

APPENDIX B-30: RHODE ISLAND



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Overview

Rhode Island offers employers some of the highest corporate and regulatory taxes in the country. Additionally, Rhode Islanders are subjected to the nation's highest personal income tax rate in the nation. Unfortunately, residents are unlikely to see a return on their investments. The state receives either failing or near failing grades on nearly every standard of academic measurement. Furthermore, any advance the state has made within the workforce has been surpassed by nearly every state in the New England region. As a result, Rhode Island ranks among the bottom for state's business environments.

Forbes, which scores states business environments on a scale of 1-50, gave Rhode Island an overall rank of 45th in its 2006 report of "The Best States for Business."¹ Each of the primary rankings is listed below.

Rhode Island's <i>Forbes</i> Rankings	
Overall Rank	45
2006 Rank	43
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Public Policy

The "State Competitiveness Report (SCR) 2007," a study by the Beacon Hill Institute, ranks states' abilities to produce high income, and generally a better quality of life for their citizens.² In addition the SCR ranks all the states on a scale of 1-50 (with a ranking

¹ Kurt Badenhausen. "Special Report: The Best States for Business." *Forbes Magazine*. July 2007.
http://www.forbes.com/business/2007/07/10/washington-virginia-utah-biz-cz_kb_0711bizstates.html

² David Tureck, Jonathan Houghton, Frank Conte, and Christopher Doyon. *State Competitiveness Report 2007*. Boston: Beacon Hill Institute for Public Policy Research at Suffolk University, December 2007. 54.

of one being the best). In this study, Rhode Island scored near the middle of all states with a rank of 21st. Of surrounding states in the New England area, Massachusetts (1st) ranked above Rhode Island along with Vermont (10th), and New Hampshire (3rd), while only Connecticut (24th) and Maine (36th) trailed behind.

The study was also very critical of the state's government and fiscal policy which ranked 43rd and its business incubation level which ranked 42nd.³ With regard to business incubation, this category which examines businesses of all sizes, particularly criticized Rhode Island for its poor record in creating and growing businesses. Furthermore it noted that Rhode Island was nearly within the top ten states with the highest labor unionization rate. In addition, the state ranks near the absolute bottom in the number of business exports.⁴

"The Small Business Survival (SBS) Index 2007"⁵ gave Rhode Island extremely poor marks in state and local government spending, as well as criticizing the five-year trend in government expenditures. In both categories the state is ranked near the bottom in tax and spending policies.⁶ Additionally the state's protectionist policies contain one of the nation's highest minimum wage rates at a general rate of \$7.40 per hour.⁷ These costs coupled with relatively high utility costs present a particularly harsh image of the business climate in the state.

Regulatory Affairs

Forbes, "Best States for Business" report ranked Rhode Island next to last overall and among the nation's worst for Business Regulation Practices. Employers in Rhode Island pay one of the top ten worst unemployment insurance rates in the country. Furthermore, they face steep corporate income tax and property tax which are ranked 44th and 47th nationally in terms of business favorability.⁸ Finally people establishing their business in Rhode Island pay some of the nation's highest energy costs as well.

Tax Policy

The Tax Foundation's 2007 State Business Tax Climate (SBTC) Index puts Rhode Island in the bottom of the states, ranked 50th in an overall study.⁹ A large part of this designation may be due to the fact that the state has the highest and/or worst personal

<http://www.beaconhill.org/Compete07/Compete2007State.pdf>

³ Tureck.

⁴ Tureck.

⁵ Raymond J. Keating. Small Business Survival Index 2007: Ranking the Policy Environment for Entrepreneurship Across the Nation 12th Annual Edition. Small Business & Entrepreneurial Council, Washington, DC, November, 2007. 2.

http://sbecouncil.org/Media/pdf/SBSI_2007.pdf?CFID=514256&CFTOKEN=91743709

⁶ Keating, 39-40.

⁷ Andy Smith. "New Minimum-Wage Law Stirs Debate." *The Providence Journal* 11 Jun. 2007.

http://www.projo.com/business/content/JO_MINWAGE_06-10-07_RG5T1AF.2678b91.html

⁸ Keating, 31-32.

⁹ Chris Atkins and Curtis S. Dubay. Background Paper: 2008 State Business Tax Climate Index. October 2007, Number 52. The Tax Foundation. 10. <http://www.taxfoundation.org/files/bp57.pdf>

income tax in the country. Rhode Islanders pay a “piggyback” tax that draws its basis off a rate of 25% of an individual’s federal income tax.

In conjunction with a large personal tax liability, Rhode Island also features large business taxes as well. Specific sectors of a business-related taxation study ranked Rhode Island 43rd for corporate tax climate¹⁰ and 50th in the nation on unemployment insurance tax.¹¹ In a direct comparison with a sample of neighboring New England states, Connecticut did better with a 17th ranking in corporate tax¹² and 19th in unemployment tax¹³, while Massachusetts was closer to Rhode Island, ranking 40th¹⁴ in corporate tax and 49th in unemployment tax.¹⁵

Rhode Island also earned a very low score, a “D-”, for its administration of state taxes from the Council on State Taxation (COST).¹⁶ In a recent report on “The Best and Worst of State Tax Administration,” the COST report downgraded Rhode Island on a number of other fronts, such as its short protest period, due date for state returns, lack of independence in the appeals process and a lengthy and cumbersome refund process. As a small consolation, the report did praise the state for administering its tax policies even-handedly. A separate report by CFO magazine, based on a survey of corporate tax directors, also rated the Rhode Island tax appeals process poorly for its separation of powers from the tax audit department. The same survey also reported that companies felt the state and legislature were likely to attempt to take back incentives that fostered business and that the state was very aggressive with businesses on a number of taxation fronts.

Compounding the negative reviews of the state’s business tax system the SBS Index identified Rhode Island as having the highest personal income tax rates. Moreover, the index also gave a relatively high rating to the state’s capital gains tax at 22nd.¹⁷ The report noted that because the great majority of businesses are small ones with sole proprietorships, the state was taking money that otherwise could be plowed back into businesses, creating growth and jobs.

Innovation

To measure innovation in the state, investment and returns in innovative activities such as patents and research and development expenditures were examined by the New Economy Index¹⁸ (NE). NE rates the states (with a rank of one being the best) according

¹⁰ Keating, 30.

¹¹ Keating, 34.

¹² Keating, 30.

¹³ Keating, 34.

¹⁴ Keating, 30.

¹⁵ Keating, 34.

¹⁶ Douglas Lindholm and Stephen Krantz. Scorecard on Tax Appeals and Procedural Requirements. Council On StateTaxation. April, 2007.

http://www.statetax.org/Content/ContentGroups/Home_Page_Content/COST_Studies_Articles_and_Testimony/2007BestAndWorstScorecardAmended.pdf

¹⁷ Keating, 31.

¹⁸ Robert Atkinson and Daniel K. Correa. The 2007 State New Economy Index.: Benchmarking Economic Transformation in the States. Innovation Technology and Innovation Foundation.

to advancements in innovation and a state's success in an increasingly digital economy. In this study, Rhode Island ranked 15th. Within the SCR, Rhode Island's most positive scores by far can be found in the categories measuring technology and innovation. In this particular category SCR ranked Rhode Island 8th in technology and innovation.¹⁹ Both studies gave Rhode Island a relatively high rating (16th) for the number of patents held by state citizens.

A large part of Rhode Island's positive SCR technology rating is also due to state funding of research and development (R&D) by state universities. The state holds the rank of 14th in Academic R&D per \$1,000 Gross State Product (GSP).²⁰ Additionally, the state is also ranked 15th nationwide for patents per capita.²¹ Although these numbers are impressive nationally, the results are less impressive when comparing the state to others in its geographical region. In the case of the New England region, Rhode Island's success has been eclipsed by every state with the exception of Maine.

Workforce

Overall, Rhode Island has an average reputation on labor issues. The SCR measures the quality of the state workforce in its "Human Resources" category, where Rhode Island placed relatively high at 15th in the nation. A few key positive and negative points from the recent SBS and SCR studies are listed below:

- Workers' unemployment insurance rates are among the highest in the nation,²² however workers' compensation rates are relatively low.²³
- Rhode Island is a highly unionized state with a rate of 15.3%, the 11th highest rate in the nation and the second highest in the New England region.²⁴
- The state's unemployment level tumbled to 4.7%, just 0.1% above the national unemployment rate. This is the state's lowest unemployment rate since November, 2001.²⁵
- The state ranks 12th in the nation for graduate students with a science or engineering degree per 100,000 inhabitants.²⁶

Education

A recent report by US Chamber of Commerce, "*Leaders and Laggards: A State by State Report Card of Educational Readiness*," gave Rhode Island remarkably lousy

February, 2007. 13. http://www.kauffman.org/pdf/2007_State_Index.pdf

¹⁹ Tureck, et al. 54.

²⁰ Tureck.

²¹ Tureck, et al.

²² Keating, 34, 37.

²³ Keating, 37.

²⁴ US Bureau of Labor Statistics. Union affiliation of employed wage and salary workers by state (Numbers in thousands). <http://www.bls.gov/ro1/neum.htm>

²⁵ Laura Hart and Nicki Romeo. "Rhode Island Unemployment Rate Is Lowest Since 2001." Rhode Island Department of Labor and Training. 28 Mar. 2007. http://www.dlt.ri.gov/News_Releases/pdfs/NR_030207B.pdf

²⁶ Tureck, et al 54.

evaluations in a number of educational categories and an overall rank of a “D”.²⁷ The study reflected that the state, despite its exorbitant tax rates, is dramatically failing to prepare students on multiple levels of education to keep pace with the national average standards on math and reading. The state also receives failing grades on the quality of teachers and school administration, as no subject-based examinations are given to teachers entering the school, and only 55% of principals are given the discretion to make teacher hiring decisions.²⁸

Possibly due to that lack of local control over the quality of instruction, the state also receives very low marks on aligning their graduation requirements with college expectations. As a result, students perform poorly on advanced placement tests and are unprepared for college. Finally, though the state has an abundance of personal and corporate taxes, the low school rankings suggest that Rhode Islanders are not getting much of a return on their investment.²⁹

Cost of Market Entry

The Milken Institute releases an annual study in which it ranks the states with the highest cost of doing business on a scale of 1-50 (with a ranking of 50 being best for business).³⁰ In this study, Rhode Island received a poor ranking of the 10th highest cost of business.

Energy rates (electric and gas) are among the highest in the nation for residential and commercial residents. Only three states (Hawaii, New Hampshire, and Massachusetts) had a higher electric rate.³¹ Rhode Island also has some of the highest taxes in the country, including leading the nation for the highest personal income tax which amounts to 25% of an individual’s federal income tax. Corporate business taxes and unemployment taxes also rank among the top ten highest taxes in their respective categories.³²

Employees do have the option to offset some of their tax liability by opting for a tax credit which offers credits for specified and unique circumstances. For example the “Jobs Growth” credit allows a \$4,800 per employee deduction for any employees that were hired after 26 weeks of unemployment. Additionally, the “Job Training” credit allows up to \$5,000 for expenses related to training or retraining employees, meanwhile the “Jobs Growth Credit” offers nearly 50% credit for employee bonuses.

²⁷ The Institute for a Competitive Workforce. Leaders and Laggards: A State By State Report Card on Educational Effectiveness. US Chamber of Commerce, 2007. 52.
<http://www.uschamber.com/icw/reportcard/default>

²⁸ Leaders and Laggards, 52.

²⁹ Institute, 52.

³⁰ Milken Institute “2007 Cost of Doing Business Index.” December, 2006.
<http://www.milkeninstitute.org/pdf/2007CostofDoingBusiness.pdf>

³¹ Keating, 36.

³² Chris Atkins and Curtis S. Dubay. Background Paper: 2007 State Business Tax Climate Index. The Tax Foundation October 2006, Number 52. <http://www.taxfoundation.org/files/bp52.pdf>

These credits will likely be attractive to employers who meet the narrow specifications. However, the credits may not be enough to convince potential employers to enter a state with the highest personal income tax, and some of the highest corporate taxes, in the country.