the current top rate of 5.99 percent.

This revenue-raising proposal—which carries significant and long-term risk to state revenues and the economic opportunities of all Rhode Islanders—is being pursued despite steady growth in state revenues. At the November Revenue Estimating Conference, state general revenue growth for FY 2027 was projected at 3.0 percent, and personal income tax revenues were projected to grow by 3.6 percent.¹ This stable growth comes on the heels of robust increases in state revenues over the past several years that should have greatly improved the state’s fiscal position. Since FY 2019, total general revenues have grown at an average annual rate of 6.3 percent while personal income tax revenues alone increased at an average annual rate of 6.7 percent—both markedly outpacing inflation (4.2 percent average annual increase). That is \$1.8 billion in new general revenue funds, and \$659 million in additional income tax revenues, that the General Assembly has allocated.²

¹ R.I. OMB, [November 2025 Revenue Estimating Conference Report](#).

² R.I. OMB, [May 2020 Revenue Estimating Conference Report](#); [November 2025 Revenue Estimating Conference Report](#); U.S. BLS, [CPI-U Data](#); RIPEC calculations. FY 2026 reflects estimates from the November Revenue Estimating Conference and does not factor in any of the governor's proposed changes. The inflation rate for FY 2019 -FY 2025 reflects US BLS CPI-U data. For FY 2026, inflation estimates from the November 2025 Revenue Estimating Conference were applied.

And despite these large increases, just last year the General Assembly enacted over \$100 million in new and increased taxes and fees.³

It is clear Rhode Island does not have a revenue problem; it has a spending problem. If approved, this proposal may help balance the FY 2027 budget, but it does not address the underlying issue. Unless these unsustainable spending increases—outpacing both inflation and available revenues—are addressed, we can expect that next year another group of taxpayers will face higher taxes or fees.

The taxpayers targeted this year for a tax hike include not only individual Rhode Islanders, but Rhode Island businesses, most of which are pass-through entities reporting their income through personal income tax. In 2022, 75 percent of filers with taxable income over \$1.0 million declared business income or losses. Business income also makes up a significant portion of the total income of these top earners: 23 percent in 2022.⁴ 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.

These taxpayers are already subject to a highly progressive and uncompetitive income tax system which relies heavily on the tax revenues supplied by higher-income individuals, families, and businesses. In 2022, taxpayers earning \$1.0 million or more comprised 0.3 percent of all Rhode Island tax filers but were responsible for nearly a quarter (24 percent) of the total state income tax liability.⁵ 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.⁶

Layering a higher top rate onto this already progressive structure would place Rhode Island even further outside the overwhelming national trend, which has been to reduce income taxes. Since 2021, a total of 26 states cut individual income tax rates, and 23 reduced their top marginal tax rate. Of these, eight states enacted legislation to transition to a flat income tax structure.⁷

Rhode Island's current top income tax rate of 5.99 percent ranks 15th highest nationwide. If this proposal is adopted, Rhode Island would rank 8th and essentially tie Massachusetts' top rate of 9.0 percent for highest in New England—though at a lower income threshold (Massachusetts' top rate is applied to income over \$1.1 million) and without the deductions available in Massachusetts for

³ See page 19, RIPEC, [Rhode Island's FY 2026 Enacted Budget](#), August 2025.

⁴ U.S. IRS, [Statistics of Income Tax](#), 2022; RIPEC calculations.

⁵ Ibid.

⁶ 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](#).

⁷ Manish Bhatt, "[State Tax Trends to Watch in 2026](#)," Tax Foundation, February 11, 2026.

married couples filing jointly.⁸ Rhode Island’s top rate, moreover, would be much higher than a majority of U.S. states; 26 states currently have top rates below five percent, and an additional nine states, including New Hampshire, do not levy income tax.⁹

Massachusetts is among a small group of outlier states—just six in total—that have either increased their top rates or added a new top bracket in recent years, making themselves less competitive as most states have reduced their income tax rates.¹⁰ There is limited data to gauge the full impact of this tax hike in Massachusetts, but even before the tax change, the Bay State was losing population and tax revenues, including income tax revenues, as residents moved to other states. Between 2017 and 2022, the primary destinations for residents leaving Massachusetts were lower-cost, lower-tax states, including Florida and New Hampshire, which levy no income tax, and North Carolina, which has a relatively low top rate of 3.99 percent.¹¹ As a result, Massachusetts was already experiencing sluggish income growth, posting the fourth-lowest increase in net adjusted gross income nationwide between 2018 and 2022.¹²

In addition, although Massachusetts saw a short-term revenue boost from its millionaire’s tax, Governor Healey still faced a roughly \$3.4 billion budget gap in formulating her proposed budget for FY 2027. That gap was partially filled with millionaire’s tax revenues, which were presented to voters as supplemental funding for education and transportation. Some of these funds were already used in FY 2026 to cover ongoing expenditures and would again be used to support ongoing expenditures under the governor’s budget plan.¹³

There is substantial evidence that, if this proposal went into effect, Rhode Island would experience 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

⁸ The income level of Massachusetts’ 9.0 percent rate is indexed for inflation. When first passed, it was applied to income over \$1.0 million. 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 large majority (83 percent) of higher earner returns in Rhode Island represent married couples filing jointly. Janelle Fritts and Katherine Loughhead, “[State Individual Income Tax Rates and Brackets](#),” Tax Foundation, February 17, 2026; U.S. IRS, [Statistics of Income Tax](#), 2022.

⁹ This includes Washington, which taxes capital gains income only. Jared Walczak, “[The State Income Tax Divergence](#),” Tax Foundation, February 5, 2026; Janelle Fritts and Katherine Loughhead, “[State Individual Income Tax Rates and Brackets](#),” Tax Foundation, February 17, 2026.

¹⁰ Jared Walczak, “[The State Income Tax Divergence](#),” Tax Foundation, February 5, 2026.

¹¹ Massachusetts IRS Data Discovery, [State to State Migration by Age and Income](#); Janelle Fritts and Katherine Loughhead, “[State Individual Income Tax Rates and Brackets](#),” Tax Foundation, February 17, 2026.

¹² Jared Walczak, “[Taxes Still Affect Economic Growth, Contrary to Findings of Flawed IPS Study](#),” Tax Foundation, April 29, 2025.

¹³ Chris Lisinski, “[From T support to school aid, surtax emerges as crutch for state budgeting](#),” *Commonwealth Beacon*, February 5, 2026; Massachusetts Taxpayers Foundation, [Governor Healey’s Fiscal Year 2027 Budget](#), January 28, 2026.

economic benefit to the communities and states in which they reside.¹⁴ 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.¹⁵

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 7127.

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.

¹⁴ 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: 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.

¹⁵ 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.