Testimony Relating to H-7127 Budget Article 5, Section 6

Proposed 4th Personal Income Tax Bracket

House Committee on Finance

March 3, 2026

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The Economic Progress Institute **supports as a good first step the Governor's proposal in Article 5, Section 6 of his recommended FY2027 Budget to add a 4th Personal Income Tax bracket to tax income above $1 million at 8.99%**, 3% above the current top rate. However, we think the proposal would be made stronger by including all taxable income above a Top 1% cutoff of $640,000.

My purpose in this written testimony is to dispel some common myths and to reassure members of the House Finance Committee that **this proposal will not impact any of Rhode Island's struggling small business owners. It will affect few small business owners, and those it affects cannot, by definition, be struggling – because they will have taxable income above $1 million, after all exemptions and deductions.**

Here are the facts:

- Approximately **90% of all filers claiming PTE income are NOT in the Top 1%** and *will not pay a penny more*. For a millionaires tax, even fewer filers would be affected.
- Most of the approximately 10% in the Top 1% are not "small 'mom and pop' businesses." Millionaire and Top 1% PTE filers include:
    - **Passive investors not involved in running a business**
    - Filers with **vacation rentals or other properties producing revenue**
    - Self-employed professionals, including consultants
    - People with **income from trusts**
- For the millionaire and Top 1% filers, PTE income accounts for only about **20% of their total income**, which contains even more in **capital gains, which are taxed at a lower rate than wage income at the federal level**.
- There is **no good evidence that business owners use money saved through PTE filing to pay more to non-owner employees, hire more employees, or expand their businesses**.
- **Business expenses are generally deductible and therefore exempt from taxation.** This applies to profits that business owners reinvest in their businesses in the same tax year.