RIPEC

TAXING TOP EARNERS:
THE POTENTIAL EFFECTS OF A PROPOSED INCOME TAX HIKE IN RHODE ISLAND

APRIL 2025

Introduction

Legislation has been introduced recently in the Rhode Island General Assembly to impose a 3.0 percent personal income tax surcharge on taxable income over approximately $625,000—raising the tax rate on such income from 5.99 percent to 8.99 percent—an increase of 50.0 percent. The income level in the legislation is intended to apply the surcharge only to tax filers representing the top 1.0 percent of personal income. The new tax surcharge would apply to tax years beginning on or after January 1, 2026. [1]

This most recent legislation to hike tax rates for high earners follows similar proposals introduced in each of the latest sessions of the General Assembly. During the last legislative session, a variation on this theme was introduced—with a proposed 3.0 percent surcharge on taxable income over $1 million, mirroring the millionaire's tax enacted in 2022 in Massachusetts.[2] In 2023, the 3.0 percent surcharge was proposed to apply to taxable income above $557,000, similar to the currently pending legislation.[3] None of these proposals advanced beyond committee hearings.

While not new, this legislative proposal to sharply raise taxes on high earners comes at a time when Rhode Island's already highly progressive income tax system, which relies heavily on the tax revenues supplied by higher-income individuals and small businesses, has become increasingly uncompetitive. Across the country, the overwhelming trend among states has been to simplify systems, by reducing the number of income brackets and lowering top rates.

Bucking this trend carries significant risk. Although individuals and businesses have been shown to migrate for a host of reasons, there is clear evidence of greater migration from high tax to low tax states, including higher earners who not only contribute a disproportionate share of tax revenues, but also fuel economic activity and support philanthropic activity. Moreover, this

[1] Identical bills have been introduced in the House (2025-H-5473) and the Senate (2025-S-329). The language of the bills applies the 3.0 percent surcharge to taxable income over $430,000, but this amount is intended to be in 2011 dollars, as are the other original brackets contained in the statute. Under the legislation, the income level for the surcharge would be adjusted for inflation in the same manner of adjustments to the other income brackets.

[2] Bills 2024-H-7338 and 2024-S-2355.

[3] Bills 2023-H-6148 and 2023-S-232. Other legislation introduced in the Senate sought to impose a 11.9 percent tax rate on taxable income over $500,000. Bills 2023-S-19 and 2023-S-553.

proposed tax hike is not warranted given the remarkable growth in individual income tax revenues in recent years.

Rhode Island's Personal Income Tax Structure

For each taxable year, the State of Rhode Island levies a tax on the federal adjusted gross income of every individual, estate, and trust. The income of Rhode Island residents is subject to tax, while nonresident income is subject to tax when attributable to Rhode Island sources.[4] Nonmarried individuals may file single returns or head of household returns if they provide primary financial support for a qualifying dependent, while married individuals may file joint or separate returns.[5] The majority of returns are single returns, representing over half of total returns filed in 2022 by both in-state and out-of-state filers. Joint returns comprised about a third of total returns.[6]

Rhode Island has three personal income brackets which are annually adjusted for inflation. For tax year 2025, a rate of 3.75 percent is applied to income up to $79,900, 4.75 percent is applied to income greater than $79,900 and up to $181,650, and 5.99 percent is applied to income exceeding $181,650.[7]

Categories of income subject to Rhode Island's income tax include salaries and wages, some forms of interest and dividends, some forms of pensions and annuities, and the business income of so-called pass-through entities, including sole proprietorships, partnerships, S Corporations, limited liability corporations, and trusts. Rather than paying the corporate income tax, the income of these businesses pass-through to individual income tax returns.[8] Pass-through entities represent most businesses in Rhode Island.[9]

Figure 1
RI Income Tax Brackets
2025

Tax Rate	Income Level
3.75%	<$79,900
4.75%	>$79,900 - <$181,650
5.99%	>$181,650

Note: Income level annually adjusted for inflation
Source: R.I. Dept. of Revenue

[4] "A resident is a person domiciled in the State of Rhode Island or although not domiciled maintains a permanent home and is in state for more than 183 days in the taxable year. R.I. Dept. of Revenue, Personal Income Tax.

[5] Eligible widows and widowers may also file joint returns. Persons who qualify someone as a head of household include minor children and elderly or disabled adults who are related to the head of household. U.S. IRS, "Who is a Qualifying Person Qualifying You To File as Head of Household?"; R.I. Dept. of Revenue, Personal Income Tax Forms.

[6] U.S. IRS, Statistics of Income Tax, Historic Table 2, state data tax year 2022; RIPEC calculations.

[7] R.I. Dept. of Revenue, Inflation-adjusted amounts set for Tax Year 2025.Rhode Island has operated under this system since January 1, 2011. Prior to that, the state had five brackets, with a top marginal rate of 9.99 percent. This change was accompanied by other reforms aimed at making Rhode Island's tax structure more competitive, including reducing the number of tax credits, increasing the standard deduction for most taxpayers, and ending alternative minimum tax and optional flat tax systems. RIPEC, "Tax Policy Analysis," April 2010; Ryan Forster, "Rhode Island Approves Tax Reform Package," Tax Foundation, June 9, 2010.

[8] R.I. Dept. of Revenue, Pass-through Entities.

[9] In 2019, 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; RIPEC calculations.

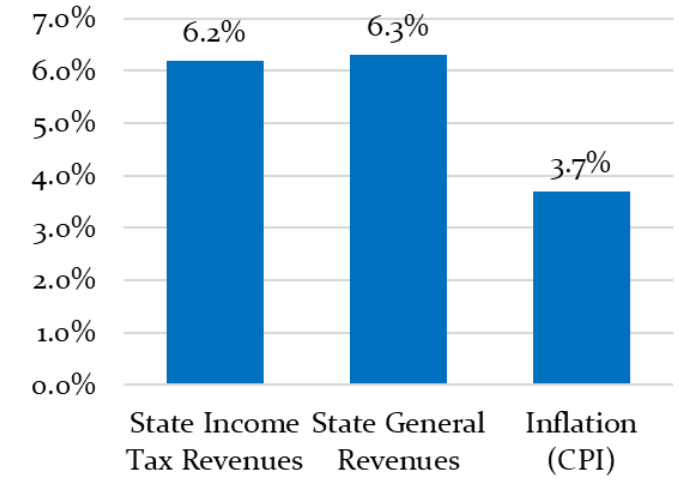
Rhode Island Individual Income Tax Revenues

In Rhode Island, individual income tax revenues represent the single largest source of state general revenues, totaling an estimated $1.91 billion in the current fiscal year (FY 2025) and comprising 34.4 percent of general revenues and 42.1 percent of total state tax revenues.[10]

Personal Income and Tax Revenue Trends

Over the last several years, individual income tax revenues have surged in Rhode Island, contributing significantly to overall robust growth in state revenues. Individual income tax revenues ballooned from $1.40 billion for fiscal year (FY) 2019 to a projected $1.91 billion for FY 2025, an average annual increase of 6.2 percent. Total general revenues grew from $4.02 billion to $5.56 billion in this same period, amounting to an average annual increase of 6.3 percent.[11] Growth in personal income tax revenues has substantially exceeded the average annual inflation rate of 3.7 percent during this period, depicted in Figure 2.[12]

Figure 2
Average Annual Increase
FY 2019-FY 2025



Note: FY 2025 is estimated. CPI is consumer price index.
Source: R.I. OMB, REC Reports; U.S. BLS, CPI series reports; RIPEC calculations

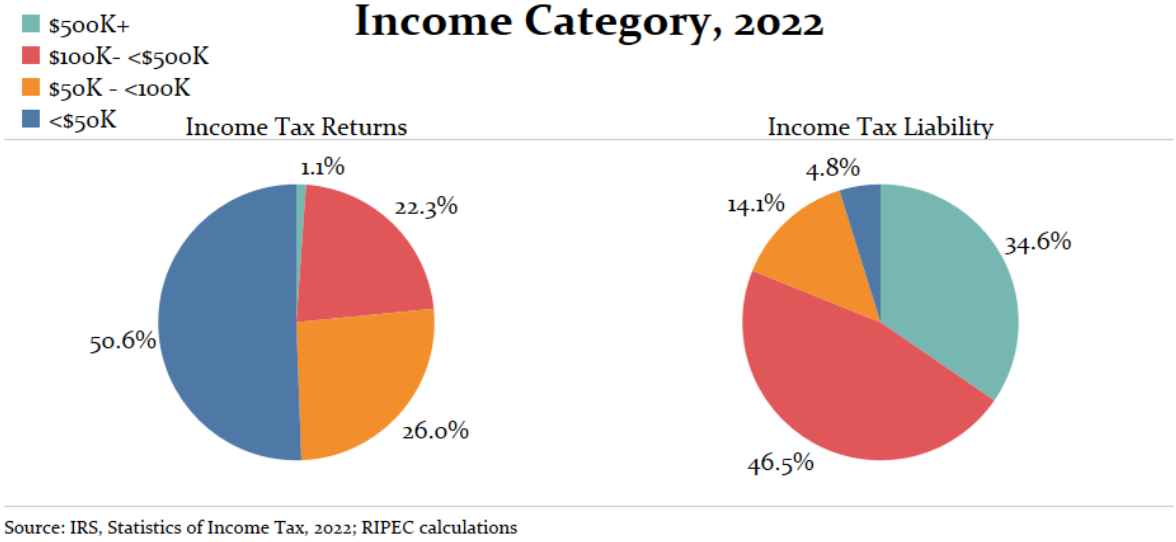
The growth in individual income tax revenues in Rhode Island was not due to legislative change but was rather primarily a consequence of real and substantial growth in resident personal income.[13] Per capita, personal income grew at an average annual increase of 5.7 percent from calendar year 2018 through 2024, more than twice the growth rate of the previous six years (2.5 percent).[14] Based on the November 2024 Revenue Estimating Conference, personal income tax revenues are projected to continue to grow, by 7.4 percent in FY 2025 and 4.0 percent in FY 2026.[15]

[10] General revenues are the state's largest expenditure source and are also those funds which are essentially uncommitted, meaning that they are at the disposal of policymakers as they determine the state's annual spending plan. R.I. OMB, November 2024 Revenue Estimating Conference Report.
[11] R.I. OMB, May 2020 Revenue Estimating Conference Report; November 2024 Revenue Estimating Conference Report.
[12] RIPEC, "Rhode Island State Budget Outlook for FY 2026," January 2025.
[13] A change effective beginning January 1, 2019—in which pass-through entities may elect to have the tax applied at the entity level— also contributed to the increase. Ibid.
[14] U.S. BEA, Regional Data, GDP and Personal Income; RIPEC calculations. States overall experienced large general revenue growth in this period, and particularly in FY 2021 and FY 2022. NASBO, The Fiscal Survey of States, Fall 2024.
[15] R.I. OMB, November 2024 Revenue Estimating Conference Report.

Distribution of Individual Income Tax Revenues by Income

Rhode Island's income tax is very top heavy; the state places great reliance on the income tax revenues generated from a relatively small number of higher-income Rhode Islanders. Detailed in Figure 3, filers with individual or family adjusted gross income of $500,000 or more made up 1.1 percent of total returns in 2022 but represented over one-third (34.6 percent) of total statewide personal income tax liability that year. At the other end of the spectrum, returns declaring income of less than $50,000 represented over half (50.6 percent) of all returns in 2022 but comprised only 4.8 percent of the total tax liability that year.

Figure 3
Rhode Island Income Tax Returns and Tax Liability by Income Category, 2022



Source: IRS, Statistics of Income Tax, 2022; RIPEC calculations

How Rhode Island's Individual Income Tax Structure Compares

In the United States, 41 states levy a tax on wages and salaries. Eight states do not levy individual income taxes: Alaska, Florida, New Hampshire, Nevada, South Dakota, Tennessee, Texas and Wyoming. Washington taxes only capital gains income.[16]

Rates and Brackets

Of the states that tax wages and salaries, 14 apply a flat tax rate across all income levels. Among the remaining 27 states, the number of tax brackets varies from two brackets in six states to 12 brackets in Hawaii, with most states having two to five brackets. Across states, there are wide

[16] Andrey Yushkov and Katherine Loughead, "State Individual Income Tax Rates and Brackets, 2025," Tax Foundation, February 18, 2025.

differences in income levels between tax brackets, ranging from $500 in Alabama to $20 million in New York.[17]

Rhode Island's income tax structure is more progressive than most states, with a larger proportion of the tax liability shifted to higher-income residents. Figure 4 highlights two measures of state income tax progressivity.[18] The first is the multiple of statewide average earnings at which a state's top tax rate is applied. The differences across states in this metric are wide. In New York—a significant outlier—a filer would need to have a taxable income nearly 400 times the average earnings in that state to pay the top rate, applied to tax filers with income above $25 million. In contrast, in 12 states the top rate is below average earnings. In Rhode Island, the top rate is applied to income 2.93 times statewide average earnings—ranking the Ocean State 13th highest among states. If Rhode Island adopted legislation to create a new bracket on income over $625,000, it would rank fifth highest, after New York, New Jersey, Massachusetts, and California, respectively.

Another method of measuring progressivity relates to the difference between a state's top income tax rate and its marginal (or lowest) rate. Given that several states have multiple brackets across very low levels of income, Figure 4 shows the difference between each state's top income tax rate and the marginal tax rate applied to at least $25,000 in taxable income. Rhode Island ranks 11th highest in this metric, with a 2.24 percentage point difference between its top and marginal rates. If the state were to adopt legislation establishing a new top rate of 8.99 percent, it would rank fifth highest, after California, New Jersey, New York, and Vermont, respectively.

Rhode Island's top marginal income tax rate of 5.99 percent is the 15th highest among states. If Rhode Island was to adopt the current proposed legislation, it would have the nation's ninth highest top rate. Rhode Island's top rate would also be higher than any other New England state but Massachusetts (top marginal income tax rate of 9.0 percent). Given that Rhode Island's top rate would be applied to income above $625,000, however, income above this level but below $1,083,150 (the minimum income level corresponding to the top rate in Massachusetts) would be taxed at a substantially higher rate than in Massachusetts.

Figure 8, in the Appendix, depicts the tax rates and brackets for all 50 states.

[17] Ibid.

[18] The measures of progressivity used in Figure 4 were taken from a 2014 Tax Foundation study: Lyman Stone, "Which States Have the Most Progressive Income Taxes?," Tax Foundation, September 24, 2014. Another measure used is the proportion of a family's total income attributable to the tax. Nationwide, the top 1.0 percent of high-earning families pay 4.1 percent of their income in income tax, and in Rhode Island they pay 4.6 percent. Institute of Taxation and Economic Policy, "Who Pays?: 7th Edition ," January 2024. ITEP's study also describes Rhode Island's overall system of taxation as regressive. However, the study has several limitations, including that it ignores highly progressive tax categories, such as inheritance and estate taxes. Jared Walczak, "'Who Pays' Doesn't Tell Us Much About Who Actually Pays State Taxes," Tax Foundation, October 18 2018.

Figure 4
Income Tax Progressivity by State
2025

State	Multiple of Avg. Earnings at Which the Top Rate Applies	Rank	Percentage Point Difference Between Top & Marginal Rate on $25K+ Taxable Income	Rank
New York	379.32	1	5.40%	3
New Jersey	15.05	2	9.00%	2
Massachusetts	14.67	3	4.00%	7
California	13.97	4	9.30%	1
Connecticut	7.38	5	2.49%	10
Wisconsin	5.52	6	3.25%	8
Hawaii	4.88	7	4.20%	6
New Mexico	4.14	8	1.70%	12
Maryland	4.06	9	1.00%	17
North Dakota	4.03	10	2.50%	9
Vermont	3.90	11	5.40%	4
Minnesota	2.97	12	4.50%	5
Rhode Island	**2.93**	**13**	**2.24%**	**11**
Oregon	1.94	14	1.15%	16
Ohio	1.68	15	0.75%	18
West Virginia	1.13	16	1.49%	13
Maine	1.13	17	1.35%	15
Delaware	1.10	18	1.40%	14
Nebraska	0.68	19	0.19%	19
Kansas	0.42	20	No New Bracket >$25K	
Montana	0.37	21	No New Bracket >$25K	
South Carolina	0.32	22	No New Bracket >$25K	
Virginia	0.27	23	No New Bracket >$25K	
Missouri	0.16	24	No New Bracket >$25K	
Oklahoma	0.13	25	No New Bracket >$25K	
Arkansas	0.08	26	No New Bracket >$25K	
Alabama	0.05	27	No New Bracket >$25K	
Arizona	Flat Tax		Flat Tax	
Colorado	Flat Tax		Flat Tax	
Georgia	Flat Tax		Flat Tax	
Idaho	Flat Tax		Flat Tax	
Illinois	Flat Tax		Flat Tax	
Indiana	Flat Tax		Flat Tax	
Iowa	Flat Tax		Flat Tax	
Kentucky	Flat Tax		Flat Tax	
Louisiana	Flat Tax		Flat Tax	
Michigan	Flat Tax		Flat Tax	
Mississippi	Flat Tax		Flat Tax	
North Carolina	Flat Tax		Flat Tax	
Pennsylvania	Flat Tax		Flat Tax	
Utah	Flat Tax		Flat Tax	
Washington	Capital Gains Tax Only		Capital Gains Tax Only	
Alaska	No Income Tax		No Income Tax	
Florida	No Income Tax		No Income Tax	
Nevada	No Income Tax		No Income Tax	
New Hampshire	No Income Tax		No Income Tax	
South Dakota	No Income Tax		No Income Tax	
Tennessee	No Income Tax		No Income Tax	
Texas	No Income Tax		No Income Tax	
Wyoming	No Income Tax		No Income Tax	

Note: Income estimated using U.S. BLS February 2025 average weekly earnings
Source: Tax Foundation, 2025 Income Tax; U.S. BLS; RIPEC Calculations

Recent Trends in Income Tax Rates and Brackets

Many states have moved to simplify their income tax structures and reduce top rates in recent years. Since 2020, six states enacted flat tax structures: Arizona, Iowa, Mississippi, Georgia, Idaho, and Louisiana. In contrast, only Massachusetts moved away from its flat tax structure, adopting a second bracket effective in 2023.[19] In addition, several states reduced their number of brackets, and a total of 20 states—including those moving to a flat tax structure—have reduced their top marginal income tax rate since 2020. As a result of this trend in states toward lower taxes, Rhode Island's top marginal income tax rate of 5.99 percent has become less competitive; while it is 15th highest this year (2025), it was 19th highest in 2020.[20]

Marriage Penalty

Another component which affects the relative competitiveness of state income tax systems is whether married couples are effectively penalized with higher tax rates in filing joint rather than single returns—as is the case in Rhode Island. While unfair to individual taxpayers, this so-called marriage penalty also has business implications, given that higher-income filers are disproportionately likely to both declare pass-through business income and file joint returns.[21] To avoid this, 28 states double their standard deduction and/or earnings amount for each tax bracket for married taxpayers filing jointly. Of New England states, only Rhode Island and Vermont impose a marriage penalty, and only 15 states nationwide have a marriage penalty.[22]

Rhode Island's Tax Competitiveness

Since 2003, the Tax Foundation, a think tank based in Washington D.C., has been ranking the competitiveness of Rhode Island's individual income tax, as well as the competitiveness of its tax structure more broadly, relative to other states. These rankings are published annually in the Foundation's *State Tax Competitiveness Index (*hereafter the *Index*).[23] Individual income tax is the

[19] In addition, three states considered moving to a flat tax: Kansas, Missouri, and Oklahoma. There are several arguments in favor of flat tax systems. For one, they make it simpler for revenue forecasters to estimate the effects of other tax changes and for taxpayers to determine their liability. Such structures also safeguard against tax increases, given that they must be applied unilaterally. Jared Walczak and Katherine Loughead, The State Flat Tax Revolution: Where Things Stand Today, Tax Foundation, January 7, 2025.

[20] These states are Arizona, Arkansas, Colorado, Idaho, Indiana, Iowa, Kansas, Kentucky, Louisiana, Mississippi, Missouri, Montana, Nebraska, North Carolina, North Dakota, Ohio, Oklahoma, South Carolina, Utah, and West Virginia. Katherine Loughead, State Individual Income Tax Rates and Brackets for 2020, Tax Foundation, February 4, 2020; Andrey Yushkov and Katherine Loughead, "State Individual Income Tax Rates and Brackets, 2025," Tax Foundation, February 18, 2025.

[21] Andrey Yushkov, Jared Walczak and Katherine Loughead, 2025 State Tax Competitiveness Index, Tax Foundation, October 30, 2025.

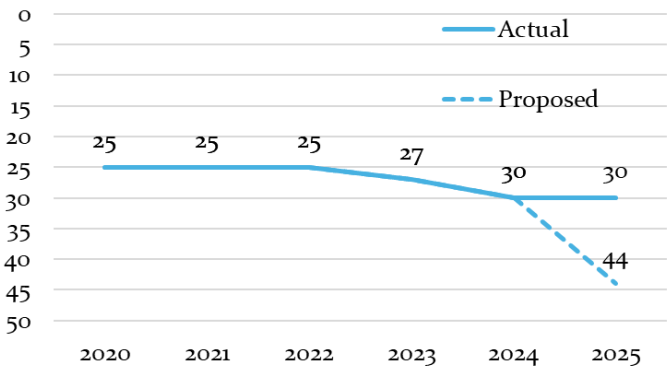
[22] Massachusetts applies a larger standard deduction for married couples filing jointly, and Connecticut and Maine double the tax bracket earnings amount for married taxpayers filing jointly. Ibid.

[23] Having issued the *Business Tax Climate Index* since 2003, the Tax Foundation renamed the study for the 2025 edition to better reflect that it more broadly measures state tax competitiveness, with the tax categories most heavily considered (income taxes, sales and excise taxes, and property and wealth taxes) levied on both businesses and individuals. While also making methodological adjustments in 2025, the overarching methodology is consistent with previous editions. Ibid.

most heavily weighted tax component in the *Index*, accounting for 30.5 percent of a state's total score, and is determined based on several factors, including: whether the tax is levied at all, the top marginal tax rate and top tax bracket threshold, the number and average width of tax brackets, whether brackets are indexed for inflation, and components related to tax base and fairness, including what standard deductions and exemptions are applied, and whether a marriage penalty is imposed.[24]

Based on these factors, Rhode Island's individual income tax ranks in the bottom half of states (30th) on the most recent edition of the *Index*. Depicted in Figure 5, Rhode Island's income tax has become less competitive in the last several years, falling five spots since 2020. The Ocean State's individual income tax has become less favorable not because of adjustments to its tax structure, but rather because similarly ranked states have implemented reforms to make their tax structures more competitive, including reducing the number of brackets taxed and lowering the top rates employed.

Figure 5
RI Individual Income Tax Ranking
State Tax Competetiveness Index
2020-2025



Source: Tax Foundation

If Rhode Island had adopted a top rate of 8.99 percent on $625,000 in 2025 its individual income tax ranking would have fallen 14 spots year-over-year to seventh worst (44th highest), depicted in Figure 5. Rhode Island's overall rank on the *Index* would have fallen four spots, from 12th worst (39th highest) to eighth worst (43rd highest).[25] In comparison, neighboring Massachusetts currently ranks tenth worst (41st highest) in both individual income tax and in its overall ranking.[26]

Characteristics of Higher Earners in the U.S. and Rhode Island

Higher Earners Nationwide

Nationwide, research has found that high earners bring significant economic benefit to the communities and states in which they reside. Higher earners are often business owners and

[24] 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. The other tax categories include sales and excise taxes (22.8 percent), corporate taxes (21.3 percent), property and wealth taxes (14.9 percent), and unemployment insurance taxes (10.5 percent). Ibid.
[25] Adjusted rankings provided by the Tax Foundation. It is not possible to determine what Rhode Island's ranking would be for 2026 given that other states may also make changes to their individual income tax structures.
[26] Rhode Island is also among the least competitive states in terms of total tax burden. In 2022, total state and local taxes in the Ocean State were 15th highest nationwide as a share of personal income (11.4 percent) and 14th highest per capita ($6,948). Tax Foundation, "Facts & Figures 2024: How Does Your State Compare?," Tax Foundation April 3, 2024.

entrepreneurs who may move their businesses with them when they migrate from one state to another, resulting in the loss in income taxes paid on business profits, as well as income taxes that may be paid by the individuals those businesses employ. Many wealthy business owners are moreover venture investors, often deploying their wealth in the region in which they live, to support and grow young, growing companies.[27] Those with higher incomes also pay a disproportionate share of other state taxes. With respect to sales taxes, for example, a recent analysis found that the top 10.0 percent of households, earning at least $250,000 per year, are responsible for nearly half (49.7 percent) of all consumer spending in the United States.[28]

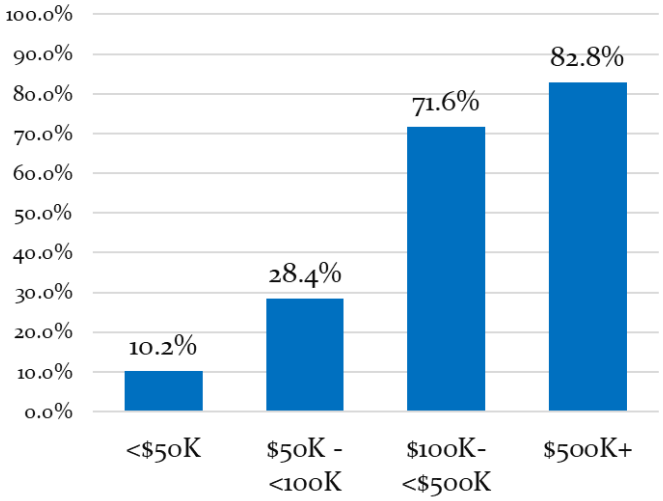
The wealthy also are often the largest philanthropic benefactors in a community and provide a disproportionate share of charitable gifts. According to one recent study, the top 1.0 percent of taxpayers were responsible for 43.5 percent of non-estate, non-organizational charitable contributions in 2012.[29]

Higher-Income Rhode Islanders

Joint Filers

A majority of higher earner returns in Rhode Island represent married couples filing jointly. Depicted in Figure 6, in 2022, most returns declaring adjusted gross income of over $100,000 represented the joint income of a married couple, and over four-fifths of returns (82.8 percent) declaring over $500,000 in income represented joint filers. In contrast, married couples filing joint returns comprised a minority of tax filers declaring income under $100,000.

Figure 6
Joint Returns as a Proportion of Total R.I. Individual Income Returns by Income Category
2022



Source: U.S. IRS, Statistics of Income Tax, 2022; RIPEC calculatiaons

Pass-Through Business Income

Most Rhode Island businesses are pass-through entities, and higher-income filers

[27] Chris Edwards, "Tax Reform and Interstate Migration," Cato Institute Tax and Budget Bulletin, September 6, 2018
[28] Mark Zandi, "U.S. Economic Outlook: Wealth Effects," Moody's Analytics, March 25, 2024.
[29] Nicolas Duquette, "The Evolving Distribution of Giving in the United States," *Nonprofit and Voluntary Sector Quarterly* 2021, vol. 50(5) 1102-1116. Another study found that 85 percent of affluent households—defined as households with annual income of at least $200,000 or with total assets of at least $1.0 million (excluding primary residence)—gave to charity in 2022 in an annual average amount of $34,917. "2023 Bank of America Study of Philanthropy: Charitable Giving by Affluent Households," Lilly Family School of Philanthropy at Indiana University and Bank of America, October 2023.

in Rhode Island are much more likely to declare pass-through business income or losses than lower-income filers. Depicted in Figure 7, a relatively small 5.0 percent of income tax filers in Rhode Island—including single, joint, and head of household filers—declared pass-through business income or loss in 2022. However, such taxpayers with business income or loss constituted over half (55.6 percent) of filers declaring adjusted gross income exceeding $500,000.

As additionally depicted in Figure 7, pass-through business income also makes up a significant portion of the total income of higher-income filers, representing one-fifth (20.3 percent) of the total income declared by filers earning over $500,000. Pass-through business income represented only 5.1 percent of total declared income in FY 2022 for filers overall.

Figure 7
Proportion of Pass-Through Tax Filers and Income/Loss by Income
2022

Filers by Adjusted Gross Income	Filers with Pass-Through Income			Income Attributable to Pass-Throughs		
	Nominal	All Filers	% Of All Filers	Pass-Through Income/Loss ($M)	Total Income ($M)	% of All Income
<$50K	5,300	287,340	1.8%	$ (0.1)	$ 6,366.9	0.0%
$50K - <100K	5,220	147,810	3.5%	$ 59.5	$ 10,638.5	0.6%
$100K-<$500K	14,480	126,820	11.4%	$ 687.6	$ 22,300.9	3.1%
$500K+	3,550	6,380	55.6%	$ 1,849.9	$ 9,094.3	20.3%
All	**28,550**	**568,360**	**5.0%**	**$ 2,466.3**	**$ 48,400.7**	**5.1%**

Note: Includes single, joint, and head of household filers; does not represent individual taxpayers
Source: U.S. IRS, Statistics of Income Tax, 2022; RIPEC calculations

Taxes and Migration

Rhode Island's Current Migration Trends

According to U.S. Census estimates, Rhode Island is currently experiencing slow population growth and low levels of inbound migration relative to the U.S. overall. Since 2020, the Ocean State's population grew by only about 15,000 people, or 1.4 percent, compared to 2.6 percent growth nationwide. While Rhode Island has seen a small increase in overall population, the state has had net domestic out-migration each of the last four years, ranging from 0.3 percent (in 2022 and 2023) to nearly breakeven (0.03 percent) in 2024, based on U.S. Census estimates.[30] Rhode

[30] U.S. Census Bureau, Quick Facts: Rhode Island.

Island compares poorly among states in terms of domestic migration, ranking an average of 38th highest (13th worst) among states between 2021 and 2024.[31]

IRS data also indicates that Rhode Island is currently a net loser with respect to the migration of income taxpayers. Between 2021 and 2022, representing the most recent IRS migration data, Rhode Island experienced a net loss of 3,027 residents and a net loss in adjusted gross income of $130 million. Rhode Island was among 24 states that had a net loss of income tax filers from interstate migration, and ranked 40th among states on this measure, meaning that only ten states experienced a net loss of a greater proportion of resident taxpayers.[32]

Literature Review

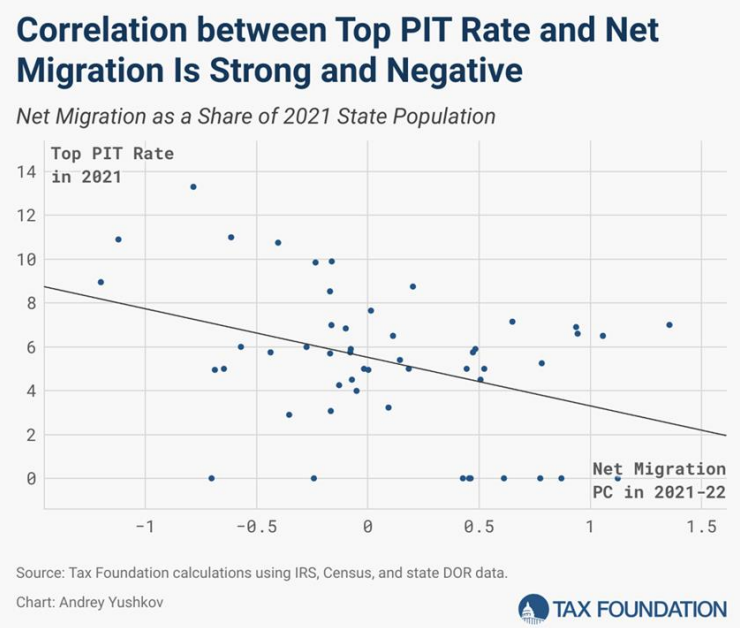
The role state tax policy plays in decisions by individuals and businesses to locate in one state or another has long been debated. Research suggests that many factors influence location decisions: employment and educational opportunities, proximity to family and friends, geographic and lifestyle preferences, and cost of living considerations, including tax differentials. State and local taxes therefore may not be the primary reason for an interstate move, but U.S. Census Bureau and Internal Revenue Service (IRS) data suggests that tax policy does influence migration trends.[33]

The most recent interstate migration estimates from the U.S. Census Bureau of moves that occurred between July 1, 2023, and June 30, 2024, reveal that Americans generally moved from high income tax states to low income tax states. The top third of states for highest population growth due to domestic migration had an average combined top marginal state income tax rate of about 3.5 percent. For the bottom third of states—those with the lowest domestic in-migration—the average combined top marginal tax rate was about 6.7 percent. Six states in the top third do not have an income tax, while four states in the bottom third have double-digit income tax rates.[34]

IRS data on the migration of income tax filers similarly provides evidence that taxpayers from higher tax states are migrating to lower tax states. Relying on the most recent data from 2020 and 2021, a recent Tax Foundation study found that, overall, states with lower income taxes experienced stronger inbound migration than states with higher taxes. Of the ten states with the largest gains in income tax filers, four do not levy individual income taxes on wage and salary income, and eight either forego individual income taxes, have a flat income tax, or are moving to a flat income tax. Conversely, among the 24 states that experienced a net outbound migration of income tax filers, 15 had top marginal rates above the national median. The figure below, from the

[31] Katherine Loughead, "Americans Moved to Low-Tax States in 2024," Tax Foundation, January 7, 2025; RIPEC calculations.
[32] Andrey Yushkov, "Taxes and Interstate Migration: 2024 Update," Tax Foundation, September 3, 2024.
[33] Ibid.
[34] The six states in the top third without an income tax are Tennessee, Nevada, New Hampshire, Florida, Texas, and South Dakota. The four states in the bottom third with double-digit income tax rates are Hawaii, New York, California, and New Jersey. Katherine Loughead, "Americans Moved to Low-Tax States in 2024," Tax Foundation, January 7, 2025.

Tax Foundation's study, shows the substantial inverse correlation between top personal income tax rates and net migration.[35]



IRS migration data also shows that higher-income tax filers move from higher tax states to lower tax states. Among taxpayers with $200,000 or more in adjusted gross income, the most attractive destinations were Florida, Texas, North Carolina, South Carolina, and Arizona, while the least attractive states were California, New York, Illinois, Massachusetts, and New Jersey. Several of the states losing higher-income taxpayers—especially New York, California, and New Jersey—have highly progressive tax codes under which tax liability rises steeply with income.[36]

While IRS migration data also show that high-income tax filers are less likely to move than very low-income filers, research suggests that this is likely due to those households being young and single. Within each age category, the migration rate for households with adjusted gross income above $200,000 is higher than other income levels.[37] High-wage earners are more responsive to tax rates in their personal and economic decision-making and thereby would be expected to be more responsive to interstate tax differences.[38]

Numerous studies have found that relatively high state personal income taxes negatively affect economic growth, as individuals and capital move in response to differences in state tax rates. At the individual level, personal income taxes influence state-to-state migration. At the business level, evidence suggests that state personal income tax rates influence business location decisions and choices to grow firms by hiring employees and investing in facilities and equipment.[39]

---

[35] Andrey Yushkov, "Taxes and Interstate Migration: 2024 Update," Tax Foundation, September 3, 2024. A 2020 survey of the academic literature regarding personal income taxation and migration concluded there is growing evidence that taxes can affect the geographical location of people within and across countries. Henrik Kleven, et. al., "Taxation and Migration: Evidence and Policy Implications," *Journal of Economic Perspectives* 2020 vol. 34(2): 119-42. Similarly, a Cato Institute 2018 study found that Americans are moving to lower-tax states. Chris Edwards, "Tax Reform and Interstate Migration," Cato Institute Tax and Budget Bulletin, September 6, 2018. For a recent study with alternative findings, see Michael Mazerov, "State Taxes Have a Minimal Impact on People's Interstate Moves," Center on Budget and Policy Priorities, August 9, 2023,

[36] Andrey Yushkov, "Taxes and Interstate Migration: 2024 Update," Tax Foundation, September 3, 2024.

[37] Chris Edwards, "Tax Reform and Interstate Migration," Cato Institute Tax and Budget Bulletin, September 6, 2018.

[38] Ibid.

[39] Mark Rider, "The Effect of Personal Income Tax Rates on Individual and Business Decisions—A Review of the Evidence," International Studies Program, Working Paper 06-15, 2006. There is evidence that the level of marginal tax and the progressivity of the tax discourage entrepreneurial activity. William Gentry and R. Glenn Hubbard, "'Success Taxes,' Entrepreneurial Entry, and

Case Studies

Evidence from states that have sharply increased taxes for higher-income taxpayers indicates that higher tax burdens can influence individual and business migration decisions. Discussed below is the experience in California, New Jersey, and Massachusetts.

California

In 2012, California's legislature and voters approved Proposition 30, which increased the state's marginal income tax rates for high earners by up to three percentage points, bringing the top marginal tax rate in California to 13.3 percent for income of over $1.0 million. A recent study, based on administrative tax data, found a substantial one-time out-migration response to the increased state tax rates, with the migration effect increasing with income. The study also found that these responses eroded 45.2 percent of the state's windfall tax revenues within the first year and 60.9 percent within two years of the tax increase.[40]

New Jersey

In 2004, New Jersey raised its marginal personal income tax rate from 6.37 percent to 8.97 percent for incomes over $500,000. A study published in 2014 based on comprehensive IRS data found that New Jersey's 2004 income tax hike on higher earners had been associated with a cumulative loss of more than 50,000 taxpayers and an income loss of roughly $8 billion. The study added that lower migration into states with higher income taxes would likely diminish other revenue streams, such as corporate, sales, and property taxes, potentially weakening the state's economy.[41]

Innovation," National Bureau of Economic Research 2005, vol. 5. Pass-through entities have been found to respond to state personal income tax rates in employment and location decisions. Xavier Giroud and Joshua Rauh, "State Taxation and the Reallocation of Business Activity: Evidence from Establishment-Level Data," *Journal of Political Economy* 2019 Vol. 127(3): 1262-1316. One study found a "large, stable, and precisely estimated effects" of personal and corporate taxes on the migration patterns of star scientists, defined as those with patent counts in the top five among patent holders. Enrico Moretti and Daniel J. Wilson, "The Effect of State Taxes on the Geographical Location of Top Earners: Evidence from Star Scientists," *American Economic Review* 2017. Another study found that higher state income tax rates caused a net out-migration of both higher-income residents and residents in general. Anthony Davies and John Pulito, "Tax Rates and Migration," Mercatus Center, George Mason University, August 2011. In result of 2017 federal tax law changes, many more high-income taxpayers now feel the full weight of high state income taxes. Before 2017, there was no direct limit on the amount of state and local taxes that could be deducted on a federal return, which significantly reduced the effect of state income taxes. The 2017 law capped the deduction at $10,000 per year for both single and joint tax filers, greatly reducing the value of the deduction, particularly for higher-income individuals. Chris Edward, Cato. A study based on data prior to the 2017 law found that millionaire tax flight is occurring, but only at the margins of statistical and socioeconomic significance. Cristobal Young, et. al., "Millionaire Migration and Taxation of the Elite: Evidence from Administrative Data," *American Sociological Review* 2016.

[40] Joshua Rauh and Ryan Shyu, "Behavioral Responses to State Income Taxation of High Earners: Evidence from California," *American Economic Journal: Economic Policy* 16(1): 34–86**.** See also Andrew Mikula, "How a 2012 income tax hike cost California billions of dollars in economic activity," Pioneer Institute, 2021.

[41] Roger Cohen, Andrew Lai, and Charles Steindel, "State Income Taxes and Interstate Migration," *Business Economics* 2014, vol. 49(3). This study contradicts an earlier study that the New Jersey tax law had no effect on the outmigration of affected taxpayers.

Massachusetts

In 2022, Massachusetts voters approved a four percent state income tax surcharge on taxable income above $1.0 million, effective for tax years beginning January 1, 2023. While revenues from the surcharge have exceeded projections for FY 2024, it remains too soon to say whether the loss of business activity through outmigration will outweigh the additional revenues generated by the tax.[42] While surcharge revenues account for surcharge taxes lost for those who may migrate out of Massachusetts, it does not include the loss of regular income taxes (under the millionaire rate) for those out-migrating taxpayers.[43] Of additional complication, the driving source of income for those filers affected by the new rate is non-salary income related to gains (and losses) in the stock market, home sales, and business profits, which are relatively volatile in the short term compared to salary income.[44]

There is anecdotal evidence to suggest that Massachusetts' new income tax structure will result in the outmigration of high-wage earners. According to a 2024 survey conducted by the Massachusetts Society of Certified Public Accountants (CPAs), two-thirds of their members reported at least one client who had moved away from Massachusetts within the last year, the first year in which the new tax bracket was in effect, and 90 percent of members reported clients considering leaving within the next year. Nearly all CPA firm members reported that the tax change factored into client consideration of whether to move out of state, with one-third indicating it was the primary reason.[45]

RIPEC Comments

Proposed legislation to raise Rhode Island's top income tax rate from 5.99 percent to 8.99 percent—a sharp jump of 50.0 percent on taxable income over $625,000—appears to be a solution looking for a problem. Rhode Island's top income tax rate is already 15th highest among states, and its individual income tax structure is already highly progressive, ranking 13th highest among states based on the multiple of average earnings at which its top rate is applied, and 11th highest in terms of the difference between its top and marginal rate. Rhode Island taxpayers with single or

Cristobal Young and Charles Varner, "Millionaire Migration and State Taxation of Top Incomes: Evidence from a Natural Experiment," *National Tax Journal*, 2011 vol. 64(2.1). See also Cristobal Young and Charles Varner, "A Reply to 'A Replication of "Millionaire Migration and State Taxation of Top Incomes: Evidence from a Natural Experiment," *Public Finance Review* 2015, vol. 43(2): 226-234.

[42] Philip Olsen, "Impact of state's millionaire tax, two year in," *Massachusetts Lawyers Weekly*, February 6, 2025; Evan Horowitz, "Why both sides are wrong about the millionaires tax," *Commonwealth Beacon*, November 16, 2024.

[43] Ibid. According to one commentator, for every dollar collected through the tax, Massachusetts is likely to lose 20-50 cents in regular income taxes—losses that are more difficult to quantify. Ibid.

[44] Ibid.

[45] Jon Chesto, "Are millionaires leaving Massachusetts? Survey (by their accountants) say yes," *Boston Globe*, June 21, 2024. Boston Celtics basketball player Grant Williams said he accepted a trade to Dallas partly because of the Massachusetts millionaire's tax. Mitchell Scacchi, "Massachusetts punishes NBA champs by taking extra half million in taxes," The Josiah Bartlett Center for Public Policy, June 18, 2024

family income of $500,000 or more constitute 1.1 percent of total returns but represent over one-third (34.6 percent) of the total statewide tax liability.

If enacted, this legislation also would make Rhode Island's income tax structure less favorable at a time when other states are overwhelmingly moving to make their income tax systems more competitive by reducing the number of brackets or lowering top tax rates. Since 2020, six states have enacted flat tax structures, while only Massachusetts moved away from its flat tax structure. In addition, several states reduced their number of brackets, and a total of 20 states, including those moving to a flat tax structure, have reduced their top marginal income tax rate since 2020. While an outlier, Massachusetts imposes its surcharge on higher earners beginning at an income level ($1,083,150) far higher than the income level of $625,000 contained in the legislative proposal.

The competitiveness of Rhode Island's individual income tax ranks in the bottom half of states (30th) in the most recent edition of the Tax Foundation's *Index* and has become less competitive over the last several years, falling five spots in the rankings since 2020, as other similarly ranked states have moved to simplify their structures and reduce their top rates. If the proposed tax hike had been adopted in 2025, Rhode Island's income tax ranking would have fallen 14 spots to seventh worst (44th), and its overall competitiveness ranking would have fallen four spots, from 12th worst (39th) to eighth worst (43rd).

The proposal to raise taxes on high-wage earners would have a particularly large effect on businesses since the income of most Rhode Island businesses is reported through the individual income tax rather than the corporate income tax. High-wage earners are much more likely to have pass-through business income or losses than lower-income tax filers. While only 5.0 percent of Rhode Island tax filers declared pass-through business income or loss in 2022, over half (55.6 percent) of tax filers with income exceeding $500,000 reported such business income. Pass-through income moreover represented a large portion (one-fifth) of the total income declared by filers earning over $500,000. Rhode Island's marriage penalty—which effectively disadvantages married couples by imposing the same tax rate and income levels whether filing jointly or individually—compounds the negative impact on business since higher-income Rhode Islanders are more likely to file joint returns.

If the proposed tax hike were imposed, there is also substantial evidence that Rhode Island, already a net loser with respect to the migration of income taxpayers, would experience a net out-migration of higher earners and businesses, resulting in a substantial loss of investment activity, tax revenues, and philanthropic contributions. Data from the U.S. Census and the IRS indicate that Americans generally moved from high income tax states to lower income tax states in recent years, and that this trend applies to higher-income tax filers. Numerous studies, including experience from states that have sharply raised taxes on high wage earners, have found that relatively high state personal income taxes have negatively affected economic growth, as individuals and capital move in response to differences in state tax rates.

The proposal to hike personal income tax rates for higher-income taxpayers also comes on the heels of robust growth in personal income tax revenues in Rhode Island. From FY 2019 to FY 2025, state income tax revenues have increased at an annual rate of 6.2 percent, contributing to robust overall general revenue growth (6.3 percent) and substantially exceeding inflation (3.7 percent).

Given these findings, RIPEC offers the following recommendations to policymakers:

The proposal to increase individual income tax rates for high wage earners should be rejected. Rhode Island already has a very progressive income tax that places a disproportionately higher tax burden on higher earners and businesses with pass-through income. The Ocean State's current income tax structure is relatively uncompetitive among states and has become less competitive in the last several years. While interstate migration is affected by many factors, the evidence shows that higher tax states are losing individuals and businesses to lower tax states. If proposals to hike taxes on high earners were adopted, the evidence shows that any potential revenue gains would likely be eroded over time by increased out-migration of higher-income taxpayers. More important than the lost income tax revenue is the likely loss of business activity, investment, philanthropy, and other tax revenues.

Policymakers should instead consider reforms to enhance Rhode Island's tax competitiveness and thereby support economic development. 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 tax competitiveness.

Policymakers should target policies and investments that promote economic growth. The large and substantial growth in Rhode Island individual income tax over the last several years was not due to higher tax rates but rather resulted from the actual growth in the wages of Rhode Islanders across income levels. The best way to ensure the continued increase in state tax revenues is to encourage policies that help Rhode Islanders increase their income and spending power. Such policies include tax reform, as well as the use of existing revenues to make targeted investments in areas like infrastructure and education, which have been shown to enhance economic development.

Appendix

Figure 8
Individual Income Tax Rates and Brackets for 2025

State	Rates and Brackets			
Alabama	2.00%	> $0	5.00%	> $3,000
	4.00%	> $500		
Alaska	No Income Tax			
Arizona	2.50%		> $ 0	
Arkansas	2.00%	> $0	3.90%	> $4,500
California	1.00%	> $0	9.30%	> $68,350
	2.00%	> $10,412	10.30%	> $349,137
	4.00%	> $24,684	11.30%	> $418,961
	6.00%	> $38,959	12.30%	> $698,271
	8.00%	> $54,081	13.30%	> $1,000,000
Colorado	4.40%		> $ 0	
Connecticut	2.00%	> $0	6.50%	> $20,0000
	4.50%	> $10,000	6.90%	> $25,0000
	5.50%	> $50,000	6.99%	> $500,000
	6.00%	> $100,000		
Delaware	2.20%	> $2,000	5.20%	> $20,000
	3.90%	> $5,000	5.55%	> $25,000
	4.80%	> $10,000	6.60%	> $60,000
Florida	No Income Tax			
Georgia	5.39%		> $0	
Hawaii	1.40%	> $0	7.60%	> $48,000
	3.20%	> $9,600	7.90%	> $125,000
	5.50%	> $14,400	8.25%	> $175,000
	6.40%	> $19,200	9.00%	> $225,000
	6.80%	> $24,000	10.00%	> $275,000
	7.20%	> $36,000	11.00%	> $325,000
Idaho	5.695%		> $4,673	
Illinois	4.95%		> $0	
Indiana	3.00%		> $0	
Iowa	3.80%		> $0	
Kansas	5.200%	> $0	5.580%	>$23,000
Kentucky	4.0%		> $0	
Louisiana	3.00%		> $0	
Maine	5.80%	> $0	7.15%	> $63,450
	6.75%	> $26,800		
Maryland	2.00%	> $0	5.00%	> $100,000
	3.00%	> $1,000	5.25%	> $125000
	4.00%	> $2,000	5.50%	> $150,000
	4.75%	> $3,000	5.75%	> $250,000
Massachusetts	5.00%	> $0	9.00%	> $1,083,150
Michigan	4.25%		> $0	
Minnesota	5.35%	> $0	7.85%	> $106,990
	6.80%	> $32,570	9.85%	> $198,630
Mississippi	4.40%		> $10,000	

Figure 8
Individual Income Tax Rates and Brackets for 2025, Cont.

State	Rates and Brackets			
Missouri	2.0%	> $1,313	4.00%	> $6,565
	2.50%	> $2,626	4.50%	> $7,878
	3.00%	> $3,939	4.70%	> $9,191
	3.50%	> $5,252		
Montana	4.70%	> $0	5.90%	> $21,100
Nebraska	2.46%	> $0	5.01%	> $22,170
	3.51%	>$ 4,030	5.20%	>$38,870
Nevada	No Income Tax			
New Hampshire	No Income Tax			
New Jersey	1.400%	> $0	6.370%	> $75,000
	1.750%	> $20,000	8.970%	> $500,000
	3.500%	> $35,000	10.750%	> $1,000,000
	5.525%	> $40,000		
New Mexico	1.50%	> $0	4.70%	> $33,500
	3.20%	> $5,500	4.90%	> $66,500
	4.30%	> $16,500	5.90%	> $210,000
New York	4.00%	> $0	6.85%	> $215,400
	4.50%	> $8,500	9.65%	> $1,077,550
	5.25%	> $11,700	10.30%	> $5,000,000
	5.50%	> $13,900	10.90%	> $25,000,000
	6.00%	> $80,650		
North Carolina	4.25%		> $0	
North Dakota	1.95%	> $48,475	2.50%	> $244,825
Ohio	2.750%	> $2,6050	3.500%	> $100,000
Oklahoma	0.25%	> $0	2.75%	> $3,750
	0.75%	> $1,000	3.75%	> $4,900
	1.75%	> $2,500	4.75%	> $7,200
Oregon	4.75%	> $0	8.75%	> $11,050
	6.75%	> $4,400	9.90%	> $125,000
Pennsylvania	3.07%		> $0	
Rhode Island	**3.75%**	**> $0**	**5.99%**	**> $181,650**
	4.75%	**> $79,900**		
South Carolina	3.00%	> $3,560	6.20%	> $17,830
South Dakota	No Income Tax			
Tennessee	No Income Tax			
Texas	No Income Tax			
Utah	4.55%		> $0	
Vermont	3.35%	> $0	7.60%	> $116,000
	6.60%	> $47,900	8.75%	> $242,000
Virginia	2.00%	> $0	5.00%	> $5,000
	3.00%	> $3,000	5.75%	> $17,000
Washington *	7.0%		> $250,000	
West Virginia	2.22%	>$0	4.44%	> $40,000
	2.96%	> $10,000	4.82%	> $60,000
	3.33%	> $25,000		
Wisconsin	3.50%	> $0	5.30%	> $29,370
	4.40%	> $14,680	7.65%	> $323,290
Wyoming	No Income Tax			

* Applies to capital gains only

Source: Tax Foundation, 2025 State Tax Competetiveness Index