



March 3, 2026

Honorable Marvin L. Abney
Chairman, House Finance Committee
Rhode Island State House
82 Smith Street
Providence, RI 02903

Re: HB7127 – An Act Relating to Making Revised Appropriations in Support of FY 2027

Article 5, Section 1 – Support with amendments

Article 5, Sections 2, 5, and 6 – Concerns

Dear Chairman Abney:

On behalf of the **Rhode Island Manufacturers Association (RIMA)**, representing approximately 1,600 manufacturers and more than 60,000 employees across our state, we submit the following testimony regarding Article 5 of HB7127.

The **Rhode Island Manufacturers Association (RIMA)** respectfully opposes proposals such as the Millionaire’s Tax at a time when the Governor and his Commerce team have positioned Rhode Island for long-term growth. Sections 2, 5, and 6, which would increase the tax burden on high-earning taxpayers and, in practice, Rhode Island small business owners, ultimately moves Rhode Island in the wrong direction.

The Data Does Not Support the “Fair Share” Narrative

We continue to hear the claim that “the wealthy are not paying their fair share.” The data tells a different story.

- Taxpayers earning over \$200,000 represent just **6.7% of filers**.
- Yet they pay **55.3% of all personal income tax collected in Rhode Island**.

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Individuals earning above \$200,000 — which includes virtually every successful small business owner in the state — already shoulder more than half of Rhode Island’s income tax burden.

Shifting an even greater share of state revenue onto 6.7% of taxpayers, without addressing structural spending growth, is not balance. It is imbalance.

Disproportionate burden without structural reform is not fairness.

Pass-Through Businesses Are Directly Impacted

Every version of the proposed Millionaire’s Tax impacts pass-through entities, including:

- S-Corporations
- Limited Liability Companies (LLCs)
- Partnerships

These structures represent Rhode Island’s small businesses.

Pass-through income is reported on an owner’s personal return whether or not the income is actually distributed. Unlike W-2 wages, this income may:

- Be retained as working capital
- Be restricted by loan covenants
- Be reinvested to fund expansion
- Be used to purchase equipment
- Support payroll and job creation

This proposal does not simply tax distant wealth. It taxes operating capital — payroll — and growth.

And it does so while that same group already contributes more than half of the state’s income tax revenue.



Modernization Is the Right Direction — But It Must Be Broader

Governor McKee deserves credit for transitioning the state to a modern payroll system. Modernization is necessary. It will not be perfect. There will be challenges. But replacing outdated systems is long overdue – we want to see more of this.

Instead of layering new spending onto outdated infrastructure, we propose systemic modernization across state government.

Businesses facing cost pressures invest in automation, upgrade technology, increase productivity, and eliminate inefficiencies. They do not simply raise prices while maintaining outdated systems.

Government should operate with the same discipline.

Before asking 6.7% of taxpayers to contribute more, we should ensure the system itself is operating efficiently. It is common knowledge that Rhode Island's systems need to be updated.

Structural Imbalance — Not a Revenue Shortfall

Rhode Island does not have a revenue problem; it has a structural spending problem.

In the past two years alone, the state budget has grown approximately 11 percent. Meanwhile:

- Health and social service expenditures are increasing at roughly **5.2% annually**
- State revenues are growing at approximately **2.4% annually**

Spending continues to outpace recurring revenue.

Even if the Governor's proposed budget is fully implemented, Rhode Island is projected to face:

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- A **\$237 million deficit by FY 2027–28**
- An estimated **\$537 million deficit by FY 2030–31**

These projections make clear that raising taxes does not resolve structural imbalance. We are also concerned the demographics and data are trending to institutionalize poverty.

Administrative Inefficiencies Require Attention

Significant fiscal exposure exists within current programs:

SNAP Program

- FY 2024 benefits distributed: \$343.5 million
- Payment error rate: 12.29%
- Estimated improper payments: approximately \$42 million annually

Medicaid Program

- FY 2024 expenditures: \$4.3 billion
- Improper payment rate: 5.09%
- Estimated improper payments: approximately \$219 million annually

Federal authorities attribute much of these improper payments to administrative and documentation failures — not fraud — underscoring the need for operational modernization.

Rhode Island should address inefficiencies before increasing tax burdens.

Defining Fairness Accurately

Small businesses power Rhode Island's economy:

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- 98.9% of Rhode Island businesses are small businesses
- Approximately 116,000 employers operate in our communities
- Small businesses account for 52% of total employment
- 43% are women-owned
- Nearly 17% are Hispanic-owned
- 5% are veteran-owned

These business owners are manufacturers, contractors, family retailers, service providers, and neighborhood employers.

When policymakers increase taxes on pass-through income, they are not targeting abstract wealth. They are targeting the very entrepreneurs driving inclusive economic participation.

Out of Rhode Island's 1.12 million residents, approximately 2,300 taxpayers would be directly affected. Many of these individuals are business owners whose income fluctuates annually and is reinvested into their companies.

This policy risks discouraging precisely the investment Rhode Island needs most.

A Better Path Forward: Workforce Modernization

RIMA proposes a forward-looking alternative.

Dedicate at least 25% of spending within agencies serving low-income and disadvantaged populations to:

- AI training
- Technology certification
- Workforce modernization initiatives

This approach would:

- Promote long-term economic mobility
- Reduce dependency through skill development

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- Strengthen workforce participation
- Enhance Rhode Island's competitiveness in emerging industries

Economic opportunity — not higher taxation — is the sustainable path to fairness.

A person with a GED, a prior record, strong work ethic, and AI skills can out-earn many traditional roles. That is mobility. That is fairness.

Rhode Island should lead in workforce modernization — not chase other states after they move first.

Conclusion

Rhode Island is beginning to see economic momentum. Now is not the time to risk driving entrepreneurs, investment, and job creators elsewhere.

The question before us is not whether fairness matters.

The question is how we define fairness:

Is it raising taxes on a small segment of taxpayers while structural spending challenges remain unresolved?

Or is it building a competitive economy where small businesses grow, workers gain valuable skills, and government operates efficiently and sustainably?

RIMA respectfully urges policymakers to reject the proposed Millionaire's Tax provisions in Article 5, Sections 2, 5, and 6, and instead pursue structural reform that protects taxpayers, strengthens small businesses, and secures Rhode Island's long-term fiscal future.

Thank you for your time and consideration.

p.s.



RIMA supports Article 5, Section 1. We overwhelmingly support all proposals for Amnesty, and applaud the Governor for this long overdue initiative. We will work with the Administration on the details due to concerns with calculations on penalty and interest.

Respectfully submitted,

Melissa Travis

Melissa Travis
President/CEO
Rhode Island Manufacturers Association

