RIPEC Policy Brief
A SPECIAL PUBLICATION OF THE RHODE ISLAND PUBLIC EXPENDITURE COUNCIL
RIPEC
January 2023

Rhode Island Falls to the Bottom Ten of States: RIPEC Analyzes Rhode Island's Drop from 40th to 42nd in Business Tax Climate Index State Rankings

This policy brief analyzes Rhode Island's ranking on the Tax Foundation's 2023 Business Tax Climate Index in regional and historical context and offers recommendations for improvement.

Introduction

Since 2003, the Tax Foundation, a think tank based in Washington D.C., has annually issued its *Business Tax Climate Index* (hereafter the *Index*), comparing all 50 states and analyzing each state's business tax climate.

The *Index* is based on the principle that tax systems favorable to business give states advantages in attracting new businesses and generating economic and employment growth. Research affirms the relationship between a favorable tax climate and economic growth, as decisions by prospective businesses about whether to begin operations, and by existing companies about where to relocate or expand operations, are in large part determined by anticipated operating costs. Of course, factors such as the quality of infrastructure and the availability of skilled labor also play an important role in determining a state's overall business climate, but as the authors of the *Index* note, tax reform can have immediate effect, whereas many other business climate improvements take decades to realize.[1]

A corollary premise of the *Index* is that, even in our global economy, states are in greater competition with each other than with foreign countries. The Ocean State faces the greatest competition with its neighboring New England states, particularly its bordering states—Massachusetts and Connecticut. These states, after all, share with Rhode Island similar economic and demographic features important to business, such as the cost of raw materials and access to both markets and an educated workforce. Due to its small size, Rhode Island's competition with its neighboring states is particularly acute, since businesses can potentially move across borders without relocating their existing workforce.

This policy brief first breaks down the methodology of the *Index* and then analyzes in regional and historical context Rhode Island's ranking overall and its ranking in each of the five tax categories that comprise the *Index*. This brief additionally recommends tax policies that would

[1] Janelle Fritts and Jared Walczak, *2023 State Business Tax Climate Index*, Tax Foundation, October 2022.

enable the Ocean State to reverse its current downward trajectory and improve its ranking in the future.

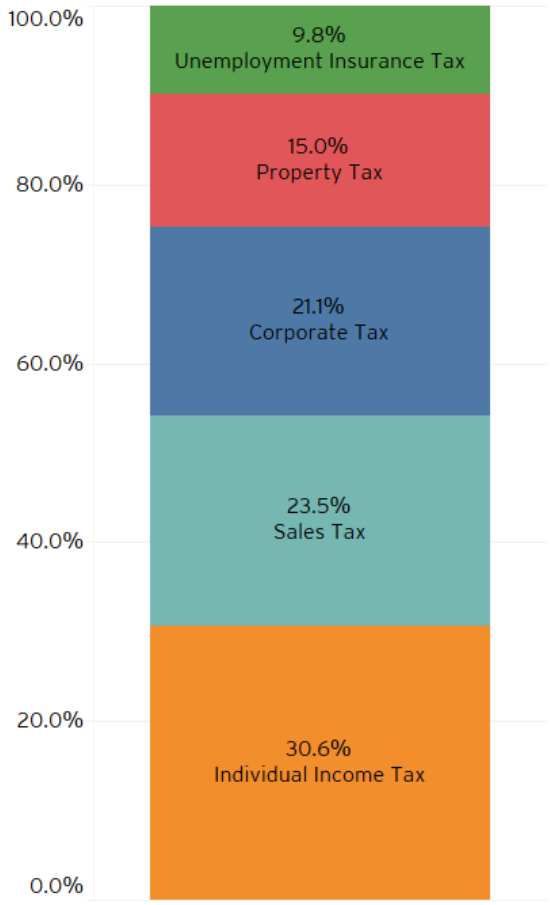
Methodology

The *Index* produces a ranking based on an overall score for states on a scale of zero to ten, with a higher score indicating a better business tax climate.[2] A state's overall score is determined by comparing 125 variables across five major tax categories: individual income, sales, corporate income, property, and unemployment insurance tax. Each state receives a score for each tax category and, as Figure 1 shows, each category is weighted differently. The greatest weight is given to those taxes with the most variability between states because those are the components of tax law where states may gain the greatest competitive advantage. For example, states that do not levy individual income tax have a much greater advantage in this category than the possible advantage a state could achieve in the category of unemployment insurance tax, which is administered in every state. On the other hand, states have the potential to dramatically alter their rank in a tax category with a lower weight and less variability by enacting relatively small changes, whereas greater modification is required to affect a state's rank in a category with a higher weight and wide variability.

Each edition of the *Index* recalibrates scores and rankings for previous years, incorporating any methodological changes adopted and retroactively applied statutes and corrections.[3]

The 2023 *Index* covers tax policy in statute from July 1, 2022, to June 30, 2023, consistent with fiscal year (FY) 2023 for all but four states.[4]

Figure 1
Index Weights on Tax Categories



Source: Tax Foundation, 2023 State Business Tax Climate Index

Overall Ranking

Rhode Island's ranking on the 2023 *Index* is 42nd highest, two spots lower than its 2022 ranking of 40th. The 2023 *Index* marks the first time that Rhode Island has entered the bottom ten states for business tax competitiveness since 2015.

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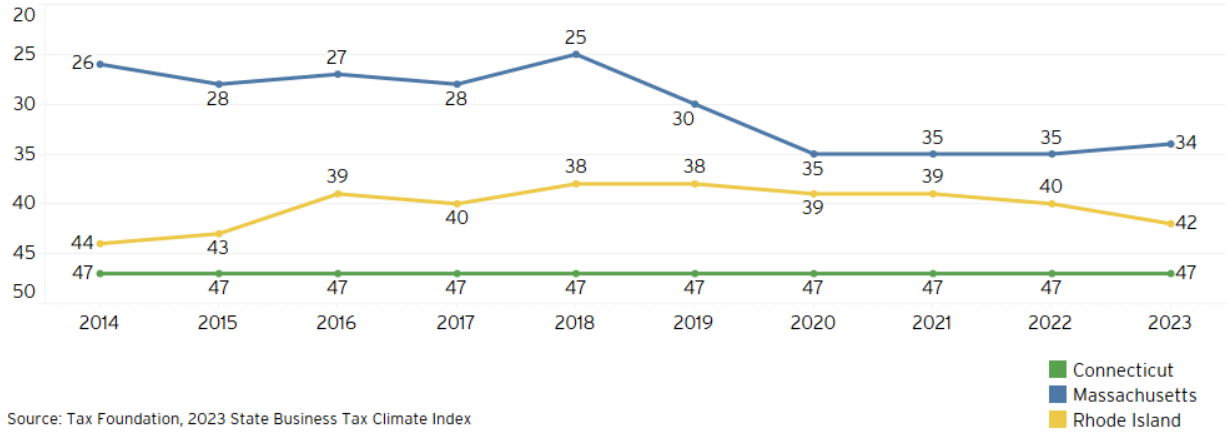
[2] No state received a perfect ten. The top-ranked state for 2022, Wyoming, had a score of 7.76. In comparison, the lowest-ranked state, New Jersey, had a score of 3.37. Washington D.C. is given a score and ranking in the *Index*, but both are neutral in that they do not affect any state's score or ranking. Ibid.

[3] No methodological changes were introduced in the 2023 edition of the *Index*. The 2023 *Index* backcasts rankings to 2014. Rankings before 2014 are not backcast and do not appear in the *Index* because the methodology used in previous iterations of the *Index* was distinct from current methodology to the extent that direct comparison is inadvisable. Ibid.

[4] New York's fiscal year begins April 1, Texas' fiscal year begins September 1, and Alabama and Michigan's fiscal years begin October 1.

As Figure 2 shows, Rhode Island's rank followed a generally positive trajectory between 2014 and 2019, improving from 44th best (or seventh worst) in the country to 38th, before beginning to backslide in the past four years. Throughout this period, Rhode Island never cracked the top two-thirds of states, but its improvement since 2014 has positioned it farther ahead of Connecticut, which has stagnated at 47th. Rhode Island has also moved closer in line with Massachusetts; the Bay State has become less competitive in terms of business tax policy in the last nine years, falling from 26th in 2014 to 34th in 2023. Massachusetts' ranking has consistently bested that of Rhode Island, however.

Figure 2
State Business Tax Climate Index Rankings for CT, MA, & RI
2014-2023



Source: Tax Foundation, 2023 State Business Tax Climate Index

Figure 3 details the rank of every New England state for 2022 and 2023. As with 2022, Rhode Island's business tax climate in 2023 is more competitive than Connecticut's business tax climate and somewhat more competitive than that of Vermont, but less competitive than that of Maine, Massachusetts, and New Hampshire. For both years, every New England state ranked in the bottom third of U.S. states except for New Hampshire, which has consistently ranked among the top ten.

Rhode Island's rank has worsened over the past few years because the state's policymakers have not enacted major tax policy changes affecting the elements of its business tax climate captured in the *Index*, while several similarly ranked states have improved their business tax climates. In FY 2021 and 2022, Rhode Island's ranking declined from 39th to 40th as New Jersey improved its individual income tax and both Iowa and Alabama made improvements to the structure of their corporate income tax. This year, Rhode Island's two-spot decline can be attributed to tax policy reforms in Arkansas and Louisiana; Arkansas improved its business tax climate rank from 43rd to 40th and Louisiana similarly moved from 42nd to 39th, both through reforming their individual income tax and corporate income tax structures, including through rate reductions.

Figure 3
State Business Tax Climate Index Rankings for New England States, 2022-2023

	2022	2023
Connecticut	47	47
Maine	34	35
Massachusetts	35	34
New Hampshire	7	6
Rhode Island	**40**	**42**
Vermont	44	44

Source: Tax Foundation, 2023 State Business Tax Climate Index

While Rhode Island has not taken action to improve its business tax climate in the past few years, it has made important changes in the past nine years that both positively and negatively affect its *Index* ranking. The following five sections of this brief—which break down each of the five major tax categories—detail those changes and the elements of Rhode Island's business tax climate that negatively affect its business tax competitiveness.

For the ranking of every state and Washington D.C. overall and in each tax category, see the appendix to this policy brief.

Individual Income Tax

Individual income tax is Rhode Island's single largest source of state general revenue and the most heavily weighted tax component in the *Index*.[5] A high or poorly structured individual income tax can adversely affect business in two ways. First, profits are reported as individual income for the many businesses that operate as sole proprietorships, partnerships, or S corporations. In Rhode Island, these represent the great majority of businesses in the state.[6] Second, income tax affects the cost of labor, a significant—and often the single greatest—business expense. The *Index* considers first whether a state levies this tax—four do not, and an additional five only tax certain forms of income. It also considers the rates applied, the graduated rate structure, and the standard deductions and exemptions applied, as well as measures taken to improve fairness.[7] For instance, states, including Rhode Island, receive a lower score if they have a marriage penalty, under which married couples are not protected from paying a higher rate than if they had filed as individuals. Alternatively, Rhode Island is rewarded for indexing its tax brackets for inflation.

Rhode Island ranks in the bottom half of states in the individual income tax category and fell two spots, from 31st to 33rd, between FY 2022 and FY 2023. As Figure 4 shows, Rhode Island is more competitive in this category than Connecticut and Vermont, but less competitive than Maine, and significantly less competitive than Massachusetts and New Hampshire. New Hampshire scores well in this category in good part because it levies individual income tax on interest and dividends only (and not wages and salaries). Massachusetts was one of ten states

Figure 4
Individual Income Tax Rankings for New England States, 2022-2023

	2022	2023
Connecticut	47	47
Maine	23	23
Massachusetts	11	11
New Hampshire	9	9
Rhode Island	**31**	**33**
Vermont	39	39

Source: Tax Foundation, 2023 State Business Tax Climate Index

[5] Individual income tax comprises 36.2 percent of anticipated general revenues in Rhode Island's enacted FY 2023 budget and 43.9 percent of anticipated overall tax revenues. R.I. House Fiscal Advisory Staff, FY 2023 Budget as Enacted, Section VII, Summary Tables.

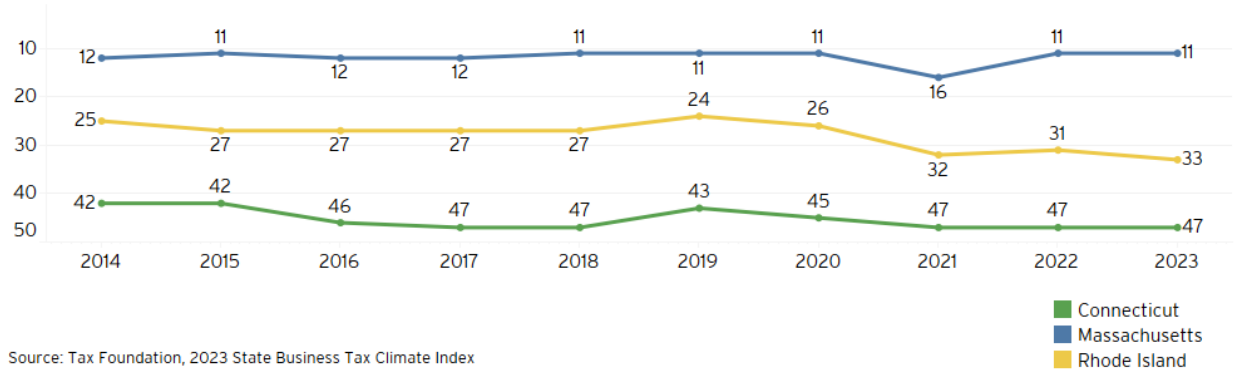
[6] In 2017, 65,697 institutions paid business corporations tax to the State of Rhode Island. Of these, 12,839 were C corporations, many of which operate out of state. R.I. Division of Taxation, Statistics of Income, 2017 Corporate Report – All Returns, 2017 Corporate Report – C Corp Returns.

[7] Alaska, Florida, South Dakota, and Wyoming do not levy individual income tax. Tennessee, Texas, and Washington only levy individual income tax on S Corp income. Nevada taxes wage income only and New Hampshire taxes interest and dividend income only. Janelle Fritts and Jared Walczak, *2023 State Business Tax Climate Index*, Tax Foundation, October 2022.

with a single rate (5.0 percent). However, after the publication of the 2023 *Index*, Massachusetts voters approved a proposal to add a second individual income tax bracket with a rate of 9.0 percent on all income over $1.0 million.[8] Rhode Island has three brackets, with a 3.75 percent rate applied to income less than $68,200, 4.75 percent applied to income over $68,200 and less than $150,050, and 5.99 percent applied to income exceeding $150,050. Rhode Island's top rate is the 18th highest in the U.S.

Figure 5 shows that Rhode Island's ranking has slipped considerably in this category since 2014, falling from 25th most competitive to 33rd. Rhode Island's individual income tax structure has not undergone significant change in this period, but improvements enacted by other states in the last few years—and particularly by Arkansas and Louisiana this year—have made Rhode Island's system less competitive.

Figure 5
Individual Income Tax Rankings for CT, MA, & RI
2014-2023



Source: Tax Foundation, 2023 State Business Tax Climate Index

Sales Tax

Sales and use taxes are the second largest source of state general revenues in Rhode Island and the second most heavily weighted component of the *Index*.[9] Sales tax is an important consideration for businesses both because some business inputs are typically subject to sales tax and because it affects consumer demand. Sales tax variables in the *Index* include whether a state levies a sales tax (five states do not), whether local governments are permitted to levy a sales tax, whether excise taxes on products such as cigarettes and alcohol are levied, the combined average state and local sales tax rate, and sales tax base, which consists of the goods and services made subject to taxation.[10] The states that are the least competitive in this category not only have a high combined state and local rate and high excise tax rates, but also

[8] This new law will go into effect on January 1, 2023, and so will negatively affect Massachusetts' ranking on the *Index* for 2023 when the Tax Foundation provides a backcasted ranking in the 2024 edition.
[9] Sales and use tax revenues represents 33.9 percent of anticipated general revenues and 44.1 percent of anticipated overall tax revenues in Rhode Island's enacted FY 2023 budget. This includes excise taxes on motor vehicles, cigarettes, alcohol, and marijuana, which collectively comprise 9.3 percent of anticipated sales and use tax revenues. R.I. House Fiscal Advisory Staff, FY 2023 Budget as Enacted, Section VII, Summary Tables.
[10] Alaska, Delaware, Montana, New Hampshire, and Oregon do not levy a state sales tax, but Alaska permits local sales tax. As all these states levy excise taxes, none receive a perfect score in this category. To determine a combined state and local sales tax rate, the Tax Foundation adds the state sales tax rate to an average local sales tax rate. The average local sales tax rate is weighted by population size. Janelle Fritts and Jared Walczak, *2023 State Business Tax Climate Index*, Tax Foundation, October 2022.

tax a large number of business inputs, like utilities and services; the *Index* rewards states for having a broad sales tax base that includes more final retail goods and services because these systems provide for a greater degree of fairness across industries, but detracts points when sales tax is applied to business inputs, as this amounts to double taxation.

As Figure 6 shows, Rhode Island ranks in the middle nationally on the sales tax component of the *Index* (24th) but below every other New England state; of the five major tax categories in the *Index*, the New England region is most competitive in sales tax. New Hampshire, which does not levy a sales tax, ranks first in the nation, while Massachusetts ranks 13th. Rhode Island's score is negatively affected by its relatively narrow sales tax base that excludes items like food and clothing, and its state sales tax rate of 7.0 percent is tied with three other states for second highest in the nation.[11] However, 38 states—Rhode Island not included—offer a local sales tax option, and the Ocean State's combined average state and local sales tax rate is middling nationally (tied with Indiana for 24th highest). Rhode Island's combined rate is the highest in New England, however; Connecticut has the region's second highest rate (6.35 percent), followed by Massachusetts (6.25 percent).[12]

Figure 6
Sales Tax Rankings for New England States, 2022-2023

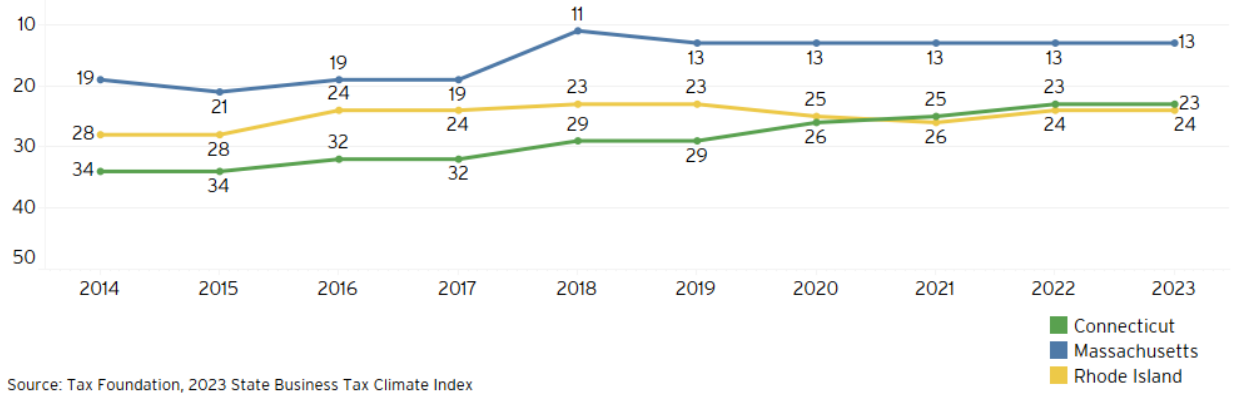
	2022	2023
Connecticut	23	23
Maine	8	8
Massachusetts	13	13
New Hampshire	1	1
Rhode Island	**24**	**24**
Vermont	16	17

Source: Tax Foundation, 2023 State Business Tax Climate Index

Figure 7 shows that while Rhode Island's sales tax ranking has somewhat improved in recent years, from 28th in 2014 to 24th in 2023, both Connecticut and Massachusetts have experienced more substantial improvement. Rhode Island's system of sales taxation has not undergone large structural change since 2014, but it has experienced shifts relevant to its overall score. Rhode Island twice raised its cigarette excise tax in this period and now has the third highest excise tax rate on cigarettes in the country after Connecticut and New York, negatively affecting its position on the *Index*. While, in this period, Rhode Island worsened its position by making permanent an excise tax on beer, wine, and liquor that was set to expire, it also improved its position by removing wine and liquor from its sales tax base.[13] Similarly, while the Ocean State removed one business input from its sales tax base (commercial energy), its sales tax is less competitive for the state having added other business inputs, such as security services, to its tax base.[14]

[11] Indiana, Mississippi, and Tennessee all have 7.0 percent sales tax rates. California's rate of 7.25 percent is the highest in the U.S. Janelle Fritts and Jared Walczak, *2023 State Business Tax Climate Index*, Tax Foundation, October 2022.
[12] Of New England states, only Vermont offers a local sales tax option. Ibid.
[13] Rhode Island's excise tax on beer, wine, and liquor was set to expire on June 30, 2015, but the 2015 General Assembly voted to make it permanent. National Conference of State Legislatures, State Tax Actions Database.
[14] Ibid. During her tenure, Governor Gina Raimondo attempted to expand the sales tax base to cover several business services, but these efforts were largely resisted by the General Assembly. R.I. House Fiscal Advisory Staff, FY 2020 Budget at a Glance.

Figure 7
Sales Tax Rankings for CT, MA, & RI
2014-2023



Source: Tax Foundation, 2023 State Business Tax Climate Index

Corporate Income Tax

Corporate income tax is the third most heavily weighted component of the *Index*. The two states that rank highest in this category—South Dakota and Wyoming—do not have a corporate income tax. The remaining 48 states are distinguished from each other in part by their top tax rates and graduated rate structures. Variables that positively affect a state's score include whether a state has carryback or carryforward provisions on net operating losses and whether a state conforms to federal depreciation schedules.[15] Conversely, states are penalized for offering investment, job, and/or research and development tax credits as they "complicate the tax system, narrow the tax base, [and] drive up rates for companies that do not qualify."[16]

As shown in Figure 8, while every New England state ranks in the bottom half of states in the corporate income tax category, Rhode Island's rank of 40th is somewhat higher than New Hampshire and Vermont but lower than Maine, Massachusetts, and Connecticut. One variable positively affecting Rhode Island is that it is one of 29 states to have a single-rate system. Rhode Island also benefits from conforming to federal depreciation schedules and from having a carryforward provision. However, Rhode Island's score is negatively affected by the relatively limited nature of its carryforward provision, which is among the most limited in the nation in

Figure 8
Corporate Income Tax Rankings for New England States, 2022-2023

	2022	2023
Connecticut	26	27
Maine	35	35
Massachusetts	36	36
New Hampshire	44	44
Rhode Island	**40**	**40**
Vermont	41	41

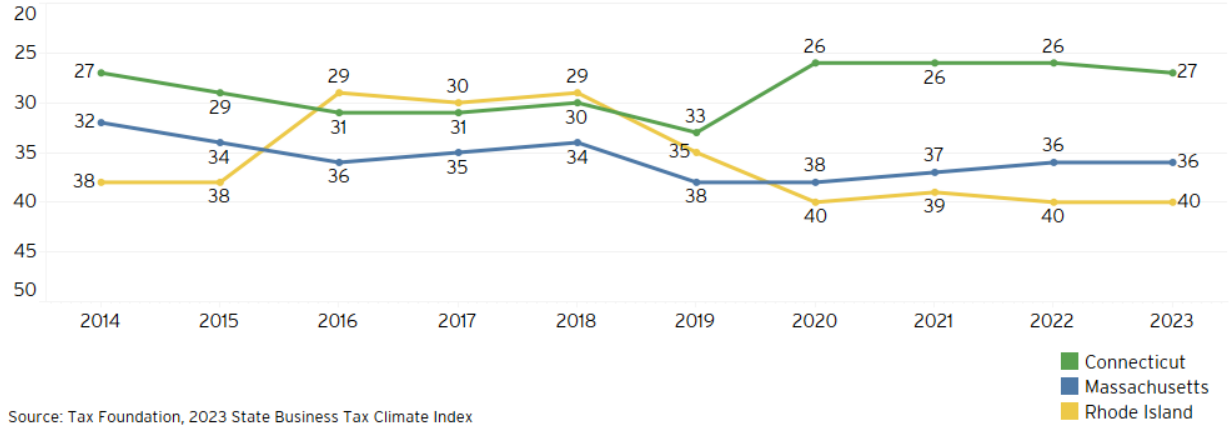
Source: Tax Foundation, 2023 State Business Tax Climate Index

[15] Carryback provisions enable a business to apply part of their current year net operating losses to income in preceding years, thereby offsetting previous years' profits, and lowering their tax liability. Similarly, carryforward provisions enable businesses to apportion net operating losses to future years to lessen their tax liability.
[16] Janelle Fritts and Jared Walczak, *2023 State Business Tax Climate Index*, Tax Foundation, October 2022.

allowing net operating losses to be carried forward for only five years.[17] Rhode Island's score is also negatively affected by its use of investment, job, and research and development tax credits, as well as by being one of a minority of states to have a throwback rule, through which the state claims income from corporations that have made sales, but do not have a nexus, in the state.[18]

Figure 9 indicates that while Rhode Island's corporate income tax ranking has fluctuated widely in the last decade, the state is today in a worse position than in 2014. The Ocean State's vastly improved score between 2015 and 2016 is mostly due to the reduction of its corporate income tax rate from 9.0 percent to 7.0 percent, a change that brought the state closer in line with national averages and to the lowest top rate of New England states.[19] Rhode Island's corporate income tax became less competitive in the last few years, both because of the actions taken by other states to improve the competitiveness of their corporate income tax structures and because Rhode Island did not adopt state tax changes consistent with the federal Tax Cuts and Jobs Act (TCJA) of 2017. For instance, while the TCJA's passage incentivized states to improve taxpayers' ability to deduct net operating losses, Rhode Island was one of a minority of states that did not follow suit.

Figure 9
Corporate Income Tax Rankings for CT, MA, & RI
2014-2023



Source: Tax Foundation, 2023 State Business Tax Climate Index

Property Tax

Unlike personal income, sales and use, and corporate income tax, property tax is levied across the United States and consequently has a lower weight in the *Index* than the preceding three categories. In further dissimilarity, property tax is levied at the municipal, rather than state, level in both Rhode Island and most states. While property tax is often considered to be one of the most equitable forms of taxation, studies have shown that raising property tax rates can

[17] In comparison, 16 states enable businesses to carryforward net operating losses for 20 years. Ibid.
[18] Rhode Island is one of 22 states with a throwback rule.
[19] Rhode Island's 9.0 percent corporate income tax rate was tied with Connecticut and New Jersey for the sixth highest top marginal corporate income tax rate in the country in FY 2015. In comparison, Rhode Island's 7.0 rate tied with Kansas and Indiana for 21st highest in FY 2016. For FY 2023, Rhode Island and Kansas tied for 20th highest. The second lowest top corporate income tax rate in New England is that of New Hampshire (7.6 percent) and the highest rate in the region is that of Maine (8.93 percent). Jared Walczak, *Top State Corporate Income Tax Rates in 2014*, Tax Foundation, April 2014; Jared Walczak, *State Corporate Income Tax Rates and Brackets for 2015*, Tax Foundation, April 2015; Janelle Fritts and Jared Walczak, *2023 State Business Tax Climate Index*, Tax Foundation, October 2022.

reduce levels of business formation and, consequently, employment rates. Moreover, property taxes are levied on businesses regardless of whether they turn a profit, and so can be particularly onerous to new businesses. The property tax category considers variables including real property tax collections per capita and as a percentage of personal income, and whether a state enables the taxation of different categories of property at different rates. The property tax component of the *Index* additionally considers whether a state taxes capital stock, tangible personal property, intangible property, inventory, real estate transfers, estates, inheritance, and gifts.

As Figure 10 shows, while Rhode Island performs poorly in this category, ranking in the bottom ten states (41st highest), it performs better than every other New England state. As a region, New England has an outsized reliance on property tax revenues, such that every New England state is ranked in the bottom ten in this category, including four of the lowest five performing states. Rhode Island's low score on this category is in good part explained by its heavy reliance on property tax revenues; of U.S. states, the Ocean State has the ninth highest property tax collections per capita, and the seventh highest as a percentage of personal income. While Rhode Island receives points for not levying a tax on intangible property and inventory, and for not having an inheritance tax or a gift tax, its score is negatively affected by taxes levied on tangible personal property, its real estate transfer tax, and its estate tax.

Figure 10
Property Tax Rankings for New England States, 2022-2023

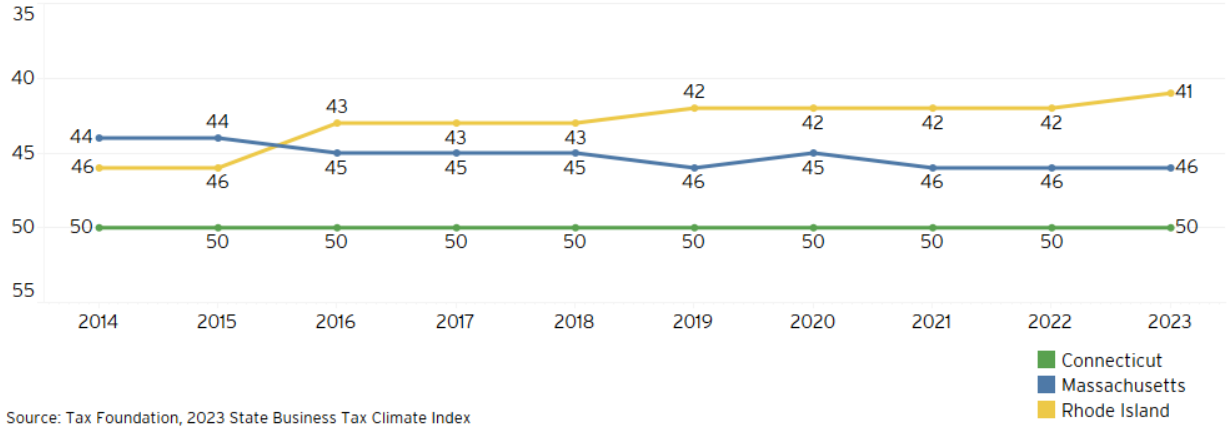
	2022	2023
Connecticut	50	50
Maine	41	47
Massachusetts	46	46
New Hampshire	47	43
Rhode Island	**42**	**41**
Vermont	48	48

Source: Tax Foundation, 2023 State Business Tax Climate Index

As shown in Figure 11, Rhode Island's property tax ranking has improved since 2015, when it ranked 46th. The primary reason for Rhode Island's improved ranking is the full phaseout of its capital stock tax in 2015.[20] More recently, the Ocean State's ranking has remained steady, though it improved one spot this year—the first change since 2019—due to an increase in Maine's reliance on property tax revenues, which caused the state to fall six spots in this category year-over-year, to 47th.

[20] Capital stock taxes are levied on a percentage of a firm's assets and typically as a percentage of a firm's net assets. Of U.S. states, 16 currently levy capital stock taxes but several states, including Connecticut, have plans to phase out this tax. Massachusetts and Connecticut are the only states in New England to levy a capital stock tax and tie for the nation's third highest capital stock tax rates. Janelle Fritts and Jared Walczak, *2023 State Business Tax Climate Index*, Tax Foundation, October 2022.

Figure 11
Property Tax Rankings for CT, MA, & RI
2014-2023



Source: Tax Foundation, 2023 State Business Tax Climate Index

Unemployment Insurance Tax

The smallest component of a state's overall score on the *Index* is determined by its unemployment insurance (UI) tax, which is levied on employers to fund each state's UI program. As the amount levied on individual employers is in part determined by the number of employees they lay off, UI tax burdens are often greater for businesses that are already struggling and have downsized their workforce out of necessity. A state's UI score on the *Index* is determined by rate structure and tax base, with states receiving credit if employers are not negatively affected in instances of employee separation that are beyond an employer's control (such as discharge due to misconduct or an employee leaving on a voluntary basis). The *Index* also considers the method by which employers are charged and several taxes related to UI, such as surtaxes for UI administration, solvency taxes, and taxes on employers related to temporary disability insurance programs that augment UI programs.

As Figure 12 shows, Rhode Island scores particularly low on the UI tax variable; of all states, only neighboring Massachusetts has a less competitive UI system. Of New England states, only Vermont and Connecticut rank in the top half of states. Rhode Island scores poorly in this category primarily because its unemployment insurance tax rate score—based on minimum and maximum rates, rate schedule, and taxable wage base—is ranked fourth worst among the states. Rhode Island's score is offset by the fact that it excludes from benefit charges employee separation situations that are beyond an employer's control. The state is not penalized for its Temporary Disability Insurance and Temporary

Figure 12
Unemployment Insurance Tax Rankings for New England States, 2022-2023

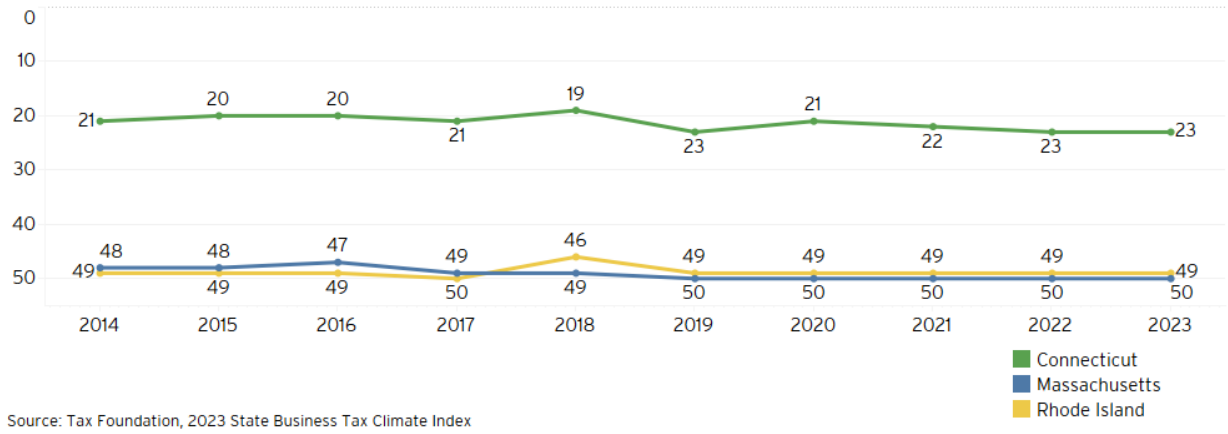
	2022	2023
Connecticut	23	23
Maine	35	38
Massachusetts	50	50
New Hampshire	43	45
Rhode Island	**49**	**49**
Vermont	15	17

Source: Tax Foundation, 2023 State Business Tax Climate Index

Caregiver Insurance programs, given these coverages have distinct funding streams. However, Rhode Island's score is negatively affected by the levying of a surtax on UI and by its charging method; Rhode Island is one of only nine states to charge all benefits to one employer (usually, as in the case of Rhode Island, the most recent employer), whereas 34 states use a method considered fairer by the *Index*, in which all employers within a base period of an employee pay on a proportion of wages to benefits charged.[21]

Figure 13 illustrates that, like Massachusetts and Connecticut, Rhode Island's UI category ranking has been largely consistent since 2014. Rhode Island's ranking improved between 2017 and 2018—from 50th to 46th—primarily due to a provision in the state's FY 2017 budget which reduced the level of reserves that the state's UI trust fund must maintain and significantly decreased the amount of UI taxes paid by the average employer.[22] However, as other states enacted policies to make their UI tax systems more competitive, Rhode Island's position worsened to 49th the following year.

Figure 13
Unemployment InsuranceTax Rankings for CT, MA, & RI
2014-2023



Source: Tax Foundation, 2023 State Business Tax Climate Index

RIPEC Comments

Rhode Island's ranking on the Tax Foundation's *Index* matters. Numerous studies have demonstrated that economic development correlates with a state's business tax climate. While there are several important factors for a prospective company to weigh when determining whether to begin operations, or for an existing company to consider when choosing where to relocate or expand, this assessment typically begins with an overview of operating costs, of which taxes can be a significant component. The *Index* rankings also inform the general reputation of a state as friendly or antagonistic to business.

[21] An additional six states charge base-period employers in inverse chronological order. According to the *Index*, this method is preferable to the method used by Rhode Island but less fair than charging in proportion to base-period wages. Ibid.
[22] Rhode Island was on Schedule I, the highest possible rate schedule, but moved to Schedule H. This altered the rate range from 1.69-9.79 percent to 0.99-9.59 percent. R.I. Dept. of Revenue Division of Taxation, Summary of Legislative Changes, July 11, 2016. Rhode Island is still on Schedule H, which currently has a range rate of 1.2 percent to 9.8 percent. R.I. Dept. of Labor and Training, Tax Schedules.

Rhode Island's ranking in the *Index* improved from 44th highest in 2014 to a high of 38th in 2018 through reforms such as a reduction in the corporate income tax rate and the phaseout of its capital stock tax, but as other states have enacted reforms to make their business tax systems more competitive in the last few years, Rhode Island has stood still, enacting no major reforms. This year, in consequence, the Ocean State has reentered the bottom ten states, only two spots ahead of its 2014 low. While Rhode Island's higher ranking than Connecticut is heartening, the economic center of Connecticut is closer to New York City than to Rhode Island. Of the two neighboring states, Massachusetts is the more important competitor and has a business tax climate ranked more favorably than Rhode Island. If Rhode Island remains inactive on reform, the Ocean State will presumably continue to have a less competitive business tax climate than the Bay State, even after next year's edition of the *Index* incorporates the introduction of a higher earner income tax bracket in Massachusetts.

Accordingly, RIPEC encourages policymakers to be proactive in improving Rhode Island's business tax competitiveness. Importantly, some reforms policymakers may wish to consider would have limited effect on revenues. Other reforms to reduce the tax burden for business implicate lost revenues, but Rhode Island arguably is in a favorable position to make its tax structure more competitive; large inflows of federal pandemic relief funding to state and local governments, along with strong state general revenues, have greatly improved Rhode Island's fiscal situation, with projections for FY 2023 indicating that the state will likely again see a significant surplus.[23] Given the opportunity presented by these circumstances, RIPEC recommends several areas for policymakers to prioritize:

Rhode Island should continue to improve its property tax structure by resisting efforts to shift a greater proportion of the property tax burden to businesses and through reform to its tangible personal property tax. While the Ocean State has improved its ranking from 46th in 2015 to 41st in the most current *Index* and is ranked more favorably than both Massachusetts and Connecticut, it remains in the bottom ten of states in the property tax category. Given the state's low ranking and because of the outsized role of property taxes for Rhode Island's local revenues, this tax category deserves greater focus from policymakers. Since Rhode Island permits the taxation of commercial property at a higher rate than residential property and relies heavily on tangible property taxation, businesses pay a disproportionate share of the state's relatively high property taxes. As assessed values for residential property have increased sharply in relation to commercial property, policymakers should resist increasing the proportional tax burden imposed on businesses. The most direct way to address this issue is for the state to impose guardrails on the degree to which municipalities can impose higher rates on commercial or tangible property. Absent such guardrails, policymakers may also wish to consider tangible property tax reform, such as a statewide tax exemption on tangible property under an assessed value level.[24]

Rhode Island should explore changes to make its corporate income tax more favorable to business. Despite improving its ranking in this category from 38th in 2015 to 29th in 2016, Rhode Island's rating has slipped to 40th in the most recent *Index*. Rhode Island's ranking has fallen in

[23] Revenue projections for FY 2023 were revised upwards by $358.9 million by Rhode Island's state budget officer, house fiscal advisor, and senate fiscal officer at the 2022 November Revenue Estimating Conference. In combination with surplus funds from the previous fiscal year, the state budget office projected in its first quarter budget report that this upswing will contribute to a $610.0 million surplus in FY 2023. R.I. Office of Management and Budget, November 2022 Revenue Estimating Conference Report; FY 2023 First Quarter Report.

[24] While the *Index* only rewards states that have fully eliminated tangible tax, or else levy that tax exclusively on a few centralized industries, a statewide exemption would improve Rhode Island's business tax competitiveness by decreasing the property tax burden of businesses. A statewide tax exemption also would represent a significant step toward full repeal of the tax.

this category both because other states have proactively improved their corporate tax structures and lowered rates, and because of decisions by Rhode Island policymakers to forego state tax law changes incentivized by the TCJA. Policymakers should consider making it easier for taxpayers to deduct net operating losses at minimum but may also wish to consider liberalizing the state's carryforward provision and eliminating its throwback rule.

Calls to increase individual income tax rates for high wage earners should be resisted and policymakers should consider eliminating the state's marriage penalty. The individual income tax is the most heavily weighted tax in the *Index* and Rhode Island's ranking of 33rd in this category is in the bottom half of states. Policymakers should consequently resist efforts to make this component of the state's business tax climate even less competitive and should consider means of improving the structure of the income tax. Eliminating the state's marriage penalty—through which married couples potentially face higher rates than if they had filed individually—would bring Rhode Island's income tax system in line with a majority of states (27), improve the state's business tax competitiveness, and make the system fairer for all taxpayers.[25]

The state should pursue reforms to make the UI tax system fairer and resist increasing its already generous benefit levels. Rhode Island ranks second worst of all U.S. states in the unemployment insurance subcategory for several reasons, including high levels of payments by employers. Policymakers should consider improving the state's business tax competitiveness in this category by making the system fairer. To that end, policymakers could reform the state's UI charging method from a system that charges all benefits to the most recent employer, as only eight other states do, to a system that charges all employers within a base period relative to the proportion of wages paid, as 34 states do. Policymakers should additionally avoid increasing benefit levels which are already more generous than most states and would impose an even greater burden on employers.[26]

[25] As of 2023, 23 states have marriage penalties built into their systems of income tax. Janelle Fritts and Jared Walczak, *2023 State Business Tax Climate Index*, Tax Foundation, October 2022.
[26] Rhode Island Public Expenditure Council, "How Rhode Island Unemployment Insurance Benefits Compare," February 2019.

Appendix

Figure 14
2023 State Business Tax Climate Ranking

	Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	UI Tax Rank
Alabama	41	18	30	50	18	19
Alaska	3	28	1	5	26	44
Arizona	19	23	16	41	11	14
Arkansas	40	29	37	45	27	20
California	48	46	49	47	19	24
Colorado	21	7	14	40	36	42
Connecticut	47	27	47	23	50	23
Delaware	16	50	44	2	4	2
Florida	4	10	1	21	12	3
Georgia	32	8	35	31	28	35
Hawaii	43	19	46	27	32	30
Idaho	15	26	19	10	3	47
Illinois	36	38	13	38	44	43
Indiana	9	11	15	19	2	27
Iowa	38	34	40	15	40	33
Kansas	25	21	22	25	17	15
Kentucky	18	15	18	14	24	48
Louisiana	39	32	25	48	23	6
Maine	35	35	23	8	47	38
Maryland	46	33	45	30	42	41
Massachusetts	34	36	11	13	46	50
Michigan	12	20	12	11	25	8
Minnesota	45	43	43	29	31	34
Mississippi	30	13	26	33	37	5
Missouri	11	3	21	26	7	4
Montana	5	22	24	3	21	18
Nebraska	29	30	32	9	39	11
Nevada	7	25	5	44	5	46
New Hampshire	6	44	9	1	43	45
New Jersey	50	48	48	42	45	32
New Mexico	22	12	36	35	1	9
New York	49	24	50	43	49	40
North Carolina	10	5	17	20	13	10
North Dakota	17	9	27	28	9	7
Ohio	37	39	41	36	6	13
Oklahoma	23	4	31	39	30	1
Oregon	24	49	42	4	20	36
Pennsylvania	33	42	20	16	16	22
Rhode Island	**42**	**40**	**33**	**24**	**41**	**49**
South Carolina	31	6	28	32	35	29
South Dakota	2	1	1	34	14	37
Tennessee	14	45	6	46	33	21
Texas	13	47	7	37	38	12
Utah	8	14	10	22	8	16
Vermont	44	41	39	17	48	17
Virginia	26	17	34	12	29	39
Washington	28	37	8	49	22	25
West Virginia	20	16	29	18	10	26
Wisconsin	27	31	38	7	15	31
Wyoming	1	1	1	6	34	28
District of Columbia	48	29	48	39	49	38

Recreated from Tax Foundation 2023 State Business Tax Climate Ranking