

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS



DEPARTMENT OF REVENUE

Understanding the Personal Income Tax Reform Simulation Runs

The following narrative is intended to help users of the Personal Income Tax Reform Simulation Runs understand the output that is produced. A Personal Income Tax Reform Simulation Run compares the personal income tax reform that went into effect on January 1, 2011 to the personal income tax system that would have been in place on January 1, 2011 had the law not been changed. The latter is termed “Current Law with Capital Gains Taxed as Ordinary Income” and assumes that the alternative flat rate income tax system would have been available with a flat tax rate of 5.5 percent. Each Personal Income Tax Reform Simulation Run is based on a particular tax year, the most recent being Tax Year 2008.

Page 1: Resident Filers

The first page of a Personal Income Tax Reform Simulation Run contains aggregate tax information on Resident tax filers by various federal adjusted gross income categories. The upper half of the page displays the assumptions concerning standard deduction and exemption amounts, the tax rates and taxable income brackets, the credits that can be used under the personal income tax reform, the state earned income tax credit as a percentage of the federal earned income tax credit and the alternative flat tax rate used under the current law income tax with capital gains taxed as ordinary income.

The lower half of the output shows 15 federal adjusted gross income (FAGI) ranges. For each FAGI range the following information is provided:

- The total tax paid under the Current Law with Capital Gains Taxed as Ordinary Income
- The total tax paid under the Personal Income Tax Reform
- The total number of tax filers
- The nominal difference between the total tax paid under the Current Law with Capital Gains Taxed as Ordinary Income and the total tax paid under the Personal Income Tax Reform
- The average tax change (i.e., the nominal difference / the number of tax filers)
- The median tax change

The totals across all FAGI ranges are displayed at the bottom of the table. The very bottom of the page shows the amount Historic Structures Tax Credits that were used by tax filers that are

reimbursed from the Historic Structures Tax Credit Fund and the net change in total taxes paid after accounting for this reimbursement.

Page 2: Non-Resident Filers

The second page of a Personal Income Tax Reform Simulation Run contains aggregate tax information on Non-Resident tax filers by various federal adjusted gross income categories. The information presented on the second page is identical to that presented on the first page except that the results are for Non-Resident vs. Resident tax filers.

Page 3: All Filers

The third page of a Personal Income Tax Reform Simulation Run contains aggregate tax information on combined Resident and Non-Resident tax filers by various federal adjusted gross income categories. The information presented on the third page is identical to that presented on the first and second pages except that the results are for combined Resident and Non-Resident vs. tax filers.

Page 4: Effective Tax Rates

The fourth page of a Personal Income Tax Reform Simulation Run contains the effective tax rates by federal adjusted gross income (FAGI) categories for resident and non-resident tax filers. The effective tax rate is defined as the total tax paid by all tax filers in a given FAGI range divided by the total federal adjusted gross income of all tax filers in a given FAGI range.

For each FAGI range and for both resident and non-resident taxpayers the following information is provided:

- The total number of tax filers
- The effective tax rate under the Current Law with Capital Gains Taxed as Ordinary Income
- The effective tax rate under the Personal Income Tax Reform

Page 5: Incidence Analysis

The fifth page of a Personal Income Tax Reform Simulation Run displays the incidence analysis of the change in the personal income tax system by federal adjusted gross income (FAGI) category for resident tax filers only. The incidence analysis shows only those resident filers who had either an increase or a decrease in tax paid as a result of the Personal Income Tax Reform vis-à-vis the Current Law with Capital Gains Taxed as Ordinary Income.

For each FAGI range and for both resident filers with a tax decrease and resident filers with a tax increase the following information is provided:

- The total number of returns filed
- The total amount of the tax decrease/tax increase
- The average amount of the tax decrease/tax increase
- The median amount of the tax decrease/tax increase

In addition to this information, information by FAGI range on the total number of returns filed, the net change in the total tax amount, and the average net tax change is displayed.

**IMPACT OF PIT REFORM AT 5.99% TOP RATE W/ 100% PHASEOUT AT \$200K ON CURRENT LAW BASE
Tax Year 2008 Data, Assumed Flat Tax Rate of 5.5 Percent Under Current Law**

Scenario: PIT Reform at 5.99% Top Rate and Exemption and Deduction Phaseout Start > \$175K

Standard Deduction	Amount	Tax Rates and Taxable Income Brackets		
		Start	End	Rate
Married Filing Joint	\$ 15,000	-	54,999.99	3.75%
Single	7,500	55,000.00	124,999.99	4.75%
Married Filing Separate	7,500	125,000.00	999,999.99	5.99%
Head of Household	11,250			1.00%
Widow	15,000			1.24%
Exemption	Amount	Credits Allowed: Income Taxes Paid to Other States, Property Tax Relief, Lead Paint, EITC, Child and Dependent Care, Motion Picture, Contributions to K-12 Scholarship Organizations and Historic Structures		
Personal & Dependent	\$ 3,500	State Earned Income Tax Percentage of Federal Alternative Flat Tax Rate		
Note: Exemption and Deduction Phaseout begins at > \$175,000. A 20.0 percent decrease per \$5,000 increment for exemption/deduction.		Current Law		
		5.5%		

Resident Filers						
AGI Range	Tax Under Current Law with Capital Gains Taxed as Ordinary Income	Tax Under PIT Reform at 5.99% Top Rate, Exemption/Deduction Phaseout Start > \$175K and Historic Structures	Filer Count	Difference	Average Tax Change	Median Tax Change
0 and Under	\$ (4,560,573)	\$ (4,539,961)	22,908	\$ 20,612	\$ 0.90	\$ -
1 to 12,500	(5,111,777)	(6,404,089)	96,176	(1,292,312)	(13.44)	-
12,501 to 20,000	1,984,837	380,276	54,638	(1,604,561)	(29.37)	(26.00)
20,001 to 30,000	15,758,307	13,618,778	60,520	(2,139,529)	(35.35)	(76.00)
30,001 to 40,000	29,683,161	28,637,758	48,331	(1,045,403)	(21.63)	(76.00)
40,001 to 55,000	53,497,073	52,260,643	53,516	(1,236,430)	(23.10)	(77.00)
55,001 to 75,000	80,179,868	76,695,118	52,388	(3,484,750)	(66.52)	(67.00)
75,001 to 110,000	133,837,816	128,156,788	55,595	(5,681,028)	(102.19)	(73.00)
110,001 to 175,000	157,418,400	142,913,297	35,474	(14,505,103)	(408.89)	(417.00)
175,001 to 250,000	77,257,553	78,620,886	9,702	1,363,333	140.52	(56.00)
250,001 to 500,000	82,213,425	83,455,500	5,787	1,242,075	214.63	(267.00)
500,001 to 1,000,000	44,849,886	47,244,657	1,585	2,394,771	1,510.90	942.00
1,000,001 to 5,000,000	50,025,823	54,249,035	640	4,223,212	6,598.77	4,849.00
5,000,001 to 10,000,000	12,389,519	13,419,810	48	1,030,291	21,464.40	28,489.00
10,000,001 and up	43,770,511	43,210,572	30	(559,939)	(18,664.63)	52,088.00
Totals	\$ 773,193,829	\$ 751,919,068	497,338	\$ (21,274,761)	\$ (42.78)	\$ (58.98)

Historic Structures Tax						
Credit Reimbursement	\$ 13,526,370	\$ 19,116,664	530	\$ 5,590,294	\$ 10,548	
Total after HSTC Reimb.	\$ 786,720,199	\$ 771,035,732	497,338	\$ (15,684,467)	\$ (31.54)	-2.0%

Notes: Current Law allows for the use of tax credits, itemized deductions, etc. by any eligible taxpayer under the five bracket tax system but not the alternative flat tax system. The alternative flat tax rate is set at 5.5 percent under current law. Liabilities are calculated as the minimum of the tax owed with the flat tax system or the tax owed with the five bracket system with capital gains taxed at ordinary income tax rates.

**IMPACT OF PIT REFORM AT 5.99% TOP RATE W/ 100% PHASEOUT AT \$200K ON CURRENT LAW BASE
Tax Year 2008 Data, Assumed Flat Tax Rate of 5.5 Percent Under Current Law**

Scenario: PIT Reform at 5.99% Top Rate and Exemption and Deduction Phaseout Start > \$175K

Standard Deduction	Amount	Tax Rates and Taxable Income Brackets		
		Start	End	Rate
Married Filing Joint	\$ 15,000			
Single	7,500	\$ -	54,999.99	3.75%
Married Filing Separate	7,500	55,000.00	124,999.99	4.75%
Head of Household	11,250	125,000.00	999,999.99	5.99%
Widow	15,000			
Exemption	Amount			
Personal & Dependent	\$ 3,500			

Credits Allowed: Income Taxes Paid to Other States, Property Tax Relief, Lead Paint, EITC, Child and Dependent Care, Motion Picture, Contributions to K-12 Scholarship Organizations and **Historic Structures**

State Earned Income Tax Percentage of Federal Alternative Flat Tax Rate	Current Law
5.5%	5.5%

Note: Exemption and Deduction Phaseout begins at > \$175,000. A 20.0 percent decrease per \$5,000 increment for exemption/deduction.

AGI Range	Tax Under Current Law with Capital Gains Taxed as Ordinary Income	Tax Under PIT Reform at 5.99% Top Rate, Exemption/Deduction Phaseout Start > \$175K and Historic Structures Tax Credits	Filer Count	Difference	Average Tax Change	Median Tax Change
0 and Under	\$ 45,914	\$ 50,386	1,204	\$ 4,472	\$ 3.71	\$ -
1 to 12,500	187,346	27,152	13,005	(160,194)	(12.32)	-
12,501 to 20,000	705,167	538,875	6,579	(166,292)	(25.28)	(20.00)
20,001 to 30,000	1,847,365	1,623,957	7,887	(223,408)	(28.33)	(21.00)
30,001 to 40,000	2,878,771	2,745,697	7,052	(133,074)	(18.87)	(25.00)
40,001 to 55,000	5,761,158	5,481,673	9,260	(279,485)	(30.18)	(25.00)
55,001 to 75,000	9,316,383	8,759,886	10,842	(556,497)	(51.33)	(12.00)
75,001 to 110,000	18,694,887	18,003,029	14,752	(691,858)	(46.90)	(3.00)
110,001 to 175,000	28,056,810	25,677,604	12,732	(2,379,206)	(186.87)	(81.00)
175,001 to 250,000	16,336,034	16,598,069	4,620	262,035	56.72	-
250,001 to 500,000	18,386,876	18,631,638	4,004	244,762	61.13	(1.00)
500,001 to 1,000,000	11,062,438	12,069,075	1,976	1,006,637	509.43	16.00
1,000,001 to 5,000,000	14,499,621	16,679,260	1,636	2,179,639	1,332.30	31.00
5,000,001 to 10,000,000	2,936,098	3,293,599	221	357,501	1,617.65	17.00
10,000,001 and up	38,077,580	41,888,431	310	3,810,851	12,293.07	56.00
Totals	\$ 168,792,448	\$ 172,068,331	96,080	\$ 3,275,883	\$ 34.10	\$ (24.66)

Historic Structures Tax Credit Reimbursement	Total after HSTC Reimb.
\$ 342,301	\$ 169,134,749
28	\$ 96,080
\$ 519,825	\$ 3,098,359
	1.8%
	\$ 32.25

Notes: Current Law allows for the use of tax credits, itemized deductions, etc. by any eligible taxpayer under the five bracket tax system but not the alternative flat tax system. The alternative flat tax rate is set at 5.5 percent under current law. Liabilities are calculated as the minimum of the tax owed with the flat tax system or the tax owed with the five bracket system with capital gains taxed at ordinary income tax rates.

**IMPACT OF PIT REFORM AT 5.99% TOP RATE W/ 100% PHASEOUT AT \$200K ON CURRENT LAW BASE
Tax Year 2008 Data, Assumed Flat Tax Rate of 5.5 Percent Under Current Law**

Scenario: PIT Reform at 5.99% Top Rate and Exemption and Deduction Phaseout Start > \$175K

Standard Deduction	Amount	Tax Rates and Taxable Income Brackets		
		Start	End	Rate
Married Filing Joint	15,000			
Single	7,500	\$ -	54,999.99	3.75%
Married Filing Separate	7,500	55,000.00	124,999.99	4.75%
Head of Household	11,250	125,000.00	999,999.99	5.99%
Widow	15,000			
Exemption	Amount	Credits Allowed: Income Taxes Paid to Other States, Property Tax Relief, Lead Paint, EITC, Child and Dependent Care, Motion Picture, Contributions to K-12 Scholarship Organizations and Historic Structures		
Personal & Dependent	3,500	State Earned Income Tax Percentage of Federal Alternative Flat Tax Rate		
Note: Exemption and Deduction Phaseout begins at > \$175,000. A 20.0 percent decrease per \$5,000 increment for exemption/deduction.		Current Law		
				5.5%

All Filers

AGI Range	Tax Under Current Law with Capital Gains Taxed as Ordinary Income	Tax Under PIT Reform at 5.99% Top Rate, Exemption/Deduction Phaseout Start > \$175K and Historic Structures Tax Credits	Filer Count	Difference	Average Tax Change
0 and Under	\$ (4,514,659)	\$ (4,489,575)	24,112	\$ 25,084	\$ 1.04
1 to 12,500	(4,924,431)	(6,376,937)	109,181	(1,452,506)	(13.30)
12,501 to 20,000	2,690,004	919,151	61,217	(1,770,853)	(28.93)
20,001 to 30,000	17,605,672	15,242,735	68,407	(2,362,937)	(34.54)
30,001 to 40,000	32,561,932	31,383,455	55,383	(1,178,477)	(21.28)
40,001 to 55,000	59,258,231	57,742,316	62,776	(1,515,915)	(24.15)
55,001 to 75,000	89,496,251	85,455,004	63,230	(4,041,247)	(63.91)
75,001 to 110,000	152,532,703	146,159,817	70,347	(6,372,886)	(90.59)
110,001 to 175,000	185,475,210	168,590,901	48,206	(16,884,309)	(350.25)
175,001 to 250,000	93,593,587	95,218,955	14,322	1,625,368	113.49
250,001 to 500,000	100,600,301	102,087,138	9,791	1,486,837	151.86
500,001 to 1,000,000	55,912,324	59,313,732	3,561	3,401,408	955.18
1,000,001 to 5,000,000	64,525,444	70,928,295	2,276	6,402,851	2,813.20
5,000,001 to 10,000,000	15,325,617	16,713,409	269	1,387,792	5,159.08
10,000,001 and up	81,848,091	85,099,003	340	3,250,912	9,561.51
Totals	\$ 941,986,277	\$ 923,987,399	593,418	\$ (17,998,878)	\$ (30.33)
Historic Structures Tax Credit Reimbursement	\$ 13,868,671	\$ 19,636,489	558	\$ 5,767,818	\$ 10,336.59
Total after HSTC Reimb.	\$ 955,854,948	\$ 943,623,888	593,418	\$ (12,231,060)	\$ (20.61)
					-1.3%

Notes: Current Law allows for the use of tax credits, itemized deductions, etc. by any eligible taxpayer under the five bracket tax system but not the alternative flat tax system. The alternative flat tax rate is set at 5.5 percent under current law. Liabilities are calculated as the minimum of the tax owed with the flat tax system or the tax owed with the five bracket system with capital gains taxed at ordinary income tax rates.

EFF TAX RATES FOR PIT REFORM AT 5.99% TOP RATE W/ 100% EXMT AND DED PHASEOUT AT \$200K
Tax Year 2008 Data, Assumed Flat Tax Rate of 5.5 Percent Under Current Law

Resident Filers			Non-Resident Filers				
AGI Range	Number of Filers	Effective Tax Rate Under Current Law with Capital Gains as Ordinary Income	Effective Tax Rate Under PIT Reform at 5.99% Top Rate w/ Exemption / Deduction Phaseout Start > \$175,000 and Historic Structures Tax Credits	AGI Range	Number of Filers	Effective Tax Rate Under Current Law with Capital Gains as Ordinary Income	Effective Tax Rate Under PIT Reform at 5.99% Top Rate w/ Exemption / Deduction Phaseout Start > \$175,000 and Historic Structures Tax Credits
\$0 and Under	22,908	1.80%	1.79%	\$0 and Under	1,204	-0.01%	-0.01%
\$1 to \$12,500	96,176	-0.83%	-1.04%	\$1 to \$12,500	13,005	0.37%	0.05%
\$12,501 to \$20,000	54,638	0.23%	0.04%	\$12,501 to \$20,000	6,579	1.19%	0.91%
\$20,001 to \$30,000	60,520	1.05%	0.90%	\$20,001 to \$30,000	7,887	1.68%	1.47%
\$30,001 to \$40,000	48,331	1.77%	1.70%	\$30,001 to \$40,000	7,052	2.12%	2.03%
\$40,001 to \$55,000	53,516	2.12%	2.07%	\$40,001 to \$55,000	9,260	2.50%	2.37%
\$55,001 to \$75,000	52,388	2.37%	2.27%	\$55,001 to \$75,000	10,842	2.74%	2.58%
\$75,001 to \$110,000	55,595	2.66%	2.55%	\$75,001 to \$110,000	14,752	3.04%	2.92%
\$110,001 to \$175,000	35,474	3.30%	2.99%	\$110,001 to \$175,000	12,732	3.78%	3.46%
\$175,001 to \$250,000	9,702	3.90%	3.97%	\$175,001 to \$250,000	4,620	4.60%	4.68%
\$250,001 to \$500,000	5,787	4.25%	4.31%	\$250,001 to \$500,000	4,004	5.20%	5.27%
\$500,001 to \$1,000,000	1,585	4.23%	4.45%	\$500,001 to \$1,000,000	1,976	5.08%	5.54%
\$1,000,001 to \$5,000,000	640	4.24%	4.60%	\$1,000,001 to \$5,000,000	1,636	5.07%	5.83%
\$5,000,001 to \$10,000,000	48	3.75%	4.06%	\$5,000,001 to \$10,000,000	221	5.05%	5.67%
\$10,000,001 and up	30	4.97%	4.90%	\$10,000,001 and up	310	5.44%	5.99%
Total All AGI Ranges	497,338	2.81%	2.73%	Total All AGI Ranges	96,080	4.45%	4.53%

Notes: Current Law allows for the use of tax credits, itemized deductions, etc. by any eligible taxpayer under the five bracket tax system but not the alternative flat tax system. The alternative flat tax rate is set at 5.5 percent under current law. Liabilities are calculated as the minimum of the tax owed with the flat tax system or the tax owed with the five bracket system with capital gains taxed at ordinary income tax rates.

**INCIDENCE ANALYSIS OF PIT REFORM AT 5.99% TOP RATE W/ 100% EXEMPTION/DEDUCTION PHASEOUT AT \$200K
TY 2008 Returns with a Tax Decrease or a Tax Increase**

Scenario:

Personal Income Tax Reform at 5.99% Top Rate w/ 100% Exemption and Deduction Phaseout Start > \$175K

Exemption and Deduction Phaseout begins at > \$175,000. A 20.0 percent decrease per \$5,000 increment for exemption/deduction.

Credits Allowed: Income Taxes Paid to Other States, Property Tax Relief, Lead Paint, EITC, Child and Dependent Care, Motion Picture, Contributions to K-12 Scholarship Organizations and **Historic Structures**

AGI Range	Resident Filers Only											
	Returns with a Tax Decrease					Returns with a Tax Increase					Total Tax Change	
	Number of Returns	Tax Decrease Amount	Average Tax Decrease	Median Tax Decrease	Number of Returns	Tax Increase Amount	Average Tax Increase	Median Tax Increase	Number of Returns	Total Tax Change Amount	Average Tax Change	
\$0 and Under	40,681	\$ (4,888)	\$ (11)	\$ (1)	688	\$ 25,500	\$ 3,188	\$ 2,014	435	\$ 20,612	\$ 47.38	
\$1 to \$12,500	39,731	(1,323,870)	(33)	(18)	3,467	31,558	46	28	41,369	(1,292,312)	(31.24)	
\$12,501 to \$20,000	49,226	(2,037,864)	(51)	(76)	7,041	433,303	125	103	43,198	(1,604,561)	(37.14)	
\$20,001 to \$30,000	35,225	(3,356,378)	(68)	(76)	10,052	1,216,849	173	122	56,267	(2,139,529)	(38.02)	
\$30,001 to \$40,000	30,893	(5,947,460)	(177)	(146)	16,748	2,243,722	223	163	45,277	(1,045,403)	(23.09)	
\$40,001 to \$55,000	26,871	(9,570,079)	(310)	(221)	19,371	4,711,030	281	212	50,353	(1,236,430)	(24.56)	
\$55,001 to \$75,000	5,128	(14,813,167)	(464)	(385)	22,378	6,085,329	314	213	50,264	(3,484,750)	(69.33)	
\$75,001 to \$110,000	3,855	(19,657,027)	(732)	(644)	7,983	9,132,139	408	279	54,304	(5,681,028)	(104.62)	
\$110,001 to \$175,000	125	(2,171,594)	(563)	(498)	4,461	5,151,924	645	375	34,854	(14,505,103)	(416.17)	
\$175,001 to \$250,000	57	(675,488)	(5,404)	(2,814)	1,408	5,181,862	1,162	666	9,589	1,363,333	142.18	
\$250,001 to \$500,000	57	(1,285,910)	(22,560)	(15,850)	570	3,413,669	1,848	449	5,702	1,242,075	217.83	
\$500,001 to \$1,000,000		(947,494)	(135,356)	(158,477)		3,070,259	2,181	1,084	1,533	2,394,771	1,562.15	
\$1,000,001 to \$5,000,000		(3,136,250)	(522,708)	(233,583)		5,509,122	49,445	30,585	47	4,223,212	6,735.59	
\$5,000,001 to \$10,000,000						1,977,785	107,346	63,644		1,030,291	21,921.09	
\$10,000,001 and up						2,576,311			30	(559,939)	(18,664.63)	
Totals	297,763	\$ (72,035,123)	(241.92)	\$ (77.00)	96,086	\$ 50,760,362	\$ 528.28	\$ 228.00	393,849	\$ (21,274,761)	\$ (54.02)	

Notes: Current Law allows for the use of tax credits, itemized deductions, etc. by any eligible taxpayer under the five bracket tax system but not the alternative flat tax system. The alternative flat tax rate is set at 5.5 percent under current law. Liabilities are calculated as the minimum of the tax owed with the flat tax system or the tax owed with the five bracket system with capital gains taxed at ordinary income tax rates.