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Rhode Island Can Chart a Brighter Course With Bold New Revenue Policies

Testimony of Wesley Tharpe, Senior Advisor for State Tax Policy, Center on Budget and Policy Priorities, to the Rhode Island Senate Finance Committee

Chair DiPalma, distinguished members — thank you for the opportunity to submit this written testimony. My name is Wesley Tharpe, and I'm Senior Advisor for State Tax Policy at the Center on Budget and Policy Priorities (CBPP) in Washington, D.C.

CBPP is an independent, nonpartisan research institute that, since 1981, has advanced both federal and state policies aimed at building a nation where everyone has the resources they need to thrive. I've been with CBPP for over seven years, and in this general line of work for nearly 15 years overall, focused primarily on the key role that sound state tax policies play in people's everyday lives.

I'm eager to offer some perspective on the critical importance of the measures under discussion today, and to share with you some key reasons why moving forward and adopting a new targeted top rate on wealthier taxpayers is the right choice for the Ocean State — especially now.

To do so, allow me to start with some general context about the state of state budgets as we move deeper into 2026, most notably the significant new costs and responsibilities states face under recent federal policy changes. I will then walk through the recent track record of states that have implemented targeted new revenue-raisers in recent years, with emphasis on how those policies have helped bolster people's access to economic opportunity and higher quality of life. I will conclude with a brief overview of how the existing evidence on state taxes throws significant cold water on misleading claims of potential economic harm or increased migration as a result of higher tax rates. In fact, evidence points to how new revenues raised through progressive tax measures can help enhance state prosperity over the long run.

Rhode Island and Other States Face Considerable Strain From Recent Federal Policies

States in 2026 are grappling with considerable pressures brought on by recent federal policy actions, most notably the sprawling reconciliation package approved by congressional Republicans and signed into law by President Trump in July 2025. Known as H.R. 1 or the One Big Beautiful Bill Act, that measure included $4.5 trillion in tax cuts over ten years primarily geared to wealthy households and corporations, financed through a combination of significant deficit spending and sweeping cuts to health care and food assistance.[1] Its implications for state and local budgets and the people they serve are wide-ranging and have already begun to make themselves felt.

In some cases, the new costs are immediate, such as state revenue impacts due to various "conformity"[2] linkages with federal tax cuts and a set of requirements for states to implement expansive new administrative hurdles in health and food programs. For example in Rhode Island, estimates earlier this year indicated that if state policymakers had chosen to fully conform to the new or expanded federal tax provisions, ongoing revenue losses starting in 2026 could have reached as much as $50 million each year.[3] Fortunately, policymakers here have already taken steps to partially decouple – specifically from the full research expensing aspect of the federal measure – which is now scheduled to prevent an estimated $23 million of that loss. But the remaining half of the added fiscal pressure still remains.

Additional costs from H.R. 1 will start coming online over the next couple of years, including a new requirement for states to shoulder — for the first time in history — a substantial share of benefit costs under the Supplemental Nutrition Assistance Program (SNAP). The size of this new SNAP responsibility could be substantial, especially in states that have relatively high "error rates"— which are a measure of over- and under-payments in SNAP and will determine the amount states are required to pay. In Rhode Island, the state's most recent SNAP error rate puts it on track to potentially owe the maximum 15 percent cost-share stipulated under the new law; if that outcome comes to pass, Rhode Island would be on the hook for an estimated $51 million in new food benefit costs starting in October 2027.[4]

Longer term, states and localities are also likely to face significant spillover costs from H.R. 1's deep spending cuts. Most notably, sharp federal changes to Medicaid and the Affordable Care Act (ACA) will take health care away from an estimated 15 million people nationally by 2034, including about 34,000 Rhode Islanders, which among other harms could lead to a surge of newly uninsured people seeking uncompensated care at local emergency rooms and clinics.[5] The costs for such uncompensated care can be substantial and put significant strain on hospitals and other providers, especially those that serve high levels of low-income and vulnerable populations. In Rhode Island, uncompensated care costs could rise by an estimated $400 million over the next decade due to a combination of Medicaid cuts and Congress's failure to renew expiring premium tax credit enhancements, which helped people afford to buy health coverage in the ACA marketplaces.[6]

Before moving on to the next section, I would be remiss not to mention that Rhode Island and other states are also grappling with a series of additional pressures that could add further fiscal strain now and

in coming years. These include the expiration of pandemic-era federal fiscal aid for state and local governments; ongoing economic disruptions from federal tariff policies, war in the Middle East, and other geopolitical strain; as well as various congressional or Administration proposals that seriously threaten federal support for services including housing, child care, education, and others, should they be adopted.[7]

Targeted Revenue Increases Allow States to Invest in Stronger Futures

In response to these pressures, policymakers in a growing number of states have recently been pursuing creative and fair solutions to raise new revenues, most especially through policies that ask wealthy households and corporations to pay their fair share. So far in 2026, policymakers first in Washington State and more recently Maine have approved targeted tax increases on households with high incomes. Debate on similar measures also continues to play out in states including Colorado, Connecticut, Hawai'i, New York, Vermont, and – of course – Rhode Island.

The specifics of such revenue measures inherently vary from place to place, as states have a diversity of tools at their disposal for raising additional revenues from wealthier taxpayers.[8] But what they hold in common is the ability to raise substantial new revenues in sound, practical ways, which in turn can help pave the way for policies that enable residents from all backgrounds to better access economic opportunity and achieve a higher quality of life. That's because when states choose to raise additional resources, they then invest those dollars back into their own economies, local communities, and families' pocketbooks in the form of stronger schools, better infrastructure, more expansive community services, and more access to economic supports. Those investments put people and the states they call home on a brighter overall path, as we've seen strong evidence of the past few years.

As we detail in a recent report, 11 states and the District of Columbia approved meaningful revenue-raising policies from 2021 to 2025.[9] Those policy choices are already helping shore up state finances and fuel new investments like universal free school meals, expanded child care and paid leave, school construction and college access, and more affordable housing options. To highlight just two examples:

- In **Minnesota**, lawmakers in 2023 approved several new revenue-raising changes; they included a new payroll tax to fund a universal paid leave program; raised taxes on large amounts of investment income through a first-of-its-kind levy known as a "wealth proceeds tax;" phased out itemized deductions faster at high-income levels; and conformity to part of the federal tax code known as GILTI (Global Intangible Low-Taxed Income) to discourage corporate tax avoidance. Through these changes, Minnesota has been able to provide $2.3 billion in additional funds for K-12 public schools, enact a fully refundable child tax credit, replace all lead pipes in the state, and provide universal free meals for public school students.
- In **New Jersey**, policymakers in recent years approved two important revenue-raising measures. One of them — a new graduated mansion tax for property sales of $1 million and above — is now generating about $500 million in yearly revenues to fund affordable housing efforts. The second

– a new business transit fee of 2.5 percent on corporate income over $10 million enacted in 2024 – is now raising about $800 million annually to support maintaining and expanding public transit.

These sorts of shared public commitments are essential to people's everyday well-being, as well as to the overall vitality of state economies. For one, raising new progressive revenues allows states to better protect the pillars of economic growth and opportunity that they already have, such as by preventing or minimizing harmful budget cuts to schools or child care or preserving Rainy Day Funds to protect against the next recession. Second, bold revenue policies can allow states to take a strategic leap forward by boosting public investment in emerging or unmet areas of need, such as child poverty, maternal well-being, climate resiliency, or affordable housing – all of which are vital to protecting state prosperity and well-being in the short-run, and to enhancing it down the road.

Here in Rhode Island, the new 3 percent surcharge on taxable incomes above $1 million included in Governor McKee's proposed budget could, if adopted, raise an additional $135 million annually according to state estimates. Those additional revenues would strengthen Rhode Island policymakers' ability to make these types of critical investments possible, while only affecting about 2,300 of the state's highest-income taxpayers. At the same time, two alternative legislative measures currently being considered would go slightly further by extending the additional 3 percent tax to households in the top 1 percent of income, or those with *taxable* incomes above about $640,000 (or total average income of $771,800 before exemptions and deductions). These proposals to enact a "top 1 percent tax" would expand the additional revenue gain to about $203 million each year, further opening the path to new investments while still only affecting an estimated 6,100 high-income households.[10]

Claims of Possible Economic Harm or Mass Exodus Are Widely Exaggerated

Lastly, I'd like to speak to some of the key reasons why oft-repeated claims of potential harm from revenue increases should not stand in the way of Rhode Island policymakers approving a new targeted top rate on high incomes.

First, one of the more common arguments in these sorts of state debates is that lower state income tax rates are more conducive to stronger economic growth, whereas relatively higher-tax states are less likely to economically thrive. But those claims are simply not firmly grounded in the available evidence.

Consider for example the real-world track record of states that enacted similar measures in the recent past. If we look at the handful of states that enacted targeted tax increases on their highest-income taxpayers (widely known as millionaires' taxes) during the 2000s and 2010s, we see that those states had similar economic profiles as their neighbors over the years that followed. In eight states (including the District of Columbia) that adopted these policies over that span, seven states had per capita growth in personal incomes at least as strong as nearby states; six had private-sector economic growth that met or exceeded their neighboring states; and five added jobs at least as quickly as their neighbors.[11]

In contrast, if we turn to states that chose to deeply cut their income tax rates, the lack of any clear short-term economic linkage is equally clear. Of the five states that cut personal income taxes most deeply following the Great Recession of 2007-2009, *all five* saw weaker overall GDP growth than the nation as a whole in the years immediately after, while four also had slower growth in personal income and job creation.[12] Even states that lack personal income taxes do not consistently outperform: the nine states with the highest top marginal income tax rates during the 2010s saw their economies grow slightly faster, on average, than the nine states without broad-based income taxes.[13]

That real-world experience is further supported by the consensus of mainstream research on the topic, which generally finds that state taxes are highly unlikely to be the primary economic driver. For example, of the 20 major peer-reviewed studies published in academic journals in the 2000s and 2010s that examined the role of state personal income tax levels, 15 found them to have little to no clear economic effect.[14] Studies focusing on narrower issues, such as the impact of state tax levels on entrepreneurship, also find minimal impact; for instance, a rigorous 2012 study commissioned by the U.S. Small Business Administration found "no evidence of an economically significant effect of state tax portfolios on entrepreneurial activity."[15]

One major reason income tax rates are not reliably linked to states' overall economic performance is that their supposed link to states' ability to attract and retain residents – so-called interstate tax migration – is also significantly overblown. While evidence indicates that taxes likely play some small role in migration trends around the margins, rigorous analyses find any real-world impact to be small. Indeed, only about 1.5 percent of people make interstate moves in any given year and, when surveyed, more than two-thirds cite job- and family-related reasons as the primary driver.[16]

The lack of strong linkages between state tax levels and interstate migration holds true for households across income levels; for example, in a landmark study released last year, two leading researchers on tax flight concluded that "the rich in high-tax states do not move any more often than those in low-tax states."[17] With anonymized access to every federal tax return filed from 2016 to 2023, the researchers were able to uniquely pinpoint whether an interstate move had occurred and, if so, estimate the state income tax liability of that taxpayer in both the state in which they lived and the one to which they moved.

While the researchers found that raising state tax rates likely has some marginal impact on where millionaires choose to live, they estimated any overall effects to be minimal: namely, that "if a state raises its top tax rate by 1 percent, it would ultimately see a 0.14 percent reduction in its millionaire population." **Given that finding, the researchers concluded that "every state has capacity to raise additional revenues from top earners."**

It therefore comes as no surprise that newly released data from the Internal Revenue Service fails to provide any early evidence of supposed millionaire exodus from Massachusetts, in the wake of that state's new high-income "Fair Share" tax surcharge which took effect in 2023. Because those latest numbers only cover a partial year of Fair Share's implementation and enable analysis of higher-income households generally (versus millionaires specifically), they shouldn't be used for sweeping conclusions.

Nevertheless, they do offer hints; most notably, fewer of the highest-income households in Massachusetts — those with incomes above $200,000 (the highest income threshold available in the data) — left the state between 2022 and 2023 than did between 2021 and 2022. The outmigration rate was 0.97 percent for these households in the 2023 data compared to 1.15 percent the year prior. In other words, the state appears less likely to have lost higher-income taxpayers the year after Fair Share was approved than immediately before it.[18]

Meanwhile, since Fair Share's implementation in 2023, the levy has delivered billions of dollars in new funding for transformative investments like universal free school meals, fare-free buses, and affordable child care.[19] The tax has also routinely exceeded initial revenue projections — outpacing expectations by $3 billion over roughly its first three years.

Conclusion

In conclusion, this is a period of considerable challenges for state policymakers both here in Rhode Island and nationwide, as the combination of costly federal policy choices and other fiscal pressures continue to translate into significant strain for state and local budgets and the people they serve. But in equal measure, it is also a moment of extraordinary opportunity for states to lead. Through ambitious yet thoughtful revenue choices like those currently under consideration here, policymakers in Rhode Island and elsewhere hold real potential to help show the way toward a more equitable and prosperous future.[20]

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