A RIPEC Policy Brief
A SPECIAL PUBLICATION OF THE RHODE ISLAND PUBLIC EXPENDITURE COUNCIL
RIPEC
February 2024

RIPEC Analyzes Rhode Island's Business Tax Climate Index Ranking of 41st: Despite Improvement, Rhode Island Remains in the Bottom Ten States

This policy brief analyzes Rhode Island's ranking on the Tax Foundation's 2024 Business Tax Climate Index in regional and historical context, as well as proposed tax changes affecting Rhode Island's business tax climate now under consideration by the General Assembly. It additionally 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. Over the last two decades, the *Index* has come to inform the general reputation of a state as friendly or antagonistic to business.

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.[1] 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 tax reform can have immediate effect, whereas many other business climate improvements take decades to realize.[2]

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 other New England states and particularly its bordering states—Massachusetts

[1] For example: Carroll, Robert, et. al., "Income Taxes and Entrepreneurs' Use of Labor," *Journal of Labor Economics* 18 (April 2000): 324-351; Stephen T. Mark, et. al., "The Influence of Taxes on Employment and Population Growth: Evidence from the Washington, D.C. Metropolitan Area," *National Tax Journal* vol. 53 (March 2000): 105-123; Xavier Giroud and Joshua Rauh. "State Taxation and the Reallocation of Business Activity: Evidence from Establishment-Level Data," *Journal of Political Economy* 127:3 (June 2019).

[2] Jared Walczak, Andrey Yukshov, and Katherine Loughead, *2024 State Business Tax Climate Index*, Tax Foundation, October 2023.

and Connecticut. These states, after all, have similar economic and demographic features important to businesses, such as the cost of raw materials and access to markets and an educated workforce. Due to its small size, Rhode Island's competition with neighboring states is particularly acute, since businesses can potentially move across borders without relocating their existing workforce.[3]

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 in each of the five tax categories that comprise the *Index*. This brief additionally considers potential tax law changes currently under consideration by the General Assembly—as proposed by Governor Dan McKee in his fiscal year (FY) 2025 budget proposal and as introduced, or otherwise proposed, as legislation in the General Assembly's current session—in the context of the *Index*. Finally, this brief makes recommendations for the Ocean State to improve its business tax climate.

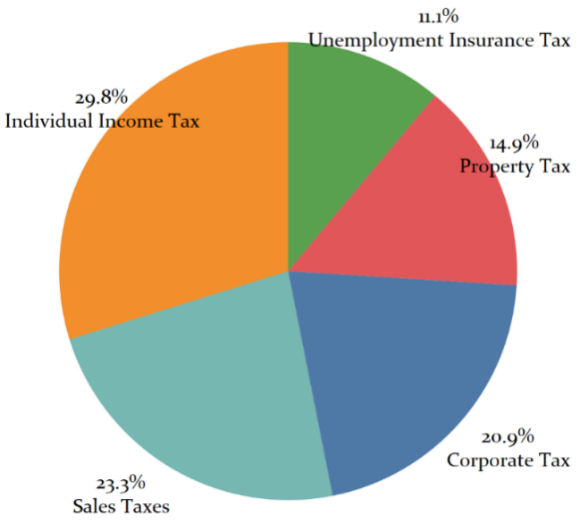
Overall Rank

Index 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.[4] A state's overall score is determined by comparing 125 variables across five major tax categories: individual income tax, sales taxes, corporate income tax, property tax, 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.[5] 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.[6]

Figure 1
Index Weights on Tax Categories



Source: Tax Foundation, 2024 State Business Tax Climate Index

[3] For example: Austan Goolsbee and Edward L. Maydew, "Coveting Thy Neighbor's Manufacturing: The Dilemma of State Income Apportionment," *Journal of Public Economics* 75:1 (January 2000); David Fetting, "Thomas J. Holmes on Walmart's Location Strategy," *Fedgazette* (March 1, 2006); Xavier Giroud and Joshua Rauh. "State Taxation and the Reallocation of Business Activity: Evidence from Establishment-Level Data," *Journal of Political Economy* 127:3 (June 2019).

[4] No state received a perfect ten. The top-ranked state, Wyoming, had a score of 7.72. In comparison, the lowest-ranked state, New Jersey, had a score of 3.43. Washington D.C. is given a score and ranking, but both or neutral in that they do not affect any other state's score or ranking.

[5] Variability between states is measured by determining the standard deviation from the mean in each tax category.

[6] This approach does not consider what proportion of a business's total tax expenditures are devoted to expenditures in each category, which may at any rate vary widely across different businesses and industry sectors.

The 125 variables between the five tax categories are also weighted.[7] Additional variables, or adjustments to existing variables, are often introduced in new editions of the *Index*.[8] In the most recent edition, an adjustment was made to a property tax category variable; the *Index* previously only scored states based on whether they levy a tangible personal property tax—a tax on non-real estate physical property that is levied almost exclusively on businesses—whereas now it also credits states that partially exempt tangible property.[9]

For the ranking of every state and Washington D.C. in 2023 and 2024, see this brief's appendix.

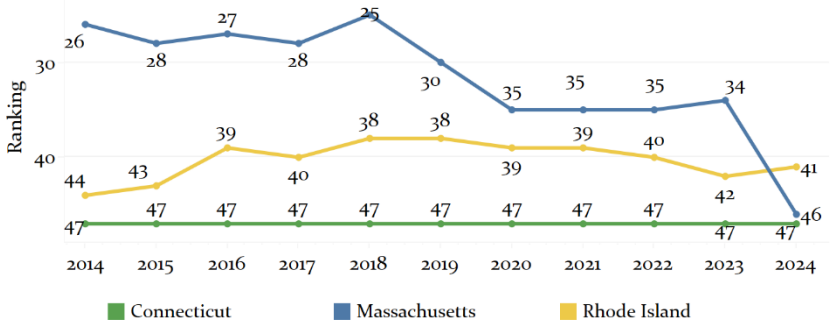
Rhode Island's Rank

Rhode Island's rank on the 2024 *Index* is 41st highest, or tenth worst, a one spot improvement over its 2023 ranking of 42nd. The 2023 *Index* marked the first time that Rhode Island entered the bottom ten states for business tax competitiveness since 2015, while the 2024 edition marks the first time Rhode Island improved in the rankings since 2017.

As Figure 2 shows, Rhode Island's rank followed a generally positive trajectory between 2014 and 2019, improving from 44th in the country to 38th, before beginning to backslide. Rhode Island never cracked the top two-thirds of states, but its improvement positioned it farther ahead of Connecticut, which has stagnated at 47th highest (fourth worst). Massachusetts, on the other hand, has experienced a precipitous decline. While the Bay State's business tax climate had become less competitive in the last several years— falling from a high of 25th in 2018 to 34th in 2023—it continued to best the Ocean State until this year, when the Bay State experienced a 12-spot drop to 46th highest (fifth worst) because of changes to its individual income tax structure (discussed further on page five).

Figure 2
State Business Tax Climate Index Rankings

2024	
Connecticut	47
Maine	34
Massachusetts	46
New Hampshire	6
Rhode Island	41
Vermont	43



Source: Tax Foundation, 2024 State Business Tax Climate Index

[7] The weights applied to variables are somewhat more subjective than the weights applied to tax categories, reflecting a determination by the Tax Foundation that some are of greater importance to the business tax climate than others.
[8] Each edition recalibrates scores for previous years, incorporating any methodological changes adopted and retroactively applied statutes and corrections. Rankings before 2014 are not backcasted and do not appear in the *Index* because the methodology used prior to that year was distinct from current methodology to the extent that direct comparison is inadvisable. The 2024 *Index* covers tax policy in statute from July 1, 2023, to June 30, 2024, consistent with FY 2024 for every state but New York, Texas, Alabama, and Michigan.
[9] Some Oklahoma counties also apply tangible property tax to certain forms of non-business property. Joyce Errecart, et. al., "States Moving Away from Taxes on Tangible Personal Property," Background Paper No. 63, *Tax Foundation*, 2012.

Regarding the other New England states, Rhode Island's business tax climate is more competitive than that of Vermont but less competitive than that of Maine and, to a greater degree, New Hampshire. Apart from New Hampshire, which ranks sixth highest, the New England region ranks poorly in business tax competitiveness, with four of six states ranking in the bottom ten.

Rhode Island's most recent rank represents the first time that state policymakers have taken significant action affecting its business tax climate ranking—either positively or negatively—since 2016, when the state's corporate income tax rate was reduced. The Ocean State's rank worsened between 2018 and 2023 because the state did not enact any major policies affecting the business tax climate while several similarly ranked states enacted reforms to improve competitiveness. Conversely, Rhode Island's most recent improvement is linked to the enactment of significant relief from the tangible personal property tax (discussed in detail on page 13).

Individual Income Tax

Comprising over a third of total general revenues, individual income tax is Rhode Island's single largest source of state general revenue. It is, moreover, the most heavily weighted tax component in the *Index*, determining 29.8 percent of each state's final score.[10] 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.[11] Second, income tax affects the cost of labor, a significant—and often the single greatest—business expense.[12]

Index Methodology

In the individual income tax category, the *Index* considers first whether a state levies the tax—four do not, and an additional five only tax certain forms of income.[13] Differentiating states with an individual income tax, the *Index* scores states in part based upon their top marginal tax rate, top tax bracket threshold, number of brackets, and average width of brackets. A state's score in this category is further determined by aspects of its tax base, with variables including the standard deductions and exemptions applied, as well as measures taken to improve fairness. 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, states like Rhode Island are rewarded for indexing their tax brackets to inflation.

[10] Individual income tax comprises 35.7 percent of general revenues in Rhode Island's enacted FY 2024 budget. R.I. OMB, November 2023 Revenue Estimating Conference Report; RIPEC calculations.

[11] In 2019, the most recent year for which data are available, 72,251 institutions paid business corporations tax to the State of Rhode Island. Of these, only 13,745 (19.0 percent) were C corporations, many of which operate out of state. R.I. Division of Taxation, Statistics of Income, 2019 Corporate Report – All Returns, 2019 Corporate Report – C Corp Returns.

[12] See: Therese J. McQuire and Michael Wasylenko, "Jobs and Taxes: The Effects of Business Climate on States' Employment Growth Rates," *National Tax Journal* 38 (December 1985): 497–511; William H. Gentry and R. Glenn Hubbard, "'Success Taxes,' Entrepreneurial Entry and Innovation," NBER Working Paper No. 10551 (June 2004).

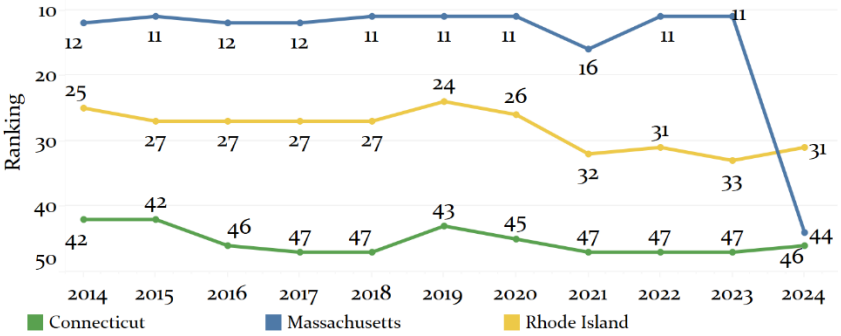
[13] Alaska, Florida, South Dakota, and Wyoming do not levy individual income tax. Tennessee, Texas, and Washington only levy individual income tax on S Corp income. Nevada taxes wage income only and New Hampshire taxes interest and dividend income only.

Rhode Island's Rank

Rhode Island ranks in the bottom half of states in the individual income tax category—a characteristic it now shares with every New England state but New Hampshire. As Figure 3 shows, Rhode Island is more competitive in this category than Connecticut, Vermont, and Massachusetts, but less competitive than Maine, and significantly less competitive than New Hampshire, which levies individual income tax on interest and dividends only. Massachusetts was similarly a highly ranked state until this year, when it fell from 11th to 44th, because it moved away from its single rate system. Previously, the Bay State applied a flat tax of 5.0 percent on all income, but it began this year to operate under a two-bracket system, in which a 4.0 percent surcharge is applied to all income over $1.0 million (effectively a 9.0 percent rate).[14]

Figure 3
Individual Income Tax Rankings

2024	
Connecticut	46
Maine	26
Massachusetts	44
New Hampshire	10
Rhode Island	31
Vermont	39



Source: Tax Foundation, 2024 State Business Tax Climate Index

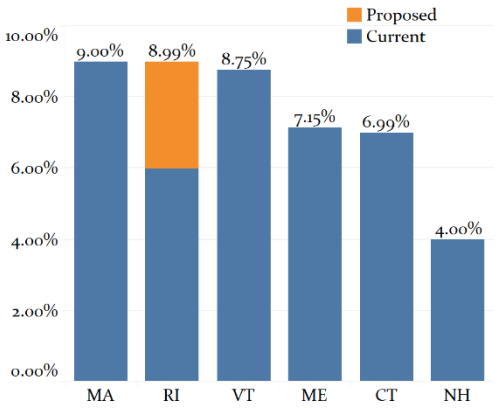
Rhode Island's slight improvement in this tax category in the current year (from 33rd highest to 31st) was the product of individual income tax law changes in other states, including Massachusetts. Likewise, Rhode Island has a lower ranking than in 2019—when it peaked at 24th—because similarly ranked states improved the competitiveness of their individual income tax structure. The last significant individual income tax reform in Rhode Island occurred in 2010. At the time, the Ocean State had five tax brackets and its top marginal rate of 9.90 percent represented the nation's fifth highest top marginal tax rate. The 2010 General Assembly approved a bill that cut the top rate and reduced the number of tax brackets, among other changes intended to both simplify the tax structure and render the reform revenue neutral.[15] At present, the Ocean State has three brackets which are annually adjusted for inflation. For tax year 2024, a rate of 3.75 percent is applied to income less than $77,450, 4.75 percent is applied to income over $77,450 and less than $176,050, and 5.99 percent is applied to income exceeding $176,050.[16]

[14] Prior to this change, Massachusetts was one of twelve states with a single bracket system. The other states are Arizona, Colorado, Idaho, Illinois, Indiana, Kentucky Michigan, Mississippi, North Carolina, Pennsylvania, and Utah.
[15] These included the elimination of itemized deductions, increases in standard deductions, and a reduction in the number of tax credits offered. Ryan Forster, "Rhode Island Approves Tax Reform Package," Tax Foundation, June 9, 2010; R.I. Dept. of Revenue, Presentation to the Vermont Blue Ribbon Tax Structure Commission, 2009.
[16] R.I. Dept. of Revenue, Inflation-adjusted amounts set for Tax Year 2024.

Legislative Outlook

There is currently a proposal before both chambers of the General Assembly that would reverse progress made as a result of the 2010 reforms and markedly worsen Rhode Island's rank by adding a 3.0 percent surtax on income exceeding $1.0 million (effectively an 8.99 percent rate).[17] Currently, Rhode Island's top rate of 5.99 percent is the 19th highest of U.S. states, and 20 states have a greater number of tax brackets. Absent changes in other states, if the General Assembly approved the proposed legislation, Rhode Island's top rate would be the nation's seventh highest and only 13 states would have more tax brackets.[18] Depicted in Figure 4, on a regional basis Rhode Island's top rate would move from second lowest to second highest, with a top rate only marginally (0.01 percent) lower than Massachusetts.

Figure 4
New England Top Individual Income Tax Rates, Current and Proposed



Note: New Hampshire's 4.00 percent rate applies only to interest and dividends. Regular income is not subject to taxation in New Hampshire.
Source: Tax Foundation, 2024 Business Tax Climate Rankings.

Governor McKee's budget proposal for FY 2025 includes a proposal to reduce the annual minimum payment amount for businesses reporting income through the individual income tax, as well as through the corporate income tax, from $400 to $350, for an annual cost to the state of $4.7 million in foregone revenue.[19] This reduction, while beneficial to businesses, would not affect Rhode Island's ranking under the Tax Foundation's current methodology because neither the individual income tax nor corporate income tax components of the *Index* capture minimum business tax levels.

Sales Tax

Sales and use tax is the second largest source of Rhode Island general revenues after income tax, comprising about a third of total general revenues.[20] It is also the second most heavily weighted component of the *Index*, accounting for 23.3 percent of each state's final score. Sales taxes are an important consideration for businesses both because some business inputs are subject to sales tax and because it affects consumer demand.[21]

[17] Revenues produced from the surtax would be deposited into a restricted receipt account, to be expended on the repair and maintenance of roads and bridges, public transportation, and early, K-12, and higher public education. There is no requirement that the proposed account would raise current funding levels beyond that which would otherwise be appropriated, however. 2024, Senate Bill 2355; House Bill 7338.
[18] Rhode Island is currently one of seven states with three brackets. Seven states currently have four brackets.
[19] An estimated 65,000 entities would benefit from this reduction. Governor's Office, Press Release, "Governor McKee Files FY 2025 'Team Rhode Island' Budget," January 18, 2024; R.I. Dept. of Revenue, Tax Filing Requirements; R.I. House Fiscal Advisory Staff, "Governor's FY 2025 Budget at Second Glance," January 30, 2024.
[20] Sales tax revenues represent 33.2 percent of anticipated general revenues in Rhode Island's FY 2024 budget. This includes cigarette and alcohol excise taxes. R.I. OMB, November 2023 Revenue Estimating Conference Report; RIPEC calculations.
[21] Timothy J. Besley and Harvey S. Rosen, "Sales Taxes and Prices: An Empirical Analysis," NBER Working Paper No. 6667 (July 1998).

Index Methodology

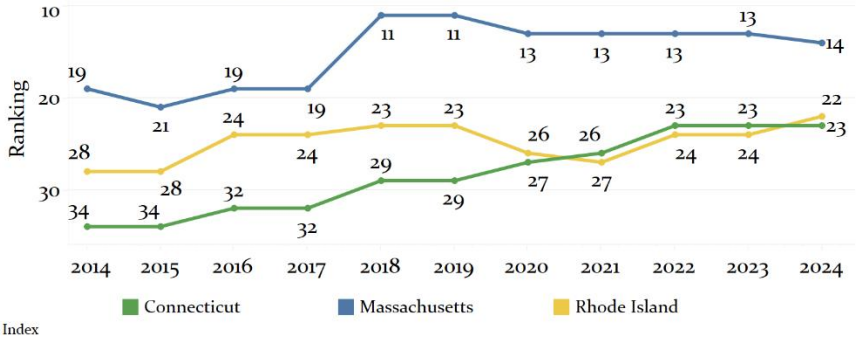
Sales tax variables in the *Index* include whether a state levies a sales tax (five states do not), whether local governments levy a sales tax, whether excise taxes on products such as cigarettes and alcohol are levied, the rates of all such taxes, and the sales tax base. The *Index* notably rewards states for including more final retail goods and services in their sales tax base but penalizes them for applying the sales tax to business inputs. It does so based on the principle that the former provides for a greater degree of fairness across industries while the latter amounts to double taxation.[22]

Rhode Island's Rank

As Figure 5 shows, Rhode Island's sales tax ranking (22nd) places it in the top half of states but below every New England state but Connecticut, which ranks one spot behind Rhode Island (23rd). Of the tax categories in the *Index*, the New England region is the most competitive in sales tax and Rhode Island likewise ranks higher in this tax category than in any other. New Hampshire, which does not levy a sales tax, ranks first in the nation, and neighboring Massachusetts ranks 14th highest.

Figure 5
Sales Tax Rankings

2024	
Connecticut	23
Maine	8
Massachusetts	14
New Hampshire	1
Rhode Island	22
Vermont	17



Source: Tax Foundation, 2024 State Business Tax Climate Index

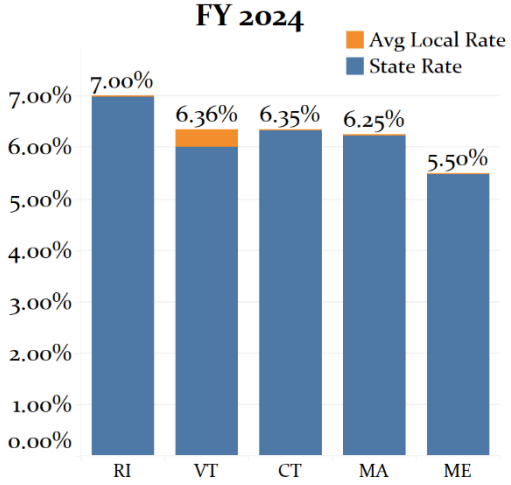
Figure 5 also shows that Rhode Island's sales tax ranking has been trending in a positive direction in the last four years—moving from 27th highest in 2021 to 22nd in 2024. The Ocean State's system of sales taxation has not undergone structural change in this period; the state's improvement can be explained by tax law changes, as well as increases in local sales tax rates, in similarly ranked states. However, Rhode Island has experienced some smaller shifts affecting its score, including increases to its cigarette excise tax and the addition of some business inputs to its sales tax base.[23]

Rhode Island's relatively low rank on a regional basis is in large part due to its sales tax rate. The state applies a rate of 7.0 percent, which is the highest regionally and ties for second highest in the nation.[24] However, 38 states offer a local sales tax option, and in considering the combined average

[22] Alaska, Delaware, Montana, New Hampshire, and Oregon do not levy a state sales tax. Alaska permits local sales tax.
[23] Policymakers also negatively affected the state's ranking by making permanent an excise tax on beer, wine, and liquor. Conversely, the Ocean State improved its score by removing commercial energy from its sales tax base. National Conference of State Legislatures, State Tax Actions Database.
[24] Indiana, Mississippi, and Tennessee also have 7.0 percent rates. California's rate of 7.25 percent is nation's highest.

state and local sales tax rate, Rhode Island ties with Indiana and North Carolina for 24th highest. Depicted in Figure 6, Rhode Island's combined rate remains the highest in New England, however, as Vermont is the only state in the region with a local sales tax option. Rhode Island's score is also negatively affected by its relatively narrow sales tax base, with goods like groceries and clothing, and services like financial and legal services exempt from taxation.[25]

Figure 6
New England State and Avg. Local Combined Sales Tax Rates FY 2024



Note: New Hampshire is excluded because it does not levy a sales tax
Source: Tax Foundation, 2024 Business Tax Climate Rankings

Legislative Outlook

Proposals to reduce the sales tax rate—the largest-weighted variable in the sales tax category—are currently pending before the Rhode Island General Assembly. This year, Rhode Island Senate President Dominick Ruggerio has voiced support for legislation to decrease the rate from 7.0 percent to 6.5 percent, which would result in an estimated annual loss of $120 million in foregone revenue.[26] If a reduction to 6.5 percent were enacted, Rhode Island would be closer in line with its neighbors but would still have the region's highest combined state and local sales tax rate. Nationwide, Rhode Island would have the 30th highest state and average local sales tax rate. Competing legislation sponsored by Senate Minority Leader Jessica de la Cruz would reduce the state sales tax rate to 5.0 percent. If enacted, this proposal would result in an estimated loss of $480 million in foregone revenue and would move Rhode Island's combined rate to third lowest, after only Alaska and Hawaii.[27] While Governor McKee's FY 2025 budget proposal does not include a sales tax reduction, the governor has cited sales tax relief as priority if additional revenues are projected at the May 2024 Revenue and Caseload Estimating Conferences.[28]

The General Assembly is also considering proposals that seek to exempt specific goods and services from taxation. While standing in opposition to the *Index* principle that a broad sales tax base represents a fairer business tax climate, these proposals would not be captured by the *Index* under its current methodology.[29] The Assembly is also considering a proposal in the governor's FY 2025 budget that would negatively affect Rhode Island's score by increasing the cigarette excise tax.[30]

---

[25] Other New England states also have narrow sales tax bases.
[26] Nancy Lavin, "Gov. McKee tried to trim state sales tax. Now Ruggerio takes up the cause," Rhode Island Current, December 19, 2023. This legislation has not yet been introduced.
[27] 2024, Senate Bill 2049. Alaska does not have a state sales tax but allows a local option.
[28] R.I. OMB, Fiscal Year 2025 Budget Proposal, Executive Summary. Governor McKee's FY 2024 budget proposal included a plan to reduce the state sales tax to 6.85 percent, but this reduction was not approved by the General Assembly.
[29] 2024, Senate Bill 2051; Senate Bill 2056; Senate Bill 2068; Senate Bill 2167; House Bill 7037. Senate Bill 2166 would conversely exempt a business input: machinery and equipment used to provide broadband communications services from the sales and use tax. 2024, Senate Bill 2166.
[30] The proposal would increase the tax from $4.25 per pack of twenty cigarettes to $4.50 and would make Rhode Island's cigarette excise tax highest in the nation. It currently ranks third highest, after Connecticut and New York (both at $4.35 per pack). R.I. OMB, Fiscal Year 2025 Budget Proposal, Executive Summary; *2024 State Business Tax Climate Index*.

Corporate Income Tax

Corporate income tax is the third most heavily weighted component of the *Index*. comprising 20.9 percent of a state's final score. Levied on C corporations, the corporate income tax is estimated to generate 5.8 percent of Rhode Island's state general revenues in FY 2024.[31] High corporate income taxes have been shown to have a particularly negative effect on state employment levels.[32]

Index Methodology

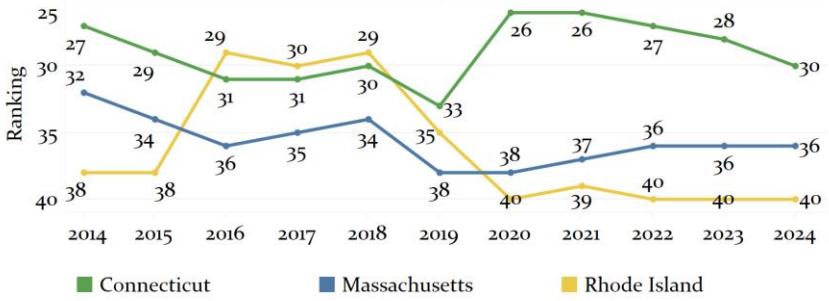
In scoring states' corporate income tax, the *Index* first considers whether a state levies a corporate income tax on business profits or a gross receipts tax. The two states that rank highest in this category—South Dakota and Wyoming—do not levy either tax, and scores for the remaining 48 states are most heavily determined by their top tax rates and graduated rate structures.[33] The *Index* additionally considers each state's tax base, including the availability of certain credits, deductions, and exemptions, and the ability of taxpayers to deduct net operating losses.[34]

Rhode Island's Rank

Rhode Island scores poorly on the corporate income tax component of the *Index*—besting only ten other states with a rank of 40th highest. As depicted in Figure 7, all New England states rank in the bottom half of states in terms of corporate income tax, but only New Hampshire—which does well on the *Index* overall—ranks below Rhode Island.

Figure 7
Corporate Income Tax Rankings

2024	
Connecticut	30
Maine	35
Massachusetts	36
New Hampshire	44
Rhode Island	40
Vermont	38



Source: Tax Foundation, 2024 State Business Tax Climate Index

Further depicted in Figure 7, Rhode Island's corporate income tax ranking improved substantially between 2015 and 2016, moving from 38th highest to 29th, before backsliding in 2020 to 40th—the same rank it currently holds. The Ocean State's improved ranking in 2016 is the consequence of

[31] R.I. OMB, November 2023 Revenue Estimating Conference Report; RIPEC calculations.
[32] J. William Harden and William H. Hoyt, "Do States Choose their Mix of Taxes to Minimize Employment Losses?" *National Tax Journal* vol. 56 (March 2003): 7–26.
[33] Analysis of rate structure considers both the income level for the highest rate applied and the number of tax brackets.
[34] Additional variables include whether brackets are indexed for inflation, whether a state conforms to federal depreciation schedules, and whether a state offers investment, job, and/or research and development tax credits.

corporate income tax reform, whereby the state reduced its rate from 9.0 percent to 7.0 percent.[35] Rhode Island's corporate income tax has since become less competitive both because of the actions taken by other states to improve 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.[36]

One variable positively affecting Rhode Island is that it has a single-rate system. However, only 13 states nationwide (including New Hampshire and Vermont) have more than one bracket for corporate income tax, and Rhode Island's top rate of 7.0 percent is in the top half of states—tying with Kansas for 20th highest.

Rhode Island has the lowest top corporate income tax rate of New England states but still ranks below most states in the region in consequence of the structure of its corporate income tax base.[37] For example, Rhode Island has a uniquely ungenerous carryforward provision—which enables businesses to utilize past operating losses to lessen their tax liability and is of particular importance to new businesses and industries, which are more likely to operate without profit for several years. Other aspects of Rhode Island's system that negatively affect its ranking include its lack of conformity with federal tax law, its use of investment, job, and research and development tax credits, and its throwback rule, through which a state may claim certain sales that are made in other states for purposes of determining a company's tax liability.[38]

Figure 8
States by Length of Net Operating Loss Carryforward Provision

None	California
5 Years	Rhode Island
8 Years	Arkansas
10 Years	Michigan Montana New Hampshire South Dakota Vermont
15 Years	Alabama Minnesota North Carolina Oregon Tennessee
20 Years	Arizona Connecticut Idaho Illinois Indiana Iowa Louisiana Massachusetts Mississippi Missouri Nebraska New Jersey New York Pennsylvania Wisconsin
Indefinate	Alaska Colorado Delaware Florida Georgia Hawaii Kansas Kentucky Maine Maryland New Mexico North Dakota Oklahoma South Carolina Utah Virginia West Virginia

Source: Tax Foundation, 2024 Business Tax Climate Index

Legislative Outlook

Governor McKee's FY 2025 budget includes a proposal that would extend the period for which businesses can carry forward net operating losses from five years to 20 years—a reform that would significantly improve Rhode

[35] Rhode Island's 9.0 percent rate was tied with Connecticut and New Jersey for the sixth highest top marginal corporate income tax rate in the U.S. Jared Walczak, State Corporate Income Tax Rates and Brackets for 2015, Tax Foundation, 2015.
[36] For instance, while the TCJA's passage incentivized states to improve taxpayers' ability to deduct net operating losses, Rhode Island did not follow suit.
[37] Top rates in other New England states range from 7.60 percent in New Hampshire to 8.93 percent in Maine.
[38] States are not permitted to tax income in a state where their company lacks a nexus and throwback rules enable the states where the sale originated to capture that income. Janelle Fritts, "Does Your State Have a Throwback or Throwout Rule?," Tax Foundation, April 4, 2023.

Island's rank on the *Index*.[39] Shown in Figure 8, every state that levies corporate income tax except California has a carryforward provision, and of those, none is more limited than Rhode Island's five-year provision. In comparison, one state has an eight-year carryforward period, ten states have either carryforward periods of ten or 15 years, 15 states have a 20-year period, and 17 states conform to federal treatment by allowing net operating losses to be carried forward indefinitely.[40] If enacted, the governor's proposal would therefore place Rhode Island more in line with the nation. It would also place Rhode Island on par with neighboring Connecticut and Massachusetts, which each have a 20-year provision. This proposal would not have a fiscal impact on the state until tax year 2031, at which time the state projects a loss of $2.6 million. The proposal's full fiscal impact would not come into effect until tax year 2045, at which time the state has projected a cost ranging from $18.2 million to $32.7 million.[41]

As previously detailed on page six, the governor's FY 2025 budget proposal would also reduce the minimum amount paid by businesses through the corporate income tax, but this reform would not affect Rhode Island's corporate income tax ranking under the *Index*'s current methodology.[42]

Property Tax

Property tax is the fourth highest weighted component of the *Index*, comprising 14.9 percent of a state's final score. Unlike the previous tax categories, property tax is levied across all U.S. states, and, in further dissimilarity, it is primarily levied by local, rather than state, governments.[43] Serving as the primary means of funding local governments in most states, property tax revenues nevertheless play a critical role in state finances, making up a respective 21.3 percent and 28.2 percent of combined state and local general revenues in the U.S. and the Ocean State in FY 2021.[44]

Property taxes are also of great consequence to businesses—in FY 2020, property taxes amounted to nearly 40 percent of all state and local taxes paid by U.S. businesses, and studies have shown that raising property tax rates can reduce levels of business formation, expansion, and relocation.[45] Moreover, given that property taxes are levied on businesses regardless of whether they turn a profit, they can be particularly onerous to new businesses.

---

[39] Starting with losses on or after January 1, 2025. R.I. OMB, Fiscal Year 2025 Budget Proposal, Executive Summary.
[40] The federal government has allowed up to 80 percent of taxable income to be carried forward indefinitely since the 2017 passage of the TCJA. Prior to 2017, the federal government had a more time limited 20-year provision but did not have a deductibility cap. Tax Foundation, Net Operating Loss Carryforward. In one form of another, net operating loss carryforwards have been part of federal tax code since 1918. Mark P. Keightley, "The Tax Treatment and Economics of Net Operating Losses," Congressional Research Service, Updated October 19, 2020.
[41] R.I. Senate Fiscal Office, Governor's FY 2025 and FY 2024 Supplemental Budget, Article Summaries, February 16, 2024.
[42] Similarly, while there is proposed legislation to allow cannabis establishments to claim income deductions, and legislation to enable the revocation of a limited-liability corporation's state license should they fail to pay state taxes or fees, neither policy change would be captured by the *Index*. 2024, House Bill 7024; House Bill 7280.
[43] Almost all property tax is collected by local governments in Rhode Island (99.9 percent in FY 2021). Nationally, 96.8 percent of property taxes were collected at the local level in FY 2021. U.S. Census Bureau, 2021 Annual Survey of State and Local Government Finances; RIPEC calculations.
[44] U.S. Census Bureau, 2021 Annual Survey of State and Local Government Finances; RIPEC calculations.
[45] Council on State Taxation, "Total state and local business taxes, state-by-state estimates for FY20," Oct. 2021; *2024 State Business Tax Climate Index*.

Index Methodology

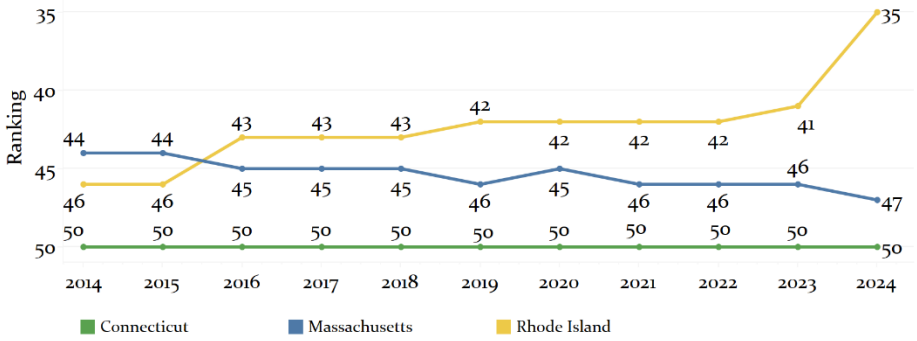
The property tax category of the *Index* gives equal weight to two variables: property tax rate and property tax base. Given that no single rate is applied across states, the first variable is measured by way of property tax collections per capita, property tax collections as a percentage of personal income, and capital stock taxes, which are levied on a percentage of a firm's assets. The property tax base component of a state's score considers whether a state taxes intangible property, inventory, real estate transfers, estates, inheritance, and gifts. It additionally factors the extent to which states limit the ability of local governments to raise property taxes, and whether a state enables different classes of property—such as residential and commercial property—to be taxed at different rates. Finally, the *Index* rewards states that do not tax tangible personal property, and as of this year, it also rewards states with substantial tangible property tax exemptions.

Rhode Island's Rank

As Figure 9 shows, Rhode Island ranks in the bottom third of states in the property tax category of the *Index* (35th). However, Rhode Island performs significantly better than the remaining states in the New England region—all of which rank in the bottom ten and all but one of which (New Hampshire) rank in the bottom five.

Figure 9
Property Tax Rankings

	2024
Connecticut	50
Maine	46
Massachusetts	47
New Hampshire	43
Rhode Island	35
Vermont	48

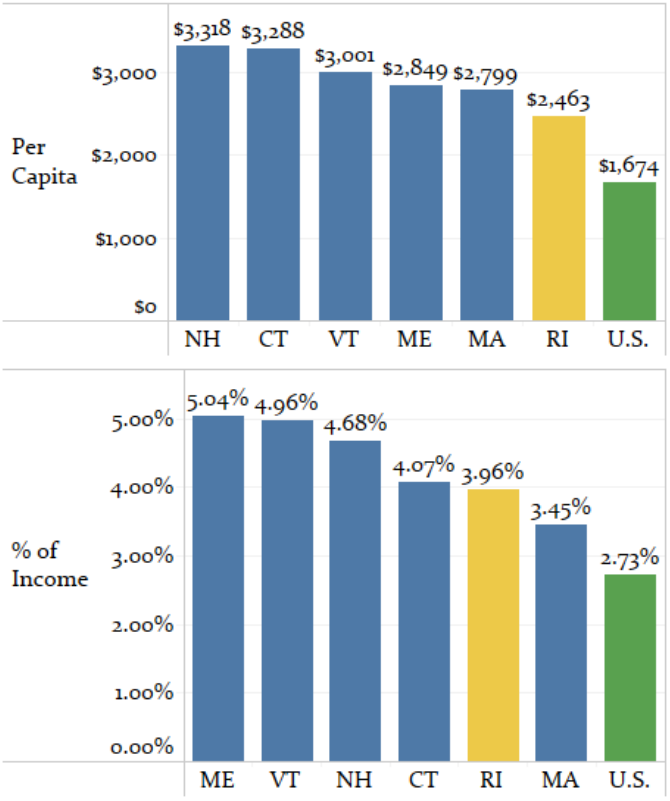


Source: Tax Foundation, 2024 State Business Tax Climate Index

In large part, the poor performance of New England states in the property tax category is the product of the region's outsized reliance on property tax revenues. Highlighted in Figure 10, Rhode Island has the lowest property tax collections on a per capita basis in the region, but has significantly higher per capita collections compared to the U.S. median. Rhode Island ranks eighth highest nationally in this measure while the other New England states rank between third and seventh highest (only New York and New Jersey have higher per capita collections). Similarly, every New England state far exceeds the U.S. median in terms of property tax collections on a personal income basis. Rhode Island ranks seventh highest in this measure and Maine, Vermont, New Hampshire, and Connecticut rank in the top six, while Massachusetts has the nation's 13th highest property tax collections as a percentage of personal income.

Rhode Island ranks better than the remainder of New England states in the *Index* because it has somewhat lower property tax collection levels than other states in the region, and because of its property tax base. For instance, Massachusetts ranks below Rhode Island overall, in large part because, along with Connecticut, it is one of only 15 states to levy a capital stock tax, while Rhode Island's rank improved from 46th highest in 2015 to 43rd in 2016 because it phased out its own capital stock tax. Rhode Island also benefits from not levying a tax on intangible property and inventory, and for not having an inheritance tax or gift tax. Rhode Island's score is negatively affected, on the other hand, by its real estate transfer tax and estate tax.

Figure 10
Property Tax Collections Per Capita and as a Percentage of Personal Income, FY 2021



Source: Tax Foundation, 2024 State Business Tax Climate; RIPEC calculations.

The Ocean State's ranking remained relatively steady in this subcategory between 2016 and 2023, before improving by six spots in the current year—a substantial year-over-year improvement resulting from the state's new exemption on the first $50,000 of assessed tangible personal property. The exemption, which was signed into law in June of 2023, is estimated to fully remove the tangible tax liability for 75 percent of Rhode Island businesses, while providing a degree of tax relief to all businesses.[46] This reform provided significant advantage to the Ocean State in terms of its property tax competitiveness because only nine states fully exempt tangible property from taxation and only five states (including Rhode Island and New Hampshire) provide for a partial exemption.

Current Year Proposals

In contrast to the other subcategories in the *Index*, Rhode Island's rank in the property tax category is in significant part determined by the actions of local governments. Empowered by the General Assembly to set their own property tax rates, cities and towns play a critical role in determining the level of property tax collections statewide. However, the Assembly has placed some limits on local governments, most importantly through a 4.0 percent year-over-year cap on property tax levy

[46] R.I. Governor's Office, Press Release, "Governor McKee Signs Legislation Providing Business Relief from the State's Tangible Property Tax," June 29, 2023.

increases.[47] Most states nationwide (34) also employ levy caps as a means of limiting property tax increases, while a similarly large number (36) employ year-over-year limits on property tax rate increases. Both tools, importantly, place limits on property tax increases in an equitable manner and are consequently scored positively by the *Index*.

Conversely, assessment limits—such as that currently under consideration in Rhode Island's House of Representatives—negatively affect a state's *Index*. A minority of states (18) utilize assessment limits, which typically place a cap on the amount that a property's value may increase between revaluation cycles unless it is sold or new construction occurs.[48] The legislation currently under consideration in Rhode Island would require that the assessed value of real property not be increased by more than 20 percent above the previous (three-year) revaluation cycle.[49] This legislation would negatively affect Rhode Island's *Index* rank because it would distort the real value of property without regard for a taxpayer's ability to pay, progressively shifting the property tax burden away from real estate experiencing large increases in market value and towards real estate with lower levels of market appreciation, as well as to new construction.

While it would not impact Rhode Island's ranking on the *Index*, legislation which would enable greater distortion between market values and property tax bills through homestead exemptions is also before the General Assembly this session. Cited by Senate and House leadership as a priority, this legislation provides for cities and towns to grant homestead exemptions to the owners of residential property who occupy their property as a primary residence in an amount of up to 20 percent of the assessed value without first petitioning the state for the authority to do so.[50] If enacted, this legislation would thereby make it easier for local governments to shift the tax burden away from resident homeowners. Notably, nine Rhode Island municipalities already have homestead exemptions through special statutory authorization, and the state's capitol city, Providence, has a homestead exemption amounting to 43 percent of assessed value.[51]

Legislative proposals to increase Rhode Island's estate tax exemption level also would not affect its ranking on the *Index*. Rhode Island's estate tax—levied upon transfer of the net value of a decedent's real and personal property—is paid annually by a few dozen accounts statewide and produces annual revenue which amounts to less than 1.0 percent of state general revenues.[52] The tax is levied at rates between 0.8 percent and 16.0 percent, depending on the value of an estate, and all property under a minimum threshold is exempt. Annually adjusted for inflation, this threshold amounted to

---

[47] R.I. Gen. Laws § 44-5-2. Rhode Island first enacted a cap on year-over-year growth in 1985, but cities and towns interpreted the 5.5 percent cap to be applicable to either rates or levy. The 2006 General Assembly revised the 1985 law to clarify that the cap was on levy increases, and to reduce the cap by 0.25 percent per year between FY 2007 and FY 2013. RIPEC, "A System Out of Balance: Property Taxation Across Rhode Island," January 2022.

[48] Jared Walczak, "Property Tax Limitation Regimes: A Primer," April 23, 2018.

[49] 2024, House Bill 7381. Cities and towns are required to conduct a full revaluation of real property every nine years, and statistical revaluations in the third and sixth year after the most recent full revaluation. R.I. Gen. Laws, § 44-5-11.5.

[50] 2024, House Bill 7378; Christopher Allen, "Senate leadership seeks statewide property tax relief," Providence Business News, December 19, 2023.

[51] The following communities have either a homestead exemption or an owner-occupied tax rate: Central Falls, East Providence, Johnston, Narragansett, North Kingstown, North Providence, Providence, West Greenwich, and Woonsocket. R.I. Division of Municipal Finance, 2023 Tax Rates; City of Providence, Tax Assessors Exemptions.

[52] R.I. OMB, November 2023 Revenue Estimating Conference Report; RIPEC calculations.

$1.7 million in 2023.[53] There are currently three pieces of legislation before the general assembly to raise that threshold. The first has been introduced in both chambers and would exempt all net taxable property valued under $4.0 million, with inflation adjusted increases in subsequent years.[54] A second has been introduced in the Senate and would exempt all net taxable property valued under $3.6 million, with the exemption increasing by $1.0 million annually thereafter.[55] Finally, a third proposal has been introduced in the House which would increase the exemption level by ten percent annually (approximately $1.87 million in the first tax roll year) until it reached the federal exemption level.[56] None of the above proposals would affect Rhode Island's ranking because—given that only a minority of states (12) levy an estate tax—the *Index*'s current methodology considers only whether a state levies the tax. However, at the levels proposed of $1.87 million, $3.6 million, or $4.0 million, Rhode Island would still have among the nation's least generous exemption levels.[57]

Unemployment Insurance Tax

Unemployment insurance (UI) tax is levied across every state and is the smallest component of a state's overall score on the *Index* (11.1 percent). Unlike the previous tax categories discussed, UI tax does not fund municipal or state governments but is levied exclusively on employers as a means of funding each state's UI program. As with the previous tax categories, however, state policies affect the level of burden placed on employers. As the amount levied on individual employers is in part determined by the number of employees they lay off, moreover, UI tax burdens are often greater for businesses that are already struggling and have downsized their workforce out of necessity.

Index Methodology

A state's UI score on the *Index* is determined largely by rate structure and tax base, with states performing well if they have relatively low minimum and maximum tax rates and lower taxable wage bases. States also receive credit if employers are held harmless in instances of employee separation that are beyond their control. The *Index* additionally considers the method by which employers are charged, the method by which an employer's experience rating is calculated, and several taxes related to UI.[58]

UI Trust Fund

Index methodology does not consider the level of reserves in a state's UI Trust Fund, but states must nevertheless balance two competing interests for the benefit of employers and the economy—

[53] R.I. Division of Taxation, Estate Tax, R.I. Gen. Laws § 44-22, § 44-23.
[54] 2024, House Bill 7487, Senate Bill 2064.
[55] 2024, Senate Bill 2065.
[56] 2024, House Bill 7680. The federal estate tax exemption is annually adjusted for inflation and is currently at $13.6 million. U.S. Internal Revenue Service, "IRS provides tax inflation adjustments for tax year 2024," November 9, 2023.
[57] The Ocean State's current exemption level is higher than only Oregon ($1.0 million). Massachusetts's exemption level is $2.0 million, Washington's is $2.2 million, Minnesota's is $3.0 million, and Illinois's is $4.0 million. So, depending on the legislation passed, Rhode Island's exemption level would either be second lowest, fourth lowest, or would tie for fifth lowest in FY 2025. Andrey Yushkov, "Does Your State Have an Estate or Inheritance Tax?," October 10, 2023.
[58] These include surtaxes for UI administration, solvency taxes, and taxes on employers related to temporary disability insurance programs that augment UI programs.

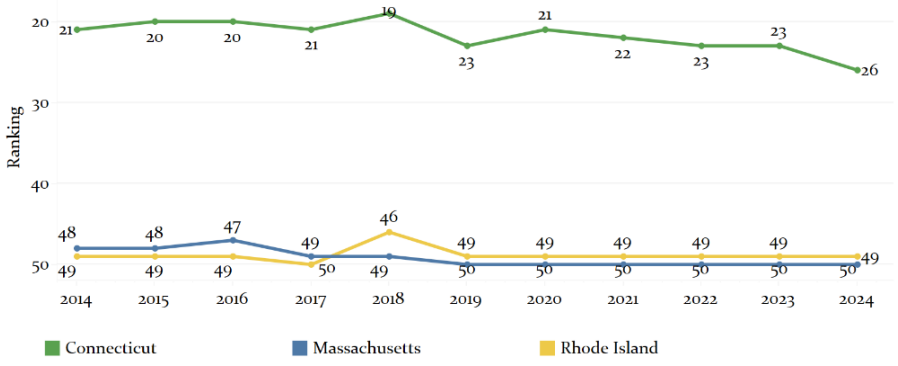
requiring a smaller fund balance may mean that employers face lower levels of taxation at present, but it also carries risk, because if its fund is fully depleted, a state is required to borrow from the federal government at interest, paid by employers in the form of higher rates. Rhode Island was among two-thirds of states to run into this scenario during the Great Recession; the state began borrowing to sustain payments in 2009 and had to continue to do so until reaching solvency in 2014. Between 2014 and 2020, Rhode Island's UI trust fund experienced year-over-year increases, before jobs losses related to the COVID-19 pandemic significantly depleted the fund.[59] As of January 1, 2023, the Ocean State's fund balance of $420.5 million was approaching its pre-pandemic high of $537.9 million but was not considered adequate to sustain a recession by the U.S. Department of Labor. With a solvency rate ranking that was 26th highest among states, however, Rhode Island is hardly unique in this regard.[60]

Rhode Island's Rank

Rhode Island has a lower rank in UI tax than any other subcategory—ranking second worst in the country (49th), with only neighboring Massachusetts ranking lower. The remaining New England states range in rank from 18th highest in Vermont to 40th in New Hampshire. Depicted in Figure 11, Rhode Island's UI rank has been consistently poor. Its rank improved in 2018 from last in the nation (50th) to fifth last (46th) due to an FY 2017 budget provision that decreased the level of reserves that the state's UI trust fund must maintain and thereby also decreased the amount of UI taxes paid by the average employer.[61] However, as other states enacted policies to make their UI tax systems more competitive, Rhode Island's position worsened to 49th in 2019, where it has since stagnated.

Figure 11
Unemployment Insurance Tax Rankings

2024	
Connecticut	26
Maine	29
Massachusetts	50
New Hampshire	40
Rhode Island	49
Vermont	18

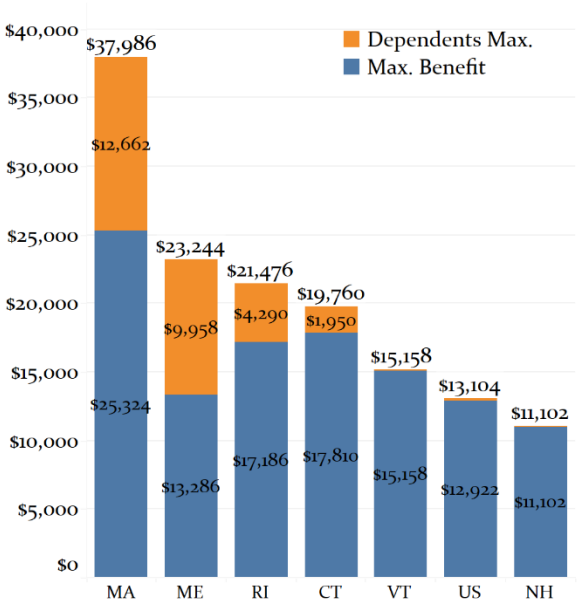


Source: Tax Foundation, 2024 State Business Tax Climate Index

[59] RIPEC, "The Impacts of the COVID-19 Crisis on Rhode Island's Unemployment and Temporary Disability Insurance Programs," June 2020; Fund reserves fell from $537.9 million on January 1, 2020 to $177.4 million on January 1, 2021. U.S. DOL, State Unemployment Trust Fund Solvency Report, 2020; State Unemployment Trust Fund Solvency Report, 2021.
[60] Rhode Island's UI Trust Fund balance has not been at levels considered sufficient to weather a recession by the U.S. DOL since 1991. U.S. DOL, State Unemployment Trust Fund Solvency Report, 2023.
[61] 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, Summary of Legislative Changes, July 11, 2016. Rhode Island is still on Schedule H, which currently has a rate range of 1.20-9.80 percent. R.I. Dept. of Labor and Training, Tax Schedules.

Rhode Island scores poorly in this category primarily because it requires employers to pay particularly generous benefits. Figure 12 depicts maximum benefit levels, including the maximum amount that can be claimed for dependents, for the New England states and the U.S. median in 2022, the most recent year for which data are available. Massachusetts has by far the highest maximum benefits in the U.S.; including its dependents allowance, the Bay State's maximum benefit exceeds the second highest state in the nation (Washington) by nearly $14,000. So, while the maximum benefit level in Rhode Island is significantly lower than in Massachusetts, it is nevertheless high compared to other states; amounting to $21,476, Rhode Island's maximum benefit with dependents allowance ranks fourth highest in the U.S. and third highest in New England and is $8,372 (1.6 times) higher than the U.S. median. Rhode Island's maximum benefit for an individual of $17,186 ranks somewhat lower (10th) but remains high relative to most states and exceeds the national median by $4,264 (1.3 times higher).[62]

Figure 12
Unemployment Insurance Maximum Benefits, 2022



Note: Different benefit multipliers are used depending on the procedure in place in a given year in Colorado and Minnesota, and in result the maximum potential benefit payable varies from year to year. For purposes of determining the U.S. median, RIPEC used the average maximum benefit for both states.
Source: U.S. DOL, State Unemployment Laws 2022; RIPEC calculations

Rhode Island's score in the UI tax category is also negatively affected by its application of a surtax for the purposes of funding job development programs, its benefit charging method, and its method for determining experience rating.[63] 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). In contrast, 34 states use a method considered fairer by the *Index*, in which all employers within a base period pay based on a proportion of wages.[64] Rhode Island's method of determining an employer's experience rating is also considered less neutral; the Ocean State is penalized because it is one of 15 states to require three years before a new business qualifies for an experience rating, and additionally because it is one of a majority of states to base an employer's experience rating solely on the experience of that employer, rather than employing a statewide experience variable.[65]

[62] Only 12 states include a dependents allowance in their UI program. U.S. Dept. of Labor, Comparison of State Unemployment Laws, 2022.
[63] R.I. DLT, Real Jobs Rhode Island.
[64] Six states charge base-period employers in inverse chronological order. Under *Index* methodology, this method is scored better than the method used by Rhode Island but worse than the method of charging in proportion to base-period wages.
[65] Under federal rules, new employer ratings must be used for a minimum of one year and a maximum of three years. Sixteen states use the minimum length of time permitted. The remaining states use lengths of time between 1.25 years and 2.5 years. *2024 State Business Tax Climate Index*.

On the other side of the ledger, Rhode Island's rank is positively affected by excluding 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 Caregiver Insurance programs because these programs are funded through contributions by employees and not by employers.

Legislative Outlook

There are currently no proposals before Rhode Island's General Assembly which would positively or negatively affect the state's unemployment insurance tax ranking.

RIPEC Comments

Rhode Island's rank 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 many factors for prospective businesses to weigh when determining whether to begin operations, or for existing companies to consider when choosing where to relocate or expand, this assessment typically begins with an overview of operating costs, of which taxes are a significant component. The *Index* also informs the general reputation of a state as friendly or antagonistic to business.

Rhode Island's most recent rank reflects the first time in several years that policymakers have taken significant action affecting its position on the *Index*. Rhode Island's rank improved from 44th highest in 2014 to 38th in 2018 through reforms such as a reduction in the corporate income tax rate and the phaseout of the capital stock tax, but as other states enacted business tax reform in the following years, Rhode Island stood still. In consequence, the Ocean State reentered the bottom ten states last year, ranking 42nd—only two spots ahead of its 2014 low. Reversing this trend, Rhode Island's 2023 General Assembly enacted an exemption on the first $50,000 of assessed tangible property for all accounts, removing the tangible tax burden entirely for an estimated three-quarters of businesses statewide. In consequence, the Ocean State's rank in the property tax category of the *Index* improved by six spots year over year (to 35th) and its overall ranking improved by one spot (to 41st). Despite improvement, however, Rhode Island continues to rank in the nation's bottom ten for business tax competitiveness, and while some proposals currently before the General Assembly would improve the Ocean State's standing, others would significantly worsen its position.

Accordingly, RIPEC offers the following recommendations to policymakers:

Proposals to increase individual income tax rates for high wage earners should be resisted and policymakers should instead consider individual income tax reforms to enhance competitiveness. The individual income tax is the most heavily weighted tax in the *Index* and Rhode Island's ranking of 31st in this category is in the bottom half of states. Policymakers consequently should resist efforts to make this critical component of the state's business tax climate even less competitive. If adopted, legislation to apply a top rate of 8.99 percent would make Rhode Island's top rate the nation's seventh highest. Massachusetts's recent adoption of a 9.0 percent tax on income over $1.0 million—essentially the same proposal currently before Rhode Island's General Assembly—caused the Bay State to plummet in the *Index* rankings (from 34th to 46th) and has provided the Ocean State, for the first time in the history of the *Index*, with advantage over both Massachusetts and Connecticut in terms of its business tax competitiveness. Rather than pursuing policies to make Rhode Island's individual income tax less competitive, policymakers should

consider means of improving the structure of the income tax. For instance, eliminating the state's marriage penalty would bring Rhode Island's income tax system in line with most states, make the system fairer, and improve the state's business tax competitiveness.

Policymakers should support the governor's proposal to extend the period for which businesses are allowed to carry forward net operating losses from five years to 20 years. The governor's proposal would represent a significant step towards increasing the state's corporate income tax competitiveness—a category in which it currently ranks 40th (11th worst) nationwide. The Ocean State's current carryforward provision is the least generous in the nation, but the governor's proposal would bring Rhode Island more in line with the nation and on par with Massachusetts and Connecticut—which both have 20-year carryforward provisions. Expanding Rhode Island's carryforward provision would be a boon to all businesses because it would allow them to better weather periods of market fluctuation and economic recession, and would particularly encourage entrepreneurship and innovation, given that new businesses and industries often experience years of investment and operations before they turn a profit.

Rhode Island should continue to improve its property tax structure and resist efforts to shift a greater proportion of the property tax burden to businesses and renters. While the Ocean State's recent tangible tax reform substantially improved its ranking in the property tax category, it remains in the bottom third of states due, in large part, to its outsized reliance on property tax revenues. The proposal currently before the General Assembly to enact an assessed value cap would negatively affect Rhode Island's rank on the *Index* and would further distort the relationship between the market value of property and property taxes. While it would not affect Rhode Island's *Index* ranking, a proposal to make easier the establishment of homestead exemptions would also move Rhode Island in the wrong direction, shifting the tax burden away from resident homeowners—regardless of their relative ability to pay—and toward renters and businesses, which already shoulder a disproportionate share of Rhode Island's relatively high property taxes. Property taxes represent arguably the most onerous and anticompetitive tax imposed on Rhode Island businesses. Policymakers should therefore resist the urge to worsen this inequity and consider imposing guardrails on the degree to which municipalities can impose higher rates on commercial property. To provide additional relief to businesses, policymakers should also consider future increases to the state's new tangible property tax exemption.

The state should resist increasing its already generous UI benefit levels, as well as tax changes that would reduce its Trust Fund reserves, while exploring reforms to make the system fairer. Rhode Island ranks second worst of all U.S. states in the UI category, largely because of the costs associated with its particularly generous benefit levels. Policymakers should avoid increasing benefit levels, which would impose an even greater burden on employers. At the same time, policymakers should guard against tax changes that would reduce employer payments if they threaten the viability of the state's UI Trust Fund, which is still recovering from losses sustained during the COVID-19 pandemic, and which is not considered by the U.S. Department of Labor to be sufficient to sustain a recession. To improve Rhode Island's business tax competitiveness in this category, policymakers should explore means of making the system fairer. These include potentially reducing the length of time used to establish a new employer's experience rating, and moving from a charging method which charges all benefits to the most recent employer to a system that charges all employers within a base period relative to the proportion of wages paid.

Appendix

Figure 13
State Business Tax Climate Rankings
2023 vs. 2024

	2023	2024
Alabama	41	39
Alaska	3	3
Arizona	19	14
Arkansas	40	38
California	48	48
Colorado	21	27
Connecticut	47	47
Delaware	16	21
District of Columbia	48	48
Florida	4	4
Georgia	32	32
Hawaii	43	42
Idaho	15	16
Illinois	36	37
Indiana	9	10
Iowa	38	33
Kansas	25	26
Kentucky	18	18
Louisiana	39	40
Maine	35	34
Maryland	46	45
Massachusetts	34	46
Michigan	12	11
Minnesota	45	44
Mississippi	27	20
Missouri	11	12
Montana	5	5
Nebraska	31	30
Nevada	7	7
New Hampshire	6	6
New Jersey	50	50
New Mexico	22	23
New York	49	49
North Carolina	10	9
North Dakota	17	17
Ohio	37	36
Oklahoma	23	19
Oregon	24	28
Pennsylvania	33	31
Rhode Island	42	41
South Carolina	30	29
South Dakota	2	2
Tennessee	14	15
Texas	13	13
Utah	8	8
Vermont	44	43
Virginia	26	25
Washington	29	35
West Virginia	20	22
Wisconsin	28	24
Wyoming	1	1

Source: Tax Foundation, 2024 State Business Tax Climate Index