

**Written Testimony on H 7313 (Neutral: Neither For nor Against)  
Submitted to the Rhode Island House Committee on Finance  
for Inclusion in the Public Hearing Record**

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Chairman Abney and Members of the House Finance Committee:

My name is Katherine Loughead, and I am the Director of State Tax Projects at the Tax Foundation. The Tax Foundation is a nonprofit, nonpartisan tax policy research organization that analyzes tax policy issues at the state, federal, and international levels.

I appreciate the opportunity to submit written testimony regarding House Bill 7313. The Tax Foundation does not take a position on legislation, but I am eager to provide information on the negative economic implications of income tax increases like the one proposed in H 7313.

Beginning January 1, 2027, H 7313 would impose a three-percentage-point surtax on Rhode Island taxable income exceeding \$640,000 (in 2026 dollars), with that amount adjusted annually for inflation. This would raise the top marginal individual income tax rate in Rhode Island to 8.99 percent and would effectively create a four-bracket individual income tax structure (even though the bill states that the three-bracket structure would remain in place on paper).

If this tax increase were enacted, Rhode Island would go from having the 15<sup>th</sup>-highest top marginal state individual income tax rate in the country to having the 10<sup>th</sup>-highest (not including the District of Columbia). If the tax policy changes contained in H 7313 had been in effect as of July 1, 2025, the snapshot date for the 2026 *State Tax Competitiveness Index*,<sup>1</sup> Rhode Island would have ranked 41<sup>st</sup> overall and 40<sup>th</sup> on the individual income tax component, representing a decrease in competitiveness compared to its current ranks of 40<sup>th</sup> overall and 30<sup>th</sup> on individual taxes.

The economic literature overwhelmingly finds that an income tax increase of this magnitude would negatively affect economic growth and opportunity in Rhode Island. Studies show that higher marginal income tax rates reduce gross state product, investment, and in-state employment mobility, while encouraging outmigration.<sup>2</sup> Notably,

<sup>1</sup> Janelle Fritts, Jared Walczak, Abir Mandal, and Katherine Loughead, *2026 State Tax Competitiveness Index*, Tax Foundation, Oct. 30, 2025, <https://taxfoundation.org/statetaxindex/>.

<sup>2</sup> For a summary of the literature, see Timothy Vermeer, "The Impact of Individual Income Tax Changes on Economic Growth," Tax Foundation, Jun. 14, 2022, <https://taxfoundation.org/research/all/state/income->

research finds a negative relationship between changes in income tax rates and the wages of both higher-income *and* lower-income workers.<sup>3</sup> As such, the proposed tax increase would reduce economic opportunity even for those Rhode Island residents who would not owe the surtax directly.

Much of this negative effect on economic growth would come from the proposal's harmful impact on businesses. According to the US Small Business Administration, Rhode Island's 116,149 small businesses employ approximately 51.1 percent of the state's workers.<sup>4</sup> The vast majority of small businesses are pass-through businesses (S corporations, LLCs, partnerships, and sole proprietorships), meaning business income is taxed on the owners' individual income tax returns. IRS data show that 55.6 percent of Rhode Island individual income tax filers with more than \$500,000 in adjusted gross income (AGI) had income from pass-through business ownership on their returns, and approximately 75 percent of Rhode Island's pass-through business income was earned by filers with \$500,000 or more in AGI.<sup>5</sup>

In other words, a surtax on \$640,000 or more in income—framed as a tax on the “top one percent” of income earners—would be, to a sizeable degree, a tax increase on small businesses. This surtax would make it harder for Rhode Island's small businesses to stay afloat, leading to higher prices for consumers, lower wages, fewer new job opportunities, and even business closures.

The proposed tax increase would also make Rhode Island's tax climate substantially less competitive both regionally and nationally. Despite its relatively high top marginal rate nationally, Rhode Island has the third-lowest individual income tax rate in the northeast after only New Hampshire, which forgoes an individual income tax altogether, and Pennsylvania, which has a low, flat statewide rate of 3.07 percent but imposes relatively high local income tax rates.

Currently, Rhode Island is a more competitive alternative to high-income-tax New York, New Jersey, and Massachusetts. However, if this proposal were adopted, the Ocean State would become less attractive to high earners than even Massachusetts, since Massachusetts's 9 percent rate kicks in at a much higher income level of nearly \$1.1

[taxes-affect-economy/](#). See also Ann D.M. Nguyen et al., “The Macroeconomic Effects of Income and Consumption Tax Changes,” *American Economic Journal: Economic Policy* 13:2 (2021); Karel Mertens and Morten O. Ravn, “The Dynamic Effects of Personal and Corporate Income Tax Changes in the United States: Reply,” *American Economic Review* 109:7 (2019); William M. Gentry and R. Glenn Hubbard, “The Effects Of Progressive Income Taxation On Job Turnover,” *Journal of Public Economics* 88:9 (2002); and John K. Mullen and Martin Williams, “Marginal Tax Rates and State Economic Growth,” *Regional Science and Urban Economics* 24:6 (December 1994).

<sup>3</sup> Karel Mertens and Jose L. Montiel Olea, “Marginal Tax Rates and Income: New Time Series Evidence,” *Quarterly Journal of Economics* 133:4 (2018): 1803-1884.

<sup>4</sup> US Small Business Administration Office of Advocacy, “2025 Small Business Profile: Rhode Island,” Jun. 30, 2025, <https://advocacy.sba.gov/2025/06/30/2025-small-business-profiles-for-the-states-territories-and-nation/>.

<sup>5</sup> Internal Revenue Service, “SOI Tax Stats – Historic Table 2,” <https://www.irs.gov/statistics/soi-tax-stats-historic-table-2>.

million, with income below that threshold taxed at a much more competitive rate of 5 percent. If Rhode Island were to adopt a tax rate of 8.99 percent on income exceeding \$640,000, Rhode Island's marginal rate on \$640,000 in taxable income would be higher than the marginal rates on that level of income in New Jersey (8.97 percent), Vermont (8.75 percent), Maine (7.15 percent), New York (6.85 percent), and Massachusetts (5 percent).<sup>6</sup>

Since 2020, 23 states have reduced their top marginal individual income tax rates, with many doing so on more than one occasion, bringing the national median top marginal rate from 5.4 percent in 2020 to 4.7 percent in 2026. Until recently, Rhode Island's top marginal rate of 5.99 percent was not much higher than the national median, but as the median top marginal rate has continued to drop, states like Rhode Island that have not reduced their income tax rates have quickly fallen further behind. In that same timeframe, only five states and the District of Columbia have implemented increases to their top marginal state individual income tax rates on ordinary income.

Joining the ranks of Massachusetts and other high-income-tax states would harm Rhode Island's competitiveness. The negative outcomes—including outmigration of entrepreneurs and job creators and reduced job growth, wage growth, and in-state investment—would likely be even more pronounced in Rhode Island, given the state's small geographic footprint and the ease with which Rhode Islanders could move elsewhere while staying relatively close by. Policymakers should take full stock of all these likely negative outcomes before adopting income tax increase proposals such as the one contained in H 7313.

I appreciate your consideration of this statement and respectfully request the inclusion of this letter as part of the public hearing record.

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<sup>6</sup> Janelle Fritts and Katherine Loughead, "State Individual Income Tax Rates and Brackets, 2026," Tax Foundation, Feb. 17, 2026, <https://taxfoundation.org/data/all/state/state-income-tax-rates-2026/>.