The Economic Progress Institute

Hundreds of Millions in Lost Revenue: The Cost of Rhode Island's Personal Income Tax Changes

EPI REPORT

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INTRODUCTION

Close to **$600 million!**

That's *only one year of lost revenue*. Two decades of lost revenue is devastating. Over the last 20 years, changes to Rhode Island's Personal Income Tax (PIT) have disproportionately benefited those with the highest incomes and steadily drained the state's resources. Taken together, these policy decisions have likely cost Rhode Island hundreds of millions of dollars each year, adding up to billions of dollars in forgone revenue that could have been invested in the people and communities needing these investments most.

With this additional revenue, Rhode Island could have avoided the frequently large annual structural deficits and provided more robust funding for child care assistance, public transit, job training, and other programs to boost the economy.

While some claim that Rhode Island's annual budget has grown too quickly and the state's highest-income filers are taxed too much, a new analysis conducted by the Economic Progress Institute (EPI) with data provided by the Institute on Taxation and Economic Policy (ITEP) shatters such claims.[1] Using their tax microsimulation model, ITEP compared today's Personal Income Tax liability of Rhode Island taxpayers under both 2006 and 2026 tax laws.

The data show that state revenue collections from the Personal Income Tax would be $590 million more under 2006 rules than they are under 2026 rules. This is a *single-year estimate*, from applying two different sets of rules to the same data on Rhode Island taxpayers today.

Furthermore, the ITEP data demonstrate that **the highest-income Rhode Islanders have substantially and disproportionately benefited from tax rule changes over the last two decades.** On average, those in the Top 1 Percent of filers are now saving tens of thousands of dollars each year.

Combining this with the additional windfall from the 2017 federal tax cuts made permanent in 2025 by H.R.1, the Top 1 Percent are saving more than twice as much as they would pay on average if Rhode Island instituted a 3 percent surtax on taxable income above a Top 1 Percent cutoff of $640,000. This would raise an estimated $203 million in revenue, approximately one-third of the $590 million in revenue forgone.

After briefly reviewing the history of the Personal Income Tax in Rhode Island, this report presents EPI's major findings from the ITEP data and EPI's conclusions from these findings.

A BRIEF HISTORY OF RHODE ISLAND'S PERSONAL INCOME TAX

Rhode Island's Personal Income Tax (PIT) was established 55 years ago, in 1971. As the timeline shows, the tax originally mirrored a filer's federal tax bill. Over the years, however, the structure shifted, moving first to multiple tax brackets and later to fewer brackets with lower top rates. The bolded text for 2006, 2007-2010, and 2011 highlight the key changes that lowered tax rates for the highest-income filers.

Evolution of Rhode Island Personal Income Tax	
1971	• Rhode Island Personal Income Tax (PIT) established under Governor Frank Licht. • Percentage applied to filer's federal tax liability (how much one owes in taxes).
1992	• Percentage applied to filer's taxable income level instead of federal liability.
1998-2003	• 10% tax cut implemented under Governor Lincoln Almond.
2001	• Rhode Islanders using federal alternative minimum tax become liable for state alternative minimum tax on top of regular PIT.
2006	• **Rhode Islanders can opt to pay an alternative 8.00 percent flat tax, without applying the standard or itemized deductions, instead of the regular PIT.** • **This option benefits only the highest-income filers.**
2007	• PIT based on federal taxes replaced by 5-bracket system with rates, for different income ranges, of 3.75 percent, 7.00 percent, 7.75 percent, 9.00 percent, and a top rate of 9.90 percent. • Highest rate applies to taxable income around $350,000 and above.
2007-2010	• **Flat tax rates drops by one-half of one percent each year until it reaches 6.00 percent.**
2011	• **Switch to 3-bracket system** with rates of 3.75 percent, 4.75 percent, and **a top rate of 5.99 percent**, which applies to taxable income above $125,000; standard deduction amount was increased while the itemized deduction option was eliminated; bracket cutoffs are adjusted each year for inflation. • **Flat tax option eliminated, though effectively made permanent with top rate of 5.99 percent.**
2026	• 3-bracket system remains in place. • With inflation adjustments, the 3.75 percent rate applies to taxable income up to $82,050, the 4.75 percent rate to income above $82,050 and up to $186,450, and the 5.99 percent rate to income above $186,450.

Some of the most consequential changes occurred over the past two decades, following earlier tax cuts in the late 1990s and early 2000s. In 2007, Rhode Island adopted a 5-bracket system with a top rate of 9.90 percent. Then in 2011, the state moved to a 3-bracket system and lowered the top rate to 5.99 percent, where it remains today. Other changes along the way, including the creation of a flat tax option, primarily benefited higher-income filers by lowering their effective tax rates.

Taken together, these policy decisions have steadily reduced the tax responsibility of Rhode Island's highest-income filers, both residents and non-residents. Measuring the full impact of these changes is complex, given shifts in federal tax law, economic conditions, and inflation. To make this analysis possible, the Institute on Taxation and Economic Policy (ITEP) applied 2006 tax rules to 2026 incomes, providing a clear way to estimate how decades of state tax policy changes have shaped who benefits and by how much.

FINDINGS

FINDING 1: ***Under current law, Rhode Island is collecting much less in Personal Income Tax revenue than we would have collected under the tax law from two decades ago.***

If Rhode Island had in place today the Personal Income Tax rules from 2006, the state's annual revenue collections would be **$590 million more** than they are under current tax rules. This is a consequence mostly of the changes in brackets and rates between then and now, moderated in part by a higher standard deduction amount, which lowered liability somewhat. While the ITEP data do not provide annual forgone revenue amounts for the intervening years, one can reasonably assume that the loss has been in the hundreds of millions of dollars in most or all years, with a total amount of forgone revenue in the billions of dollars over two decades.

FINDING 2: ***Most of the tax benefit, from both changes in deductions and in brackets and rates, has gone to tax filers with the highest incomes.***

Under the 2006 tax laws, four out of five filers today would owe more and one out of five would owe less than they currently owe. If the old rules were in place, the Top 20 Percent in income would owe 74.3 percent of the additional taxes, while everyone else together would owe 25.7 percent of the amount. This shows that the higher income filers have benefited the most from the state tax changes of the last two decades. **For the 99.89 percent of filers in the Top 1 Percent who pay less under the current system, their annual savings is, on average, $37,164.**

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	$20,621	$20,621	$0	
$500 thousand	$26,611	$26,611	$0	$15,390
$625 thousand	$34,099	$34,099	$0	
$640 thousand	$35,204	$35,204	$0	
$650 thousand	$35,803	$36,103	$300	
$750 thousand	$41,586	$44,886	$3,300	
$1 million	$56,561	$67,361	$10,800	$58,840
$1.1 million	$62,551	$76,351	$13,800	
$1.5 million	$86,511	$112,311	$25,800	
$2 million	$116,461	$157,261	$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).

According to a separate analysis by ITEP, the same **Top 1 Percent of Rhode Island filers stand to benefit, on average, by $58,840 annually from the H.R.1 federal tax cuts made permanent** and enacted in July 2025.[2] Taken together, the average tax break is close to $100,000, providing a substantial benefit for those with the most income and least in need of another break. And these are average amounts for the Top 1 Percent, who have total income, before deductions, of $771,800 or above; multimillionaires will receive far higher tax breaks.

FINDING 3: ***The lowest-income filers have not benefited from changes in tax brackets and rates but have benefited from an improved state Earned Income Tax Credit (EITC).***

The ITEP data show that the lowest 40 percent in income have experienced no benefit from the bracket and rate changes. While many are paying a small amount less, well under $200, due to today's higher standard deduction, a few are paying slightly more. More importantly, because the state Earned Income Tax Credit in 2026, in being fully refundable, is more generous than the EITC of 2006, these same taxpayers are doing better under the current system in only this one regard. However else we might improve our tax code, we should not return to EITC rules from two decades ago, but go in the other direction, to match Massachusetts and Connecticut, where the state EITC is 40 percent of the federal credit, more than twice as large as Rhode Island's 16 percent.

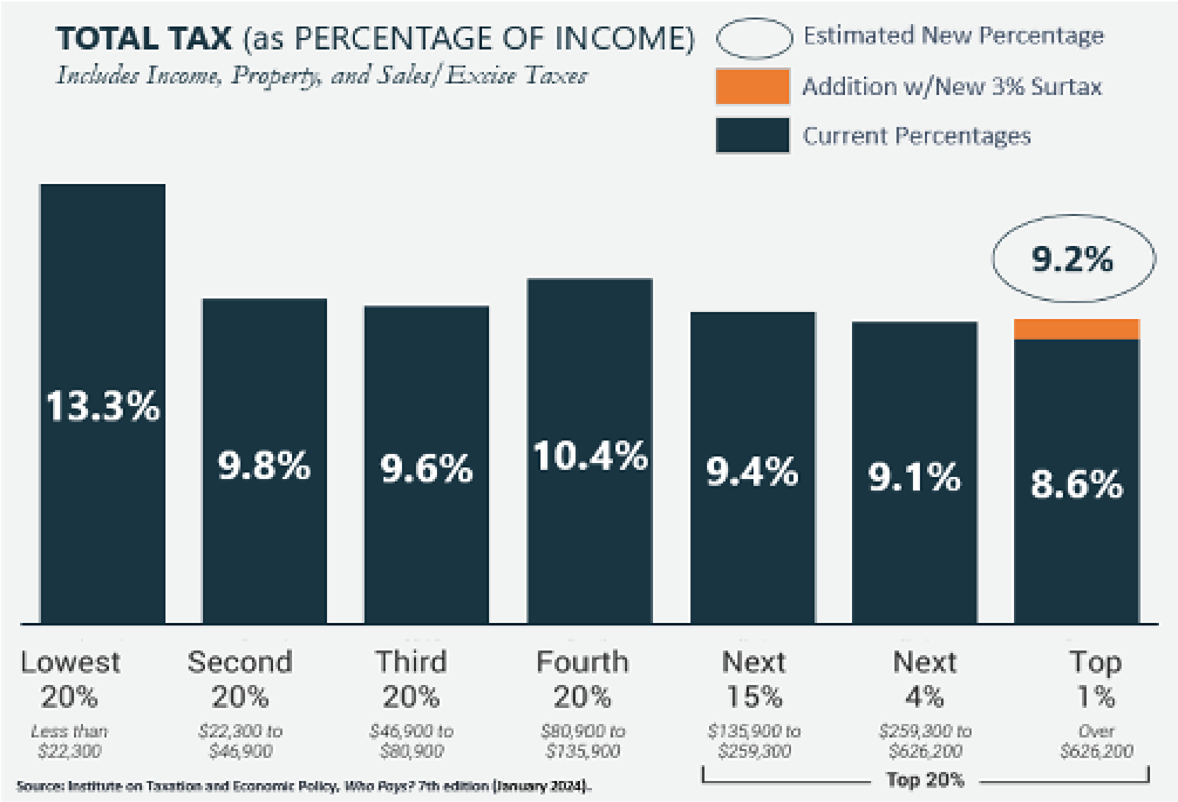
CONCLUSIONS

The data produced for Economic Progress Institute by the Institute on Taxation and Policy provides Rhode Island policymakers and voters with valuable information to assess the state's Personal Income Tax system. The highest-income Rhode Islanders have a tax liability today that is notably *lower* than it was two decades ago and can afford to pay a greater share towards our collective well-being. Here are some conclusions or lessons drawn from the data.

If the state had preserved the core of the 2006 tax laws over the past two decades, the additional revenue likely would have improved budget stability by helping avoid recurring structural deficits. In the aftermath of the Great Recession, policymakers shifted substantial state spending on cash and child care assistance to federal funds, limiting the state's ability to invest more broadly in programs that support Rhode Islanders and economic growth. The state could have used these forgone funds to invest in robust public transit, stronger child care assistance, even better job development programs, a stronger education system, and more generous assistance to those with the fewest resources to help them thrive – all in the service of creating a stronger, more competitive economy.

If the tax changes were intended to strengthen the state's economy and competitiveness through a trickle-down effect from high-income and wealthy individuals, the evidence shows this did not succeed. There is no good evidence that state or federal tax cuts of the 1990s and 2000s have generated the promised economic flourishing. If one wants to claim we have not gone far enough in tax cuts, the example of Kansas in the 2010s demonstrates clearly that trickle-down economics is a failed model. In 2012 and 2013, personal income taxes in Kansas were cut by close to 30 percent and the rate on some business profits was dropped to zero. Over the next few years, both private-sector job growth and the claiming of small business income from S-Corporations and partnerships were lower than the national rate and lower than growth among most neighboring states. State revenue dropped, resulting in cuts to education and other services, and the state's bond rating was downgraded. In 2017, lawmakers reversed Governor Sam Brownback's extensive tax cuts.[3] These tax cuts did not increase economic activity or competitiveness for Kansas. Opponents of a modest tax increase on the highest-income filers in Rhode Island insist that such taxes decrease the state's "tax competitiveness" but have never demonstrated how this works in the real world. These same opponents also like to claim that such taxes will harm mom and pop businesses, but this makes no sense; no actually struggling mom and pop business is making enough in taxable profits after all expenses, exemptions, and deductions to be affected by a Top 1 Percent tax, and any that are in the Top 1 Percent cannot be struggling. With more revenue, policymakers could invest more in helping small and micro business owners who are truly struggling and seeking to grow their businesses and contributions to the state economy.

Given the combined benefit of the state tax changes over the last two decades and the federal tax cuts from H.R.1 – an average amount approaching $100,000 for the Top 1 Percent – even a modest change to Rhode Island's tax code, such as a 3 percent surtax on taxable income above a Top 1 Percent cutoff, would still leave the Top 1 Percent much better off than they were in 2006. For example, under the 2026 proposal supported by the Revenue for Rhode Islanders coalition, a filer with taxable income of $650,000 would pay only $300 more, while a filer with taxable income of $750,000 would pay only $3,300 more. In its keystone report *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*, ITEP shows how the highest-income filers pay a lower percentage of their income in all state and local taxes than do the lowest-income filers.[4] For Rhode Island, while the lowest 20 percent in income pay 13.3 percent of their income in state and local taxes, the Top 1 Percent pay only 8.6 percent. A modest Top 1 Percent surtax would bump that 8.6 percent up to 9.2 percent, **increasing tax fairness in Rhode Island, and help the state avoid harmful program cuts, while investing in Rhode Islanders and our economy.**



Changes in Rhode Island's Personal Income Tax structure over the last two decades have cut billions of dollars in revenue and shifted the savings primarily to those households with the highest incomes. The *first step* was the introduction in 2006 of an alternative flat tax which allowed those with the highest incomes to pay a flat 8.00 percent instead of bracketed rates that began at 3.75 percent and reached 9.90 percent for higher-income levels. The *second step* was the annual drop in the flat tax rate by a half-percentage point annually until it reached

6.00 percent. The *final step* was the conversion of the 5-bracket system to a 3-bracket system with a top rate of 5.99 percent, basically cementing in place the 6.00 percent flat tax, which, no longer necessary, was eliminated. **By understanding this history, we see that there is reasonable room to increase modestly the Personal Income Tax on those with the highest income, which will increase revenue for critical programs while leaving these well-off Rhode Islanders still better off than they were 20 years ago.**

EPI thanks Miles Trinidad and Aidan Davis from the Institute on Taxation and Economic Policy for their help in providing the data for this report.

ENDNOTES

[1] ITEP data provided to the Economic Progress Institute in November 2025.

[2] Steve Wamhoff, Carl Davis, Joe Hughes, and Jessica Vela, "Analysis of Tax Provisions in the Trump Megabill as Signed into Law: National and State Level Estimates," Institute on Taxation and Economic Policy (July 22, 2025), https://itep.org/tax-provisions-in-trump-megabill-national-and-state-level-estimates/; national and state-level data can be downloaded.

[3] Michael Mazerov, "Kansas Provides Compelling Evidence of Failure of 'Supply-Side' Tax Cuts" Center on Budget and Policy Priorities (January 22, 2018), https://www.cbpp.org/research/state-budget-and-tax/kansas-provides-compelling-evidence-of-failure-of-supply-side-tax.

[4] Institute on Taxation and Economic Policy, Who Pays? A Distributional Analysis of the Tax Systems in All 50 States (Seventh Edition, January 2024), https://itep.org/whopays-7th-edition/.

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