

# **Vague Claims and Weak Evidence from RIPEC**

The Economic Progress Institute (EPI) and Rhode Island AFL-CIO Respond to the Rhode Island Public Expenditure Council (RIPEC) Report on the Taxation of the Highest-Income Filers

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The Economic Progress Institute (EPI) and Rhode Island AFL-CIO find that the Rhode Island Public Expenditure Council's recent report *Rhode Island's Millionaire's Tax Proposal: The Economic Risks of Becoming Less Competitive and Losing Taxpayers* falls woefully short on data or evidence to justify its claims and opposition to raising taxes modestly on the state's highest-income filers. **Here are the Top 5 reasons why the report is unreliable and misleading – plus a critique of the report's main data point and statistical claim.**

### **Reason 1: Failing to connect claims of state tax competitiveness with actual business activity.**

RIPEC frequently calls for improving the state's tax competitiveness ranking, without ever demonstrating that a better ranking would lead to "long-term economic growth." Here is one of RIPEC's three recommendations to policymakers: "Instead, policymakers should focus on improving Rhode Island's tax competitiveness to support long-term economic growth. Rhode Island currently ranks 40th on the Tax Foundation's State Tax Competitiveness Index (11th lowest), reflecting a relatively weak competitive standing. Tax reforms, including to the income tax, would better align Rhode Island with its peers and **improve its position.**" The Tax Foundation's Index is based on posted tax rates, not even effective tax liability, and **the Tax Foundation has never demonstrated that a state's ranking on the Index has any correlation with business starts, expansion, or hiring,** let alone produces these effects. RIPEC wants Rhode Island to maintain or lower tax rates to improve our ranking on the Index, but there is no evidence this would do anything except...improve our ranking on the Index. Indeed, it would appear that RIPEC's call for the state to "improve its position" refers merely to our ranking on the Index rather than to actual economic activity. Also, what makes Rhode Island – or any state – more attractive to business owners and families is great schools, affordable housing, clean and safe communities, better roads and bridges, etc. That is what the additional revenue from our highest-income filers can go to so Rhode Island becomes more competitive.

## **Reason 2: Overestimating the role of tax rates in migration decisions.**

While RIPEC tries to cast that a new income tax on the highest-income filers is too risky, it acknowledges that *tax rates are not the only factor in migration decisions*. “While taxes are rarely the sole reason individuals or businesses relocate,” the report reads, “evidence suggests taxes influence decisions at the margin, particularly when differences between states are large or when households have greater flexibility in where they live and work.” RIPEC often cites the Tax Foundation, which recently concluded that “variations in state tax competitiveness explain roughly 11 percent of people’s decisions to move between states.” (<https://taxfoundation.org/data/all/state/state-migration-trends-map-americans-moving-population-changes/>) Interstate migration rates are consistently low, in the low single digits, and even a major opponent of tax proposals like this says that taxes account for only 11 percent of an already small number, because net interstate migration rates rarely go beyond the low single-digits. This undermines the weight of RIPEC’s warnings. Hasbro, for example, left Rhode Island recently for Massachusetts – a state that has a millionaire's tax.

## **Reason 3: Providing big numbers without context.**

RIPEC’s first key takeaway is, “In tax year 2023, 55 percent of Rhode Island income tax revenue was generated by households earning \$200,000 or more, despite these taxpayers representing just seven percent of returns.” This percentage is meaningless without more context, such as share of income, changes in percentages over time, and personal income taxes as part of all taxes. For example, when you factor other taxes such as property taxes and sales and excise taxes, low-income Rhode Islanders pay a higher share of their income in state and local taxes than the top 1 percent, and this impacts the overall distribution of tax liability. Additionally, the income gap has grown over the last few decades, so it is not surprising or unfair if those with the most income pay more in income taxes, but even that is not shown in RIPEC’s report. Seemingly big numbers prove nothing without the appropriate context.

#### **Reason 4: Misrepresenting IRS Adjusted Gross Income (AGI) data.**

Another claim is that “Massachusetts experienced heightened net domestic outmigration since 2020, totaling roughly 68,000 filers and \$12.4 billion in associated adjusted gross income (AGI) between 2020 and 2023.” The claim of \$12.4 billion in AGI loss to Massachusetts is a fundamental misreading of the IRS data. Most income simply does not migrate. When someone leaves their job and moves out of a state, someone else usually takes their job and the income from that job; the income does not move with person leaving. If the person leaving is a professional with clients or patients, those clients or patients will transfer to a different professional, who will receive the income. In both cases, the income stays in the state. Looking only at migrants moving into and out of states misses the fact that total employment and aggregate income generally grow in all states, including Massachusetts and Rhode Island and regardless of top tax rates.

#### **Reason 5: Making claims sound more substantial than they actually are by not quantifying them.**

The RIPEC report warns of “risk” in its subtitle and in four other places without attempting to quantify or assess the risk. “This shift [if Rhode Island would adapt a millionaires tax and ‘align itself with the higher-tax group of states’] carries **significant risk** because it **could** reduce Rhode Island’s ability to retain and attract businesses and residents—particularly higher-income households that account for a disproportionate share of economic activity and tax revenues.” RIPEC cannot and does not claim that the proposal definitely **will** be bad for businesses, only that this is a possibility. Also, there is no explanation of what reduction would be a **significant** one rather than a marginal one. In the context of income from tax proposals that would raise \$135 million to \$203 million each year, RIPEC has not shown anything close to an economic risk on this scale from enacting such taxes.

## The Weakness of the Report's Central Data Point and Statistical Claim

The main statistical claim (on page eight, with related Figure 6 on page nine) highlights a **3.21 per 1,000 excess loss of residents** over five years per one percentage point difference in top tax rates. Here's why this is neither a surprising nor well-grounded claim:

- While one might mistake this for an *annual* rate (and one reading casually might assume it to be an annual rate), it is actually over 5.25 years, so it would annualize to approximately **0.61 per 1,000 residents per year**. That is, even *if* this measure is a good one, the difference for a three-percentage-point top tax rate increase proposal – from say 5.99 percent to 8.99 percent, as with the top 1 percent and millionaires proposals – would be **a loss of fewer than two additional residents per year, hardly a scary out-migration wave that could damage the economy in any significant way.**

But there is good reason to believe the RIPEC estimate **inflates and thus overestimates** the effect:

- As always, this sort of analysis shows a *correlation* rather than *causation*. And the **only factor** this statistical analysis considers is top state tax rates.
- The analysis **does not account for actual, effective tax liability**, which would consider different tax rates for bracket systems, like Rhode Island has, as well as deductions and exemptions and tax credits. Someone looking to relocate primarily based on taxes would want to examine how much they would actually pay and not simply the posted top rate.
- The analysis includes migration for *all* income levels – **not just millionaire migration**. There is no reason to think that lower-income and moderate-income households migrating from one state to another are motivated by the top tax rates, which do not affect most of them.
- The analysis **does not account for climate**. That is, the weather, not business climate. People frequently relocate for better weather, so this ought to be factored in to explain migration.
- The analysis **does not account for housing costs**, which differ across states and is another reason that drives migration.

- If one goes with the Tax Foundation conclusion that only about 11 percent of migration is related to taxes, one might say the effect would be **a loss of less than one-fourth of one person per year** for a three-percentage-point tax increase, from 5.99 percent to 8.99 percent, as with the top 1 percent and millionaires proposals – hardly a massive effect or significant risk to the economy.

In addition, there is this critical factor:

- To anchor the following years in the 2020 decennial census, the data source for the RIPEC analysis begins with April 2020 data. This was **shortly after the COVID pandemic first hit, disrupting the economy and migration patterns**; those first few months likely included lots of migration, especially college students out of places like Massachusetts. Inclusion of this unusual time might have increased the migration loss in some places and increased the gain in others.

In summary, the RIPEC paper provides a weak argument for rejecting a millionaire’s tax or a top one percent tax, which could raise \$135 million or \$203 million per year, respectively, in new revenue. **With the report’s vagueness about the possibility of economic consequences and failure to quantify risk, RIPEC’s warnings ought not to persuade policymakers or anyone considering the evidence.** RIPEC, along with the Greater Providence Chamber of Commerce, repeatedly calls for growing the economy and creating new jobs, except they rarely explain *how* to do this outside of lowering tax rates on those with the most resources, putting their faith in trickle-down fantasies that never seem to materialize.

One should pay the most attention to the report’s last recommendation and closing paragraph and final ten words: “More broadly, policymakers should prioritize policies that support economic growth....Sustained revenue growth will depend on policies that increase incomes, including more competitive taxes, an improved regulatory environment, and **targeted investments in infrastructure and education to support long-term development.**”

Putting aside the unproven approach of enacting “more competitive taxes,” it could indeed be that an “improved regulatory environment” would prove beneficial – but it is the **targeted investments** that will do the most to boost our economy, including investments to support directly our state’s tens of thousands of small and micro business owners. So very few of these are millionaires. Most have incomes under \$85,000, and many need to work second jobs so they can afford health insurance. Targeted investments require robust and sustainable revenues, revenues Rhode Island can get from a modest increase to our highest-income filers, who continue to receive even larger tax breaks from the federal government and whose quality of life will not change.