



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

Proposed 4th Personal Income Tax Bracket

House Committee on Finance

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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 (average \$772,000 total pre-tax income).

Tax Fairness

Although Rhode Island’s Personal Income Tax is moderately progressive, the state’s overall tax structure – including property and sales taxes – is regressive. This means that Rhode Island’s lowest income earners pay a larger percentage of their income in state and local taxes than do the highest earners. The bottom 20 percent pay 1.55 times as much as the top 1 percent (13.3 percent of income vs 8.6 percent), as shown in Figure 1.¹ A Top 1% tax would do more than a millionaires tax to modestly reduce this gap.

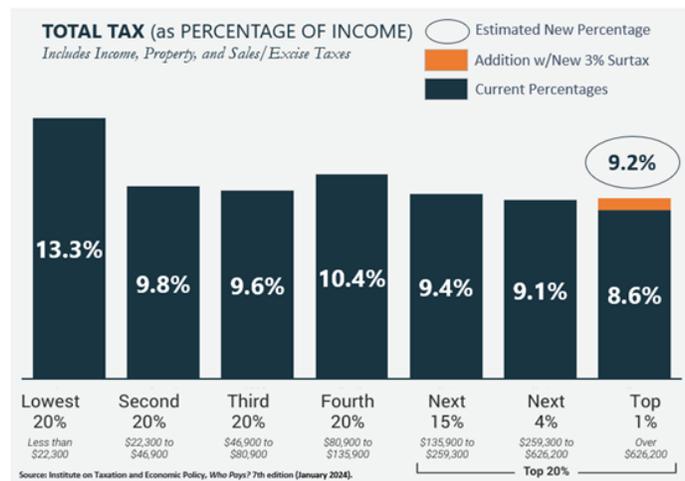


Figure 1

Revenue Planning for the Future

Although Rhode Island received a considerable amount of much-needed COVID-19 relief funds from the federal government, these funds were designed to provide temporary aid for short-term recovery needs and for one-time investments. What these relief funds did not provide was the ongoing revenue base to build for the longer term, to support the services Rhode Islanders and Rhode Island businesses require to thrive.

A Top 1% will raise an estimated \$203 million in revenue per year, considerably more than a millionaires tax. This will help for future planning, but we can also expect approximately half this amount to be available for the budget challenges we face for FY2027 and later. With such funds, we will be able to build upon the successes of our recovery investments in education and infrastructure.

¹ Institute on Taxation and Economic Policy, *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*, 7th edition, January 2024, <https://sfo2.digitaloceanspaces.com/itep/ITEP-Who-Pays-7th-edition.pdf>.



Racial Equity and Tax Fairness

Decades of racist tax and other public policy – such as redlining for providing and denying mortgages – have resulted in large racial and ethnic disparities in both income and wealth across the country. Tax policies on the state and local levels play a role in maintaining or even worsening the existing wealth and income gaps. In Rhode Island, Black filers account for 5.8% of all filers yet only 0.7% of those in the top 5% of income. Latino Rhode Islanders account for 15.5% of filers yet only 3.9% of those in the top 5% of income.² **A tax on the Top 1% would improve the situation by decreasing racial and ethnic disparities.**

Good for Small Businesses

Most small businesses simply do not have *taxable* income within range of this tax. For 2018, the median income for self-employed Rhode Islanders with incorporated businesses was \$53,794, and for those with unincorporated businesses, the median income was \$32,639.³ Not even all the 6,100 or so tax filers affected by this proposal would be small business owners.

The vast majority of small business owners will see NO change in their taxes. The proposed tax would only apply to business owners whose *income after all expense deductions* is above \$640,000. For almost all small business owners, there will be no additional taxes. Small businesses thrive where there are robust public services, not simply where there are low taxes for those with most income.

A Popular Proposal

Although politicians worry that no one likes any sort of increase in anyone's taxes, this is not the case. Poll after poll – across the country and in Rhode Island – demonstrate that **proposals like Top 1% or millionaires taxes win large majorities of support among constituents.** In a 2021 poll of Rhode Islanders, voters were asked specifically about creating a new tax bracket on income above the 1% threshold, and the results are striking: **72% supported a new top 1% tax bracket**, with 51% strongly supporting it, and only 25% opposing it.⁴

² Data provided by the Institute on Taxation and Economic Policy; information for the Top 1% only was not available.

³ SBA 2020 Small Business Profile for RI, using (pre-pandemic) 2018 data from the Census Bureau's American Community Survey: <https://advocacy.sba.gov/wp-content/uploads/2020/06/2020-Small-Business-Economic-Profile-RI.pdf>.

⁴ Fleming and Associates statewide poll of Rhode Island voters, conducted in March 2021 using a representative sample of 350 RI voters.