CENTER ON BUDGET AND POLICY PRIORITIES

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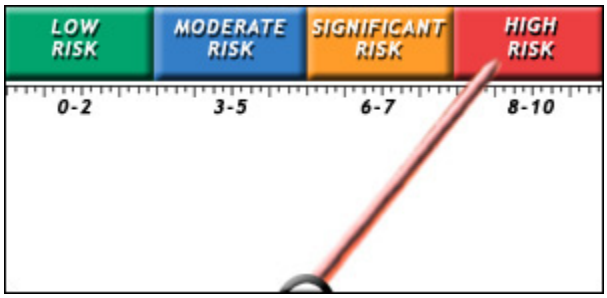
RHODE ISLAND

Most states have structural weaknesses in their tax systems that put them at risk of experiencing gaps between revenues and necessary expenditures in coming years. The Center evaluated each state's likelihood of facing a structural deficit by determining how many of ten "risk factors" applied to each state. Rhode Island is rated as having a high risk of a structural deficit based on its score of eight on the risk scale for structural deficits.



- Rhode Island's sales tax covers less household services than the average state.
- In Rhode Island, corporate income taxes as a share of total taxes declined by 9.1 percentage points from 1979-2002, surpassing the US average decline of 5.5 percentage points. Also, Rhode Island has significant loopholes in its corporate income tax.
- Rhode Island's income tax preferences for its seniors exceed the US average.
- Rhode Island faces spending pressures from: Medicaid, the number of non-elderly disabled people, and the number students with special needs.
- Between 1994 and 2000, Rhode Island reduced personal and corporate income taxes while increasing sales and excise taxes. Between 2001 and 2004 Rhode Island increased its cigarette tax. This is problematic since income taxes provide stronger growth over the long term than sales and excise taxes.
- Rhode Island has a spending limit that restricts appropriations to 98% of projected revenue and an assessment increase limit and a property tax revenue limit.
- Rhode Island's income taxes are linked to the federal standard deduction, so that any increase in the federal standard deduction results in an increase in the Rhode Island standard deduction, which reduces Rhode Island tax revenue.
- Three other national studies (Hovey 1998, Boyd 2002, and Besendorf & Kottlikoff 2002) found that Rhode Island has a structural gap.