



The Case for a Top 1% Surtax in Rhode Island

SB-2238 (Sen. Murray); HB-7313 (Rep. Alzate)

April 28, 2026



The Economic
Progress Institute

Agenda

- **Welcome and Framing** – *EPI's Executive Director, Weayonnoh Nelson-Davies*
- **Federal Context & State Implications** – *CBPP's Senior Advisor for State Tax Policy, Wesley Tharpe*
- **What Does the Data Show?** – *ITEP's Research Director, Carl Davis*
- **Massachusetts: A Case Study** – *MassBudget Director of Research & Policy Analysis, Phineas Baxandall*
- **Making the Case for Rhode Island** – *EPI's Director of Research & Fiscal Policy, Alan Krinsky & Policy Director, Nina Harrison*
- **Questions and Answers**

Charting a Brighter Course With Bold New Revenues

Rhode Island Senate Briefing

Providence, RI

April 28, 2026

Wesley Tharpe

Senior Advisor for State Tax Policy

Center Budget and Policy Priorities - cbpp.org



FINANCE

States Brace for Budget Shock Amid Federal Changes

Program and tax changes in the massive budget reconciliation bill are reshaping states' short- and long-term fiscal pictures. How will policymakers respond?

December 1, 2025 •

Rebecca Thiess and Justin Theal, Pew Charitable Trusts



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HOUSING AND URBAN ISSUES

Localities Welcome Congressional Acti
Housing

March 5, 2026

FINANCE

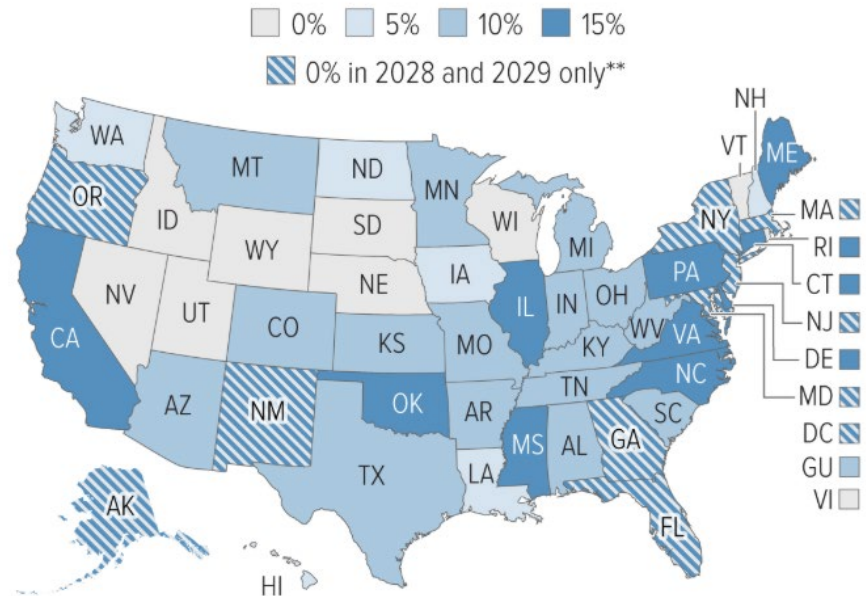
Major New SNAP

Responsibilities

- Unprecedented state obligation for food assistance (5-15% for most states)
 - **RI** = Up to \$51m/yr
- Increased share of SNAP administrative responsibility
 - **RI** = \$13m/yr
- Indirect and long-term fallout from more widespread hunger

Nearly All States Would Face Cost-Shift Based on 2024 Error Rates

States' cost shares in 2028 and 2029, assuming error rates from 2024*



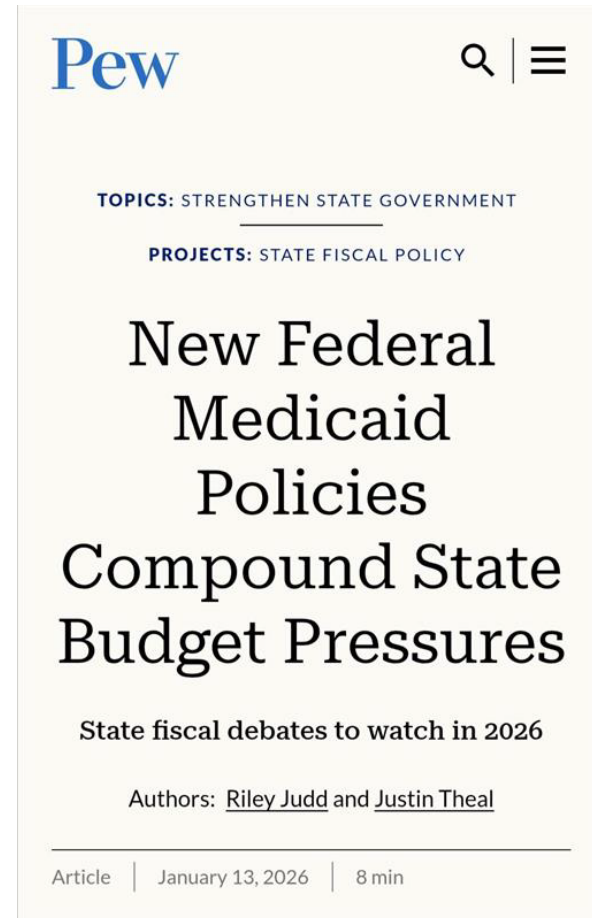
*Actual cost shares will be based on 2025-2026 error rates. 2024 used for illustrative purposes.

**Based on delay for states with the highest error rates.

Source: USDA FNS, "SNAP Payment Error Rates," fiscal year 2024. Payment error rates are equal to the sum of over and under payments.

Layered Impact of Health Care Cuts

- Startup & ongoing costs to administer new Medicaid work requirement
- Strict new “provider tax” limits
 - **RI** = \$150m/yr cut by 2032
- Funds to help offset coverage losses
- Indirect spillover costs, like spiking uncompensated care
 - **RI** = \$400m over the next decade

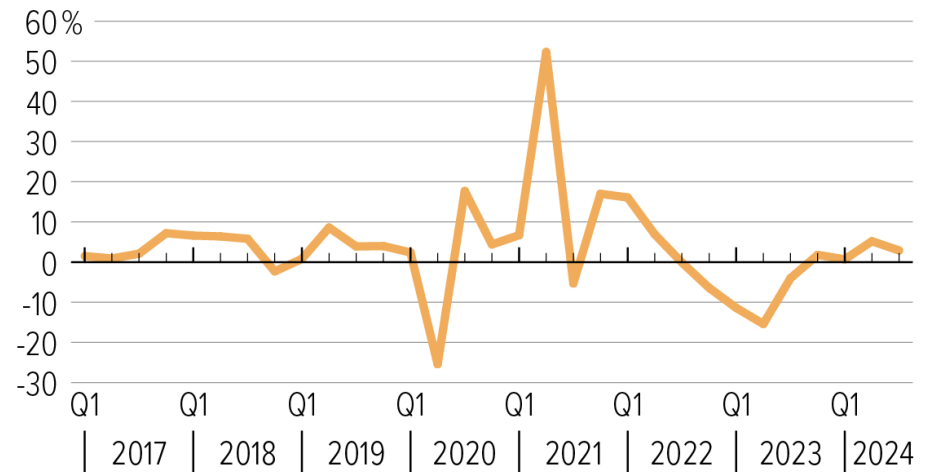


Additional Fiscal Pressures and Risks

- Now-expired pandemic-era fiscal aid for states, localities, school districts
- State revenue growth continuing to dampen from post-COVID highs
- Economic disruption from federal tariff policy, war in Middle East, etc.
- Specter of additional federal cuts (housing, child care, schools, etc.)

State Revenues Have Declined From Spike

Real year-over-year change in revenue from major state taxes



Source: The Urban Institute

CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG

The Opportunity: State Revenues Can Help Fuel a Brighter Path Forward

- Ensure state can fund new **food assistance** responsibilities
- Maximize funds available to help mitigate or offset **health coverage** losses
- Prevent shifting of funds from **other vital priorities**, such as public schools, transit, childcare
- Provide fuel to **maintain and expand investments** in the state's own unmet needs and priorities

Many states have raised new revenues in recent years

Revenue-Raising Tax Change	States That Enacted Change (2021-2025)
Personal Income Rate Increase	Washington D.C., Maryland, Massachusetts, New York
Personal Income Deduction Limit	Colorado, Maryland, Minnesota
Capital Gains Tax	Maryland, Minnesota, New Mexico, Washington State
Mansion Tax	Washington D.C., Maine, New Jersey, Rhode Island
Corporate Income or Other Business Tax Increase	Colorado, Minnesota, New Jersey, New Mexico, New York, Washington State
Payroll Tax	Maine, Minnesota, Vermont
Excise Tax	Washington State

Revenues Play Important

Economic Role

- States' economic vibrancy depends on many factors, such as high-quality education, reliable infrastructure, and affordable housing and health coverage—not just taxes.
- Targeted tax increases can help protect existing investments and fuel new ones, expanding access to economic opportunity and high quality of life over time.

April 29, 2026

Education

'Millionaires tax' to fund massive college aid expansion intended to help 25K students

Report: Washington state capital gains tax a windfall for schools

May 30, 2023, 1:56 PM

BUSINESS

How D.C. tackled a child care crunch through a tax hike on the rich

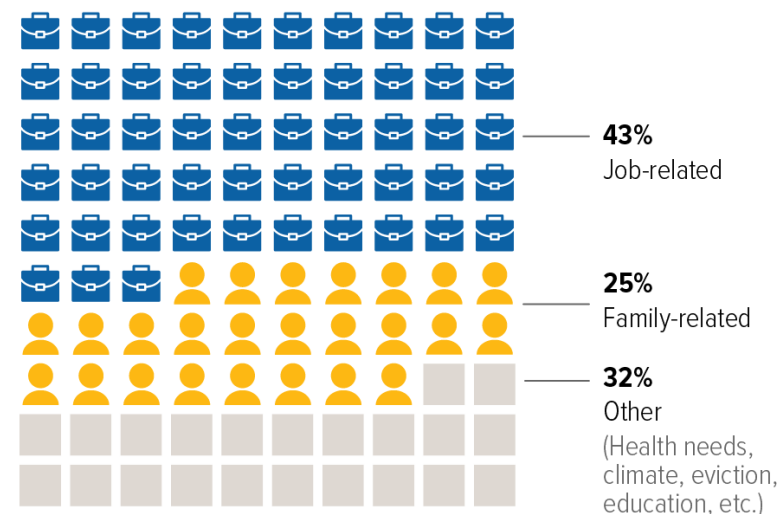
DECEMBER 13, 2024 · 5:00 AM ET

Claims of Major Economic Risk are Exaggerated

- States that passed targeted income tax increases in the 2000s-2010s mostly kept pace or outperformed neighboring states in subsequent years
- 15 of 20 major academic studies on state income taxes and the economy in the 2000s and 2010s found them to have little to no clear economic effects
- So-called **interstate tax migration is overblown**: most people are firmly rooted in communities and likeliest to move for jobs or family

Job- and Family-Related Reasons Are People's Primary Explanations for an Interstate Move

Share of people surveyed who moved between 2019 and 2020



Source: CBPP calculations of U.S. Census Bureau, Current Population Survey

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Thank You !

Data and Context for the Top 1% Surtax

Rhode Island Senate Briefing

Providence, RI
April 28, 2026

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About ITEP

The Institute on Taxation and Economic Policy (ITEP)

- Non-profit, non-partisan
- Federal, state, and local tax policy issues
- Research and data focused
- ITEP Microsimulation Tax Model



Timeline of Recent Events Related to Taxing the Top



March 2025: Public Opinion

Gallup polling finds 12% of Americans thinks upper-income people pay too much tax

Timeline of Recent Events Related to Taxing the Top



March 2025: Public Opinion

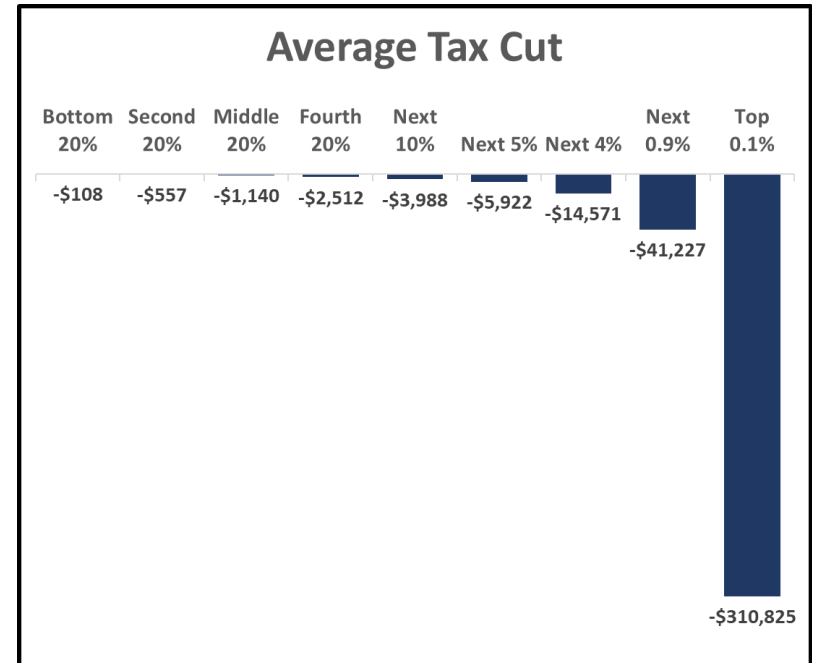
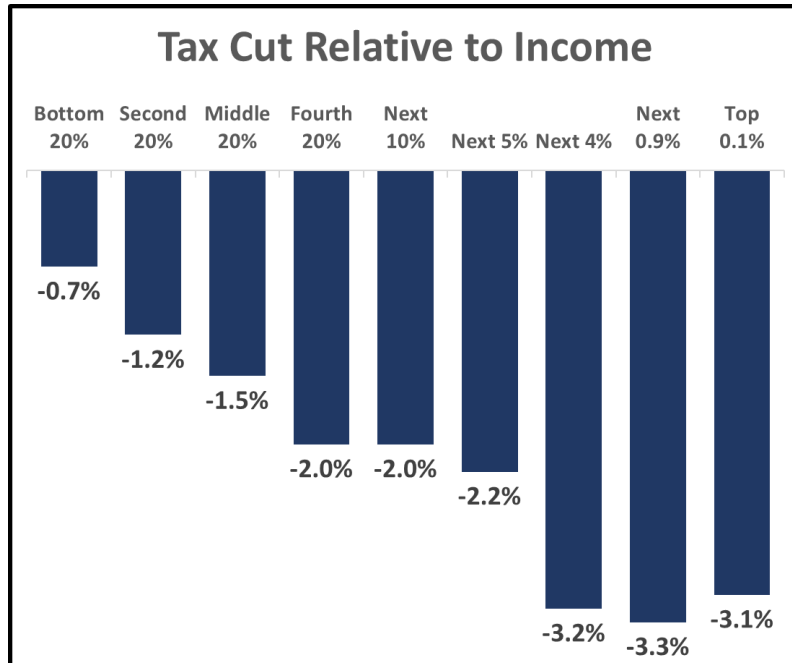
Gallup polling finds 12% of Americans think upper-income people pay too much tax

July 2025: Federal Bill H.R. 1

President Trump signs the “One Big Beautiful Bill Act,” cutting taxes for the top 1% of Rhode Islanders by **\$59,000** each, including:

- \$35,000 in extensions of prior tax cuts
- \$24,000 in new tax cuts

The Official Distributional Estimate of H.R. 1



Source: Joint Committee on Taxation, JCX-37-25, data for Calendar Year 2027

COMMENTARY

When tax laws defy public opinion: What OBBBA reveals

Sona Wyse, Ian Berlin, and William G. Gale

August 19, 2025

“The passage of OBBBA marks yet another instance of tax legislation out of step with public preferences and the country’s needs. Closing this gap...is essential for the health of our democracy and for sound fiscal policy.”

Timeline of Recent Events Related to Taxing the Top

March 2025: Public Opinion

Gallup polling finds 12% of Americans think upper-income people pay too much tax

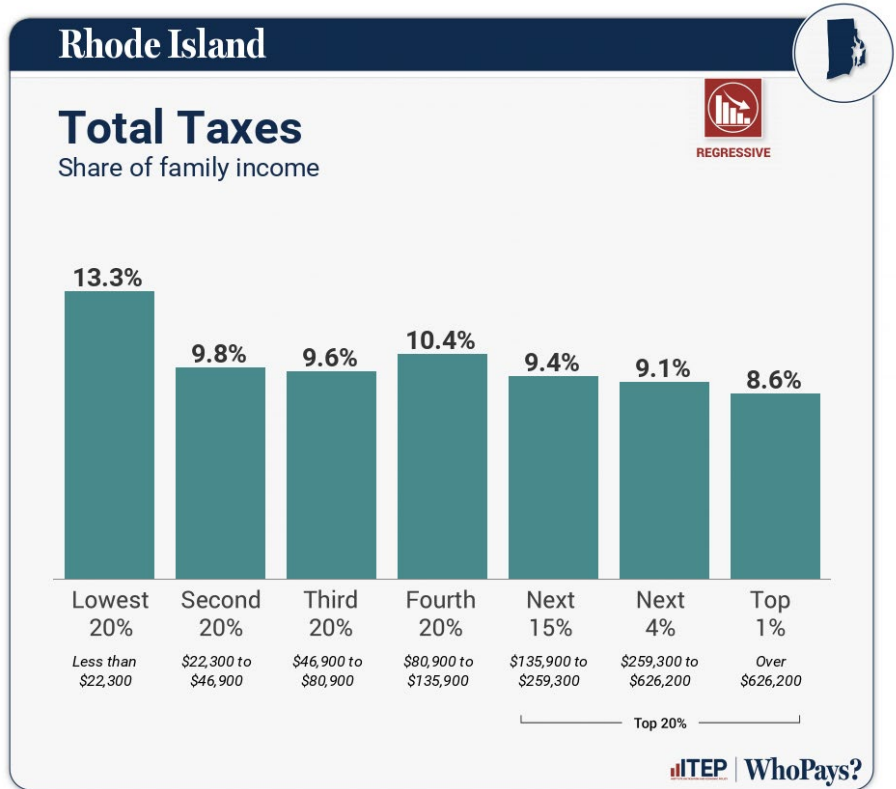
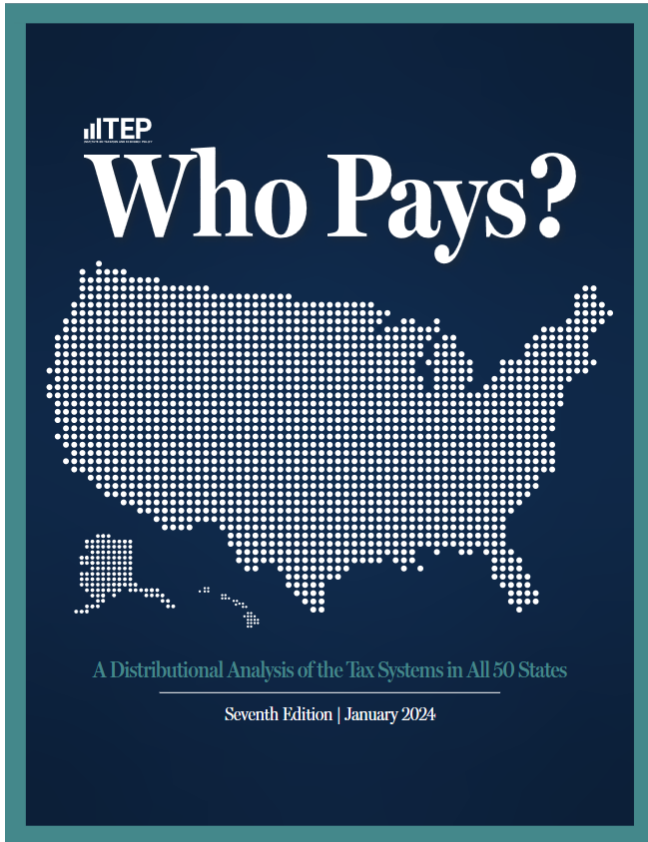
July 2025: Federal Bill H.R. 1

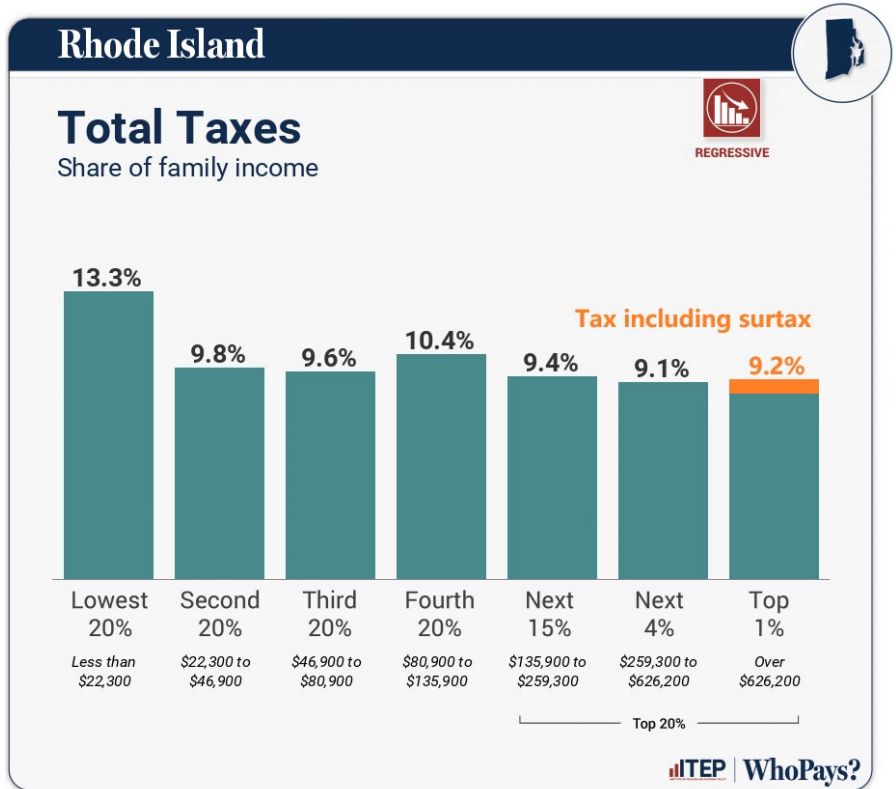
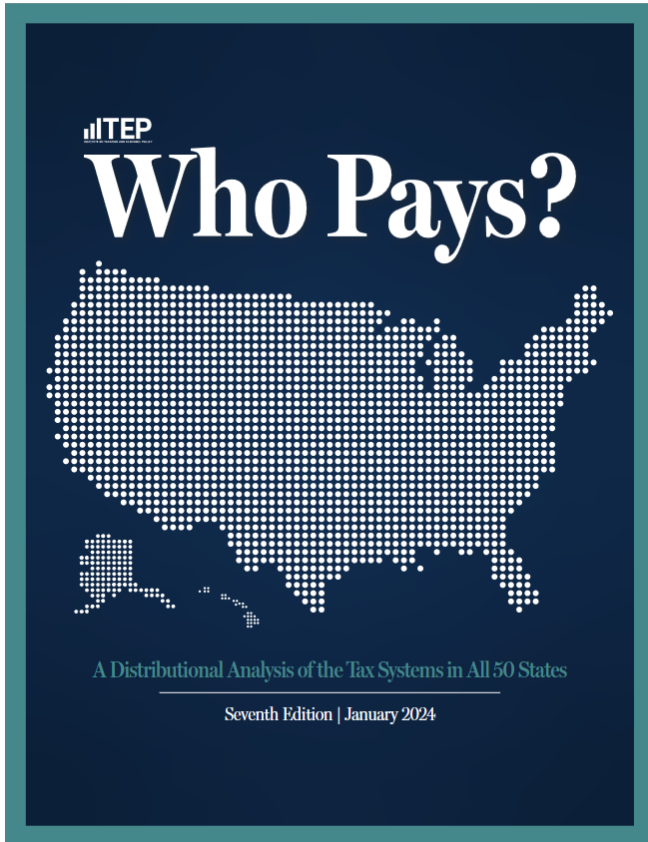
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April 2026: Rhode Island Considers Partial Clawback

Rhode Island lawmakers debate proposals that would claw back roughly half (44-56%) of the top 1%'s federal tax cut with either a Millionaires' Tax or Top 1% Tax









The Massachusetts Millionaire Tax Experience

Rhode Island Senate Briefing

April 28, 2026

Phineas Baxandall, PhD

Director of Research and Policy Analysis

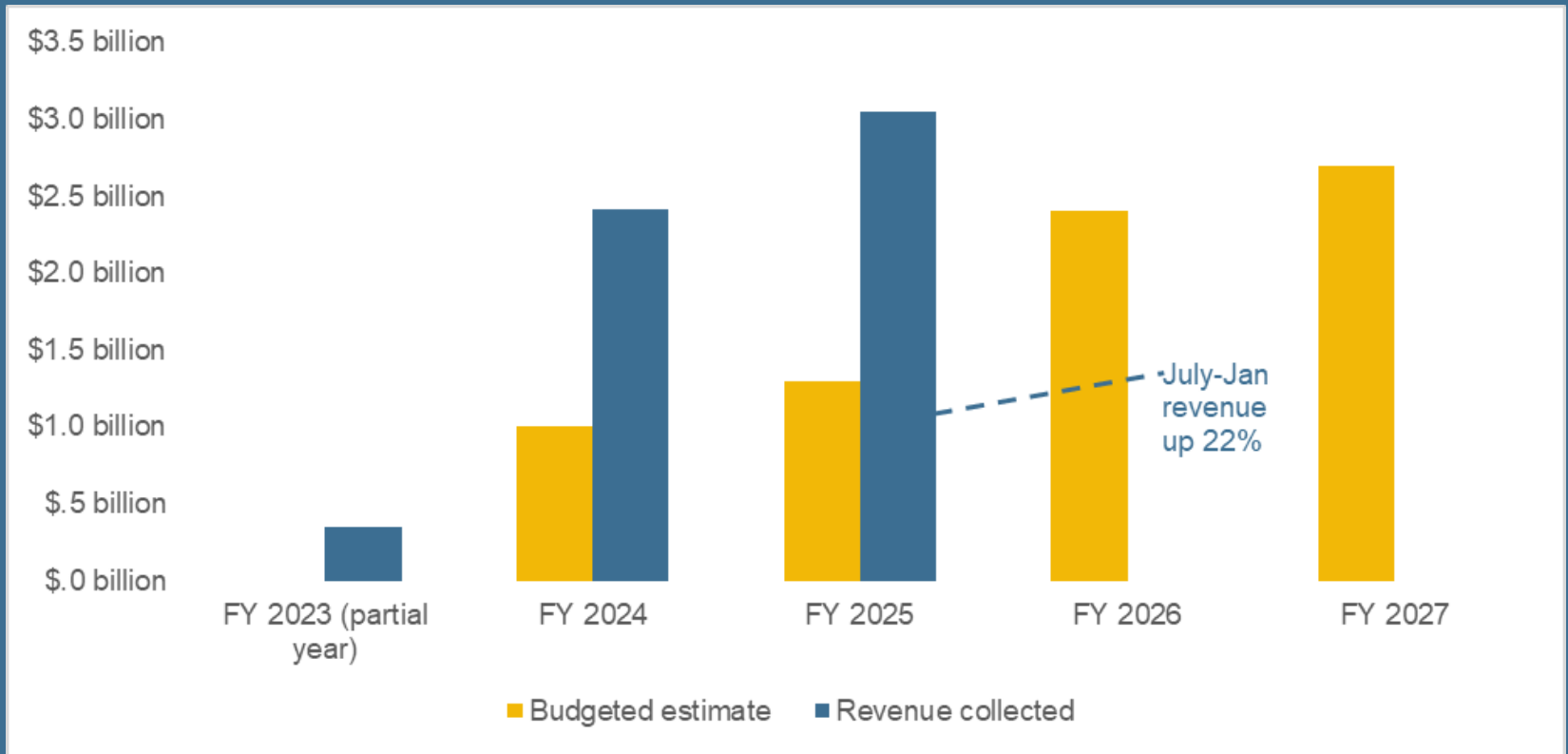
pbaxandall@massbudget.org



The Massachusetts Experience

- Revenue
- Investment
- Absence of tax flight

Massachusetts Revenue Has Surpassed Expectations

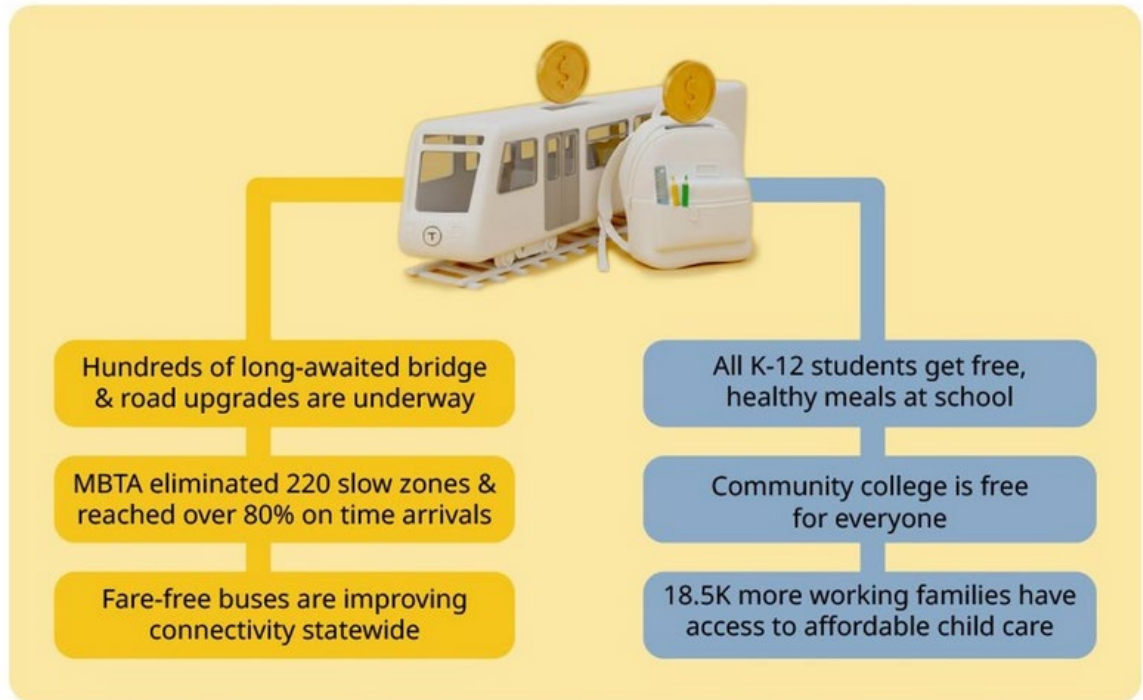


Enabling public investment

- Completed commitment to ramp up \$1.5 billion annually for K-12 spending
- Yearly deposits for capital spending decreases bonding costs
- MBTA finally improving service, growing ridership

\$6 billion

invested in transportation and education as of Dec 2025



Retaining tax base

Most conclusive indicator: Revenue growth

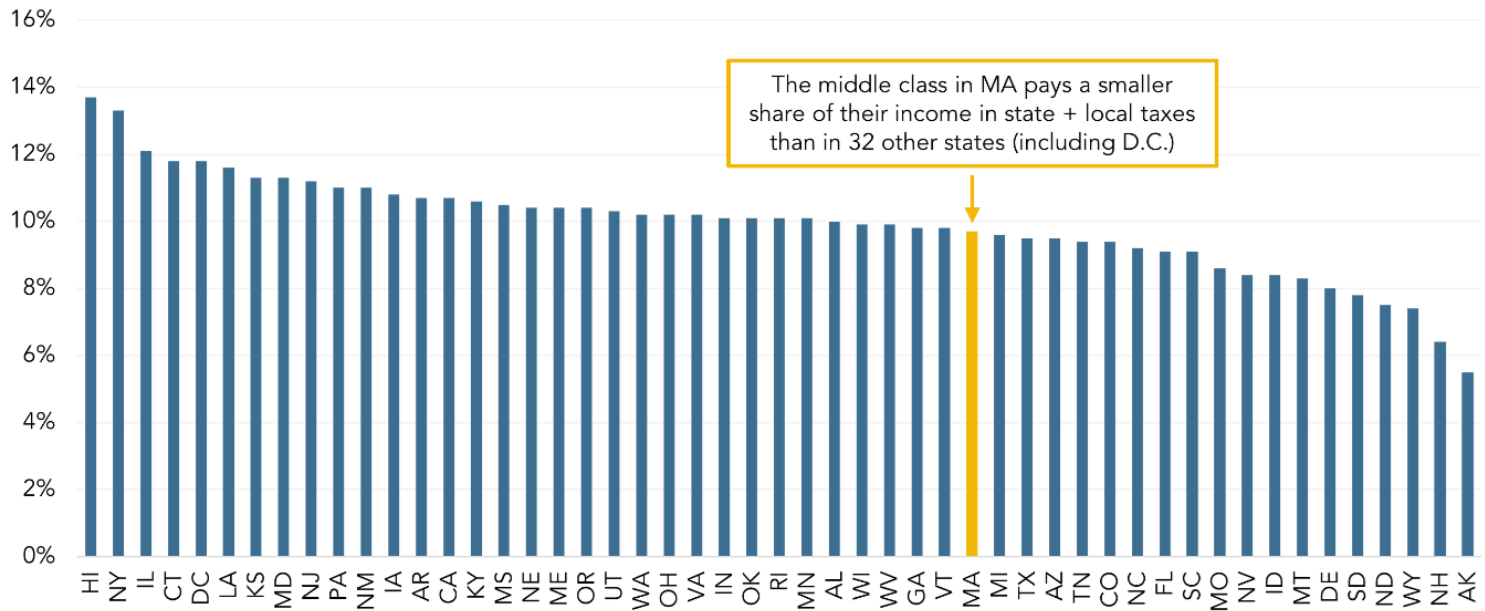
Other indicators:

- No exodus from wealthy enclaves
- Census data through 2025 show slow but steady population growth
- IRS data: Net outmigration *less* in first year after millionaire tax.
- IRS data: Nine in ten households leaving MA had income under \$200K



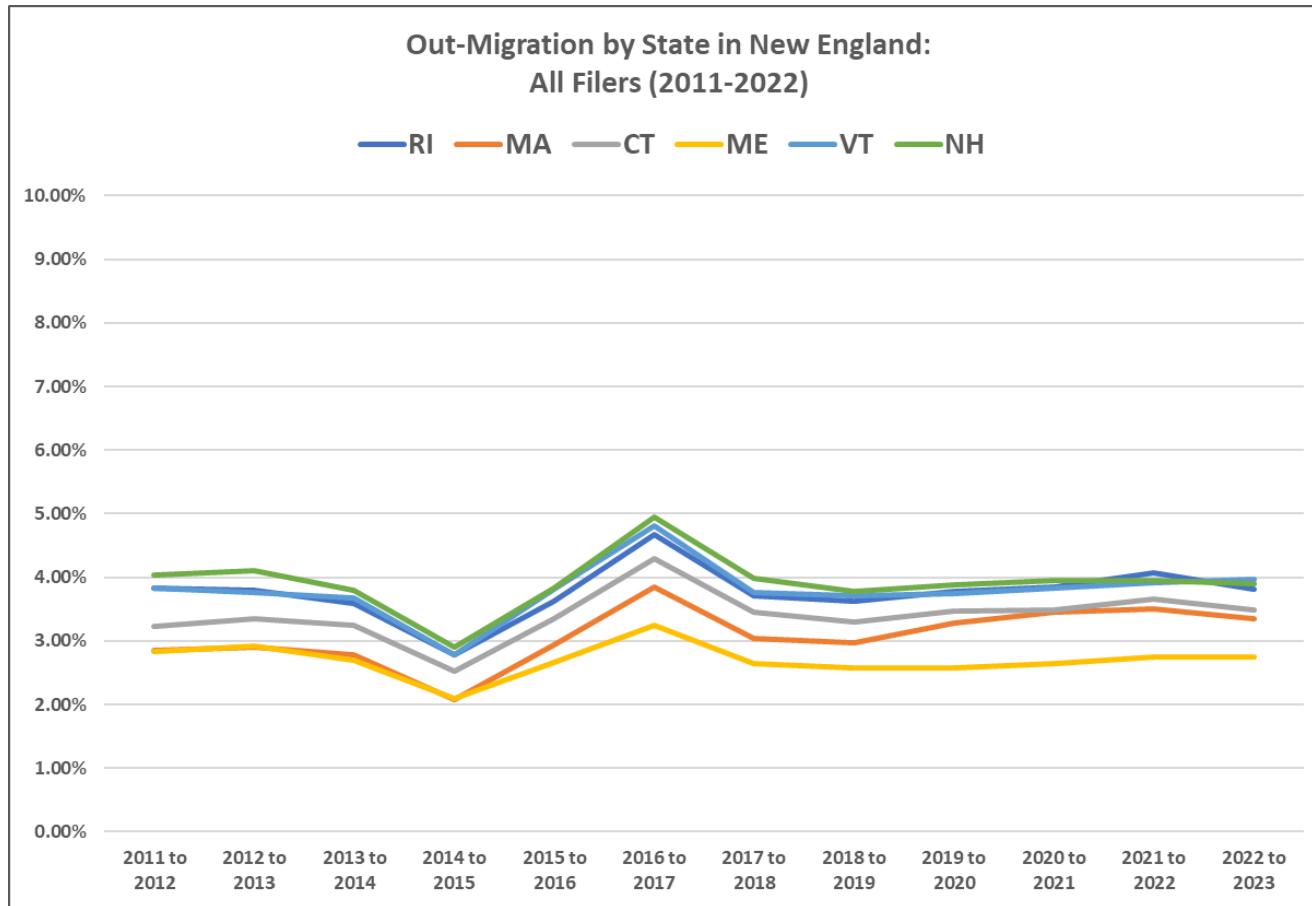
For the Middle Class, Massachusetts Is Not a High Tax State

Effective state + local tax rates for the middle-income 60% of households, by state

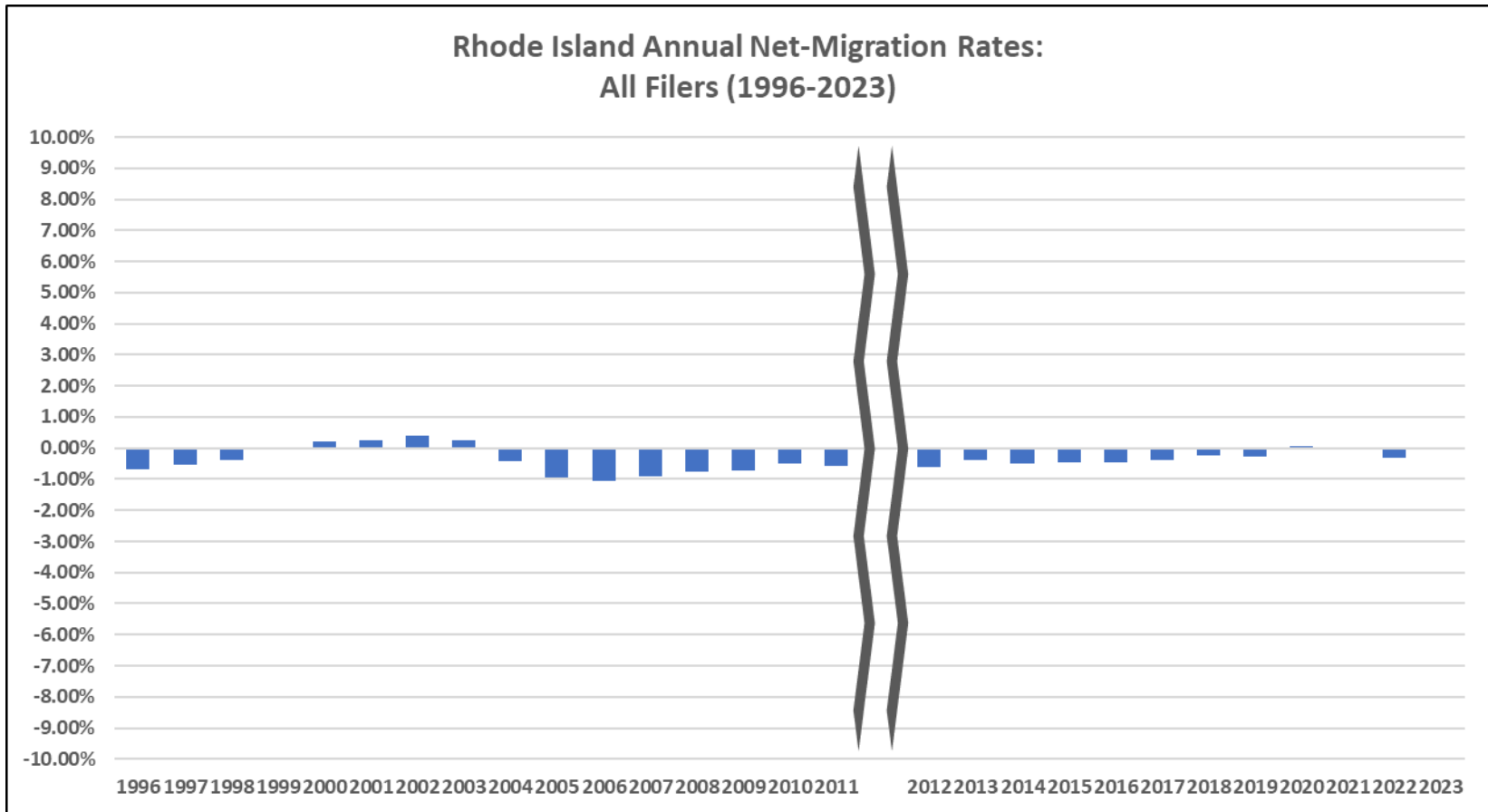


Making the Case for Rhode Island

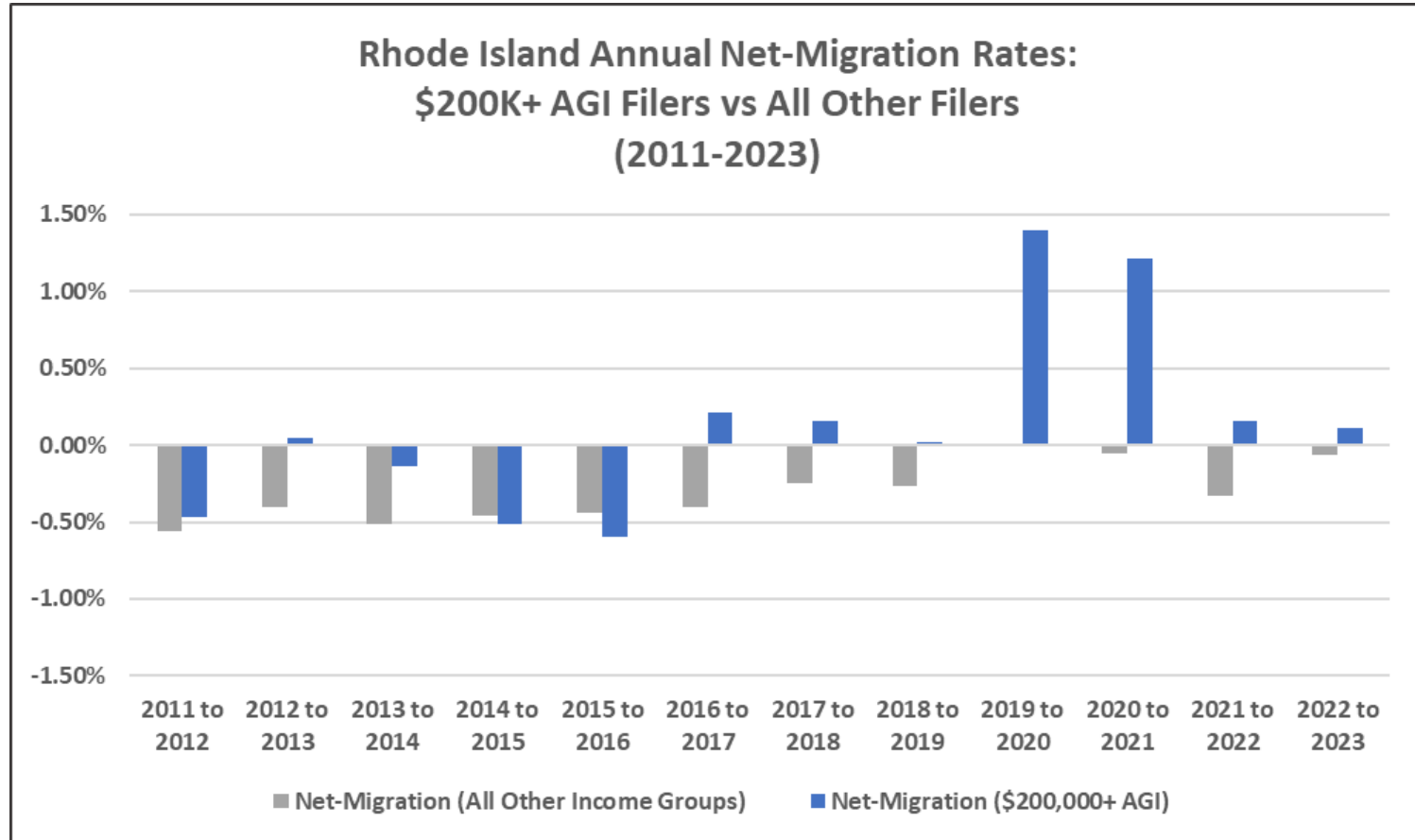
Out-Migration rates in New England are similar despite different tax systems. (2011-2023)



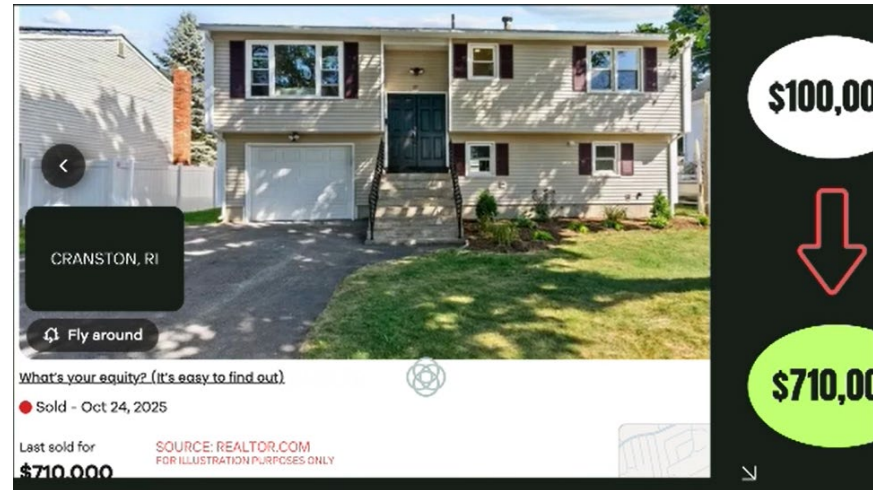
R.I. Interstate Net-Migration remains similar despite changes in top tax rates. (1996-2023)



Highest-Income filers are *less* likely to leave Rhode Island. (2011-2023)



Fewer than 1% of home sales *might* propel one into a millionaire tax bracket.



Sale Price	\$710,000
<i>EXCLUDE from Income: Purchase Price</i>	-\$100,000
<i>EXCLUDE from Income: Home Improvements (\$10,000-\$30,000)</i>	-\$ 20,000
<i>EXCLUDE from Income: 5.5% Realtor Fees</i>	-\$ 39,000
<i>EXCLUDE from Income: 2.75% Attorney and Closing Fees</i>	-\$ 19,500
Total Income from Sale	\$531,500
<i>SUBTRACT Married Couple Primary Residence Exclusion</i>	-\$500,000
Taxable Income Subject to Capital Gains Tax	\$ 31,500
Tax-Free Income	\$500,000

2026 Small Business Profile

U.S. SMALL BUSINESS ADMINISTRATION
OFFICE OF ADVOCACY

REGULATION • RESEARCH • OUTREACH

Rhode Island Congressional District	1	2
Median Income of Incorporated Self-Employed	\$75,973	\$80,394
Median Income of Unincorporated Self-Employed	\$60,342	\$61,563

Pass-Through Entities, Taxation, & Math

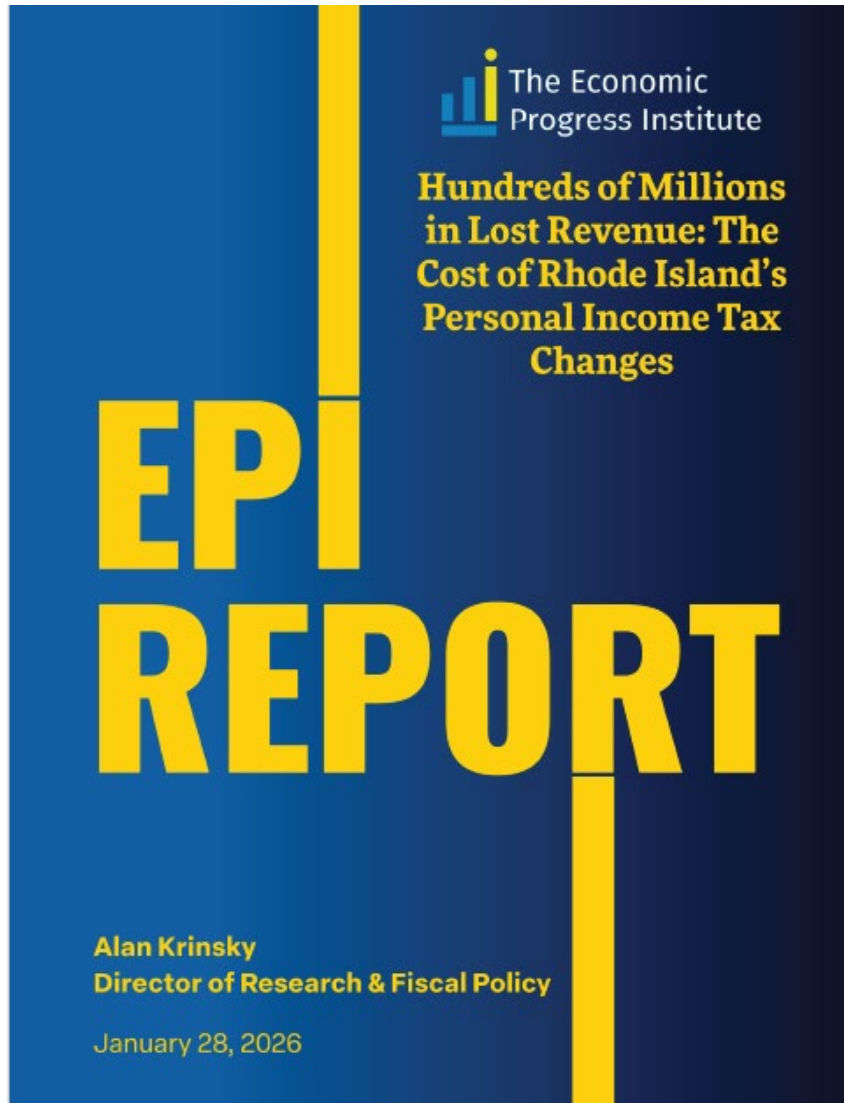
- Our opposition wants you to believe there are *struggling* mom and pop stores across the state, that are on the verge of collapse, and that a Top 1% surtax is going to push them over the edge.
- But they've got a few math problems.
- To start, how is it possible that a business can be struggling and *also* be making a over \$640,000 or a million dollars or more in profit after all expenses? That's not a real thing.

Pass-Through Entities, Taxation, & Math

- 100,000 or so businesses in the state and only 6,100 filers in the Top 1% (and fewer millionaires) = **mathematically impossible** for most to be affected.
- While a majority of millionaires and those in the Top 1% claim some portion of income as PTE income, **approximately 90% of PTE filers are not in Top 1%.**
- **This is like saying that because most millionaires have college degrees, if you enact a policy affecting millionaires, this would affect everyone with a college degree. The conclusion does not follow.**

What actually helps small businesses thrive?

- Well-funded public services, such as affordable and easily accessible public transit
- Affordable, quality child care
- Affordable housing
- Access to credit at reasonable rates
- Support networks
- Great schools
- Excellent workforce and job training programs
- Vibrant communities



Applying Rhode Island's 2006 Personal Income Tax (PIT) rules today shows we would be collecting **\$590 million more in PIT revenue** – with three-quarters of the savings going to the Top 20% in income and the Top 1% with average savings of **\$37,164**.

Tax on Top 1%	Millionaires Tax
3% surtax on <i>taxable</i> income above \$640,000/year (\$772,000/year in average total income)	3% surtax on <i>taxable</i> income above one million dollars
Affects 6,100 tax filers	Affects 2,300 tax filers
Raises \$203 million per year in revenue	Raises \$135 million per year in revenue
New top tax rate: 8.99%	New top tax rate: 8.99%
HB-7313 (Rep. Alzate) SB-2238 (Sen. Murray)	Governor's proposed FY2027 budget

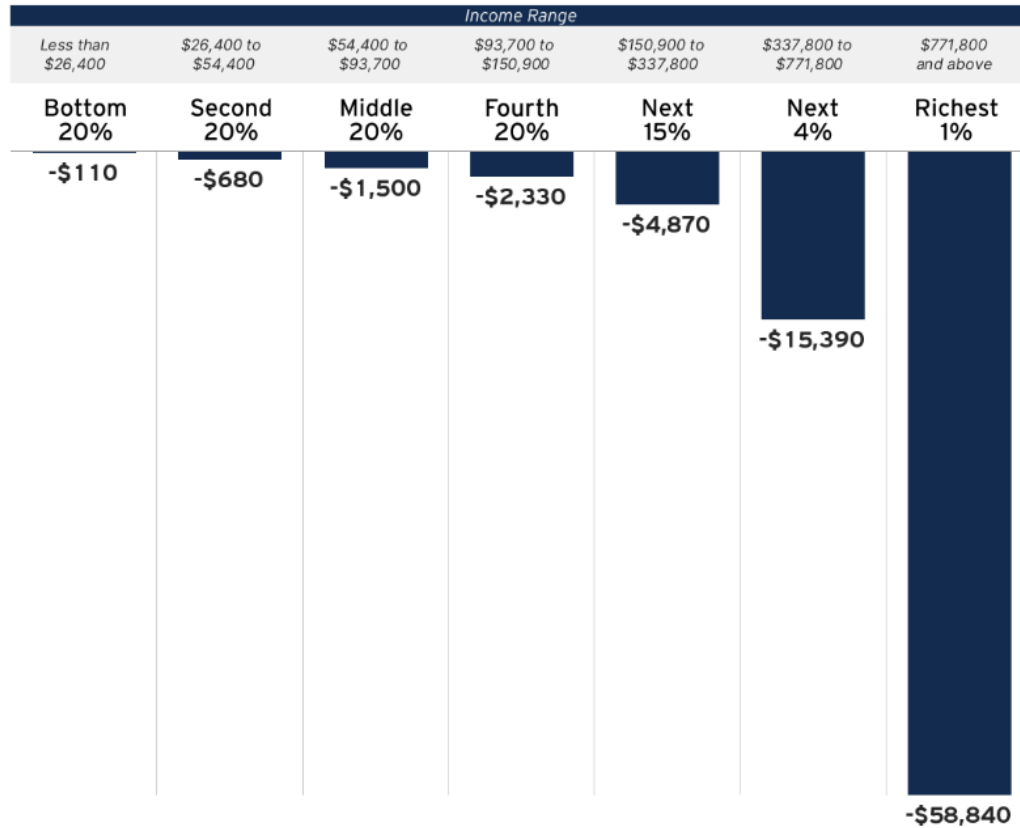
"One Big Beautiful Bill Act"

Lost federal funding:

- **\$60 million** – ACA subsidies that Congress allowed to expire (FY2026 and FY2027)
- **\$275+ million/year** – Federal Medicaid Funding (FY2028)
- **Up to \$65 million** – new annual SNAP administrative costs and benefit costs (depending on SNAP error rate)
 - Subtotal – **\$400 million in lost funding in FY2028**
- **\$150 million** revenue loss – mandatory cuts to the Hospital Provider tax by 2032
- 53,000 will lose health insurance

Impact of Trump Megabill in Rhode Island

Average tax change by income group in 2026



Source: Institute on Taxation and Economic Policy Tax Microsimulation Model, July 2025

Institute on Taxation and Economic Policy | ITEP.org

Examples of estimated tax payments from adding new 3% surtax for Top 1%*

Taxable Income	Current Top Rate of 5.99%	With Proposed +3%	Additional Annual Taxes	Average Tax Savings from H.R.1 which made permanent the 2017 TCJA Tax Cuts**
\$400 thousand	\$20,828	\$20,828	\$0	\$15,390
\$500 thousand	\$26,818	\$26,818	\$0	
\$625 thousand	\$34,305	\$34,305	\$0	
\$640 thousand	\$35,204	\$35,204	\$0	\$58,840
\$650 thousand	\$35,803	\$36,103	\$300	
\$750 thousand	\$41,793	\$45,093	\$3,300	
\$1 million	\$56,768	\$67,568	\$10,800	
\$1.1 million	\$62,758	\$76,558	\$13,800	
\$1.5 million	\$86,718	\$112,518	\$25,800	
\$2 million	\$116,668	\$157,468	\$40,800	

*These examples use RI's 2026 tax brackets; the inflation-adjusted amounts for 2027 will most likely make the Top 1% cut-off higher than \$640,000 and the additional annual tax estimates will therefore most likely be lower.

**Modeling of tax savings for Rhode Islanders was produced by the Institute on Taxation and Economic Policy (July 2025).

Questions & Discussion

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