2018 -- S 2058

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STATE OF RHODE ISLAND

IN GENERAL ASSEMBLY

JANUARY SESSION, A.D. 2018

A N A C T

RELATING TO TAXATION

Introduced By: Senators Calkin, Quezada, Satchell, Euer, and Goldin

Date Introduced: January 18, 2018

Referred To: Senate Finance

It is enacted by the General Assembly as follows:

SECTION 1. Chapter 44-11 of the General Laws entitled "Business Corporation Tax" is hereby amended by adding thereto the following section:

44-11-2.3. Pay ratio surtax.

(a) Declaration of purpose and findings.

(1) According to economist Thomas Piketty in his book "Capital in the Twenty-First Century", income inequality in the United States has exploded during the past four (4) decades. In the 1970s, the top one percent (1%) collected less than ten percent (10%) of total income in America; by 2010, the disparity had grown even larger, and the top one percent (1%) had twenty percent (20%) of total income. Much of the gain of the top one percent (1%) has actually been the gain of the top one-tenth percent (0.1%). Between the 1970s and 2010, the share of income held by the top one-tenth percent (0.1%) went from two percent (2%) to between seven percent (7%) and eight percent (8%). Wealth inequality is also growing as wealth concentrates among the richest one-tenth percent (0.1%) of Americans; even a conservative analysis presented in a note by the Board of Governors of the Federal Reserve System shows that in 1992 the top one-tenth percent (0.1%) had eleven percent (11%) of the wealth in the United States, compared to fourteen percent (14%) by 2013.

(2) The explosion of chief executive officer pay is a major contributor to growing income inequality. According to Piketty, the increase in income inequality in the United States after 1980, "was largely the result of an unprecedented increase in wage inequality and in particular the

emergence of extremely high remunerations at the summit of the wage hierarchy, particularly among managers of large firms." Piketty's research shows that sixty percent (60%) to seventy percent (70%) of people in the top one-tenth percent (0.1%) of income in the United States are these very highly paid executives.

(3) The Center on Budget and Policy Priorities reports that between 1979 and 2007, average after tax income for the top one percent (1%) of income earners rose by three hundred fourteen percent (314%), while average after tax income for the middle sixty percent (60%) rose by only forty-two percent (42%).

(4) Average worker compensation has grown just ten and three-tenths percent (10.3%) since 1978, while compensation of chief executive officers has increased about nine hundred forty-one percent (941%). Data from the Economic Policy Institute show that chief executive officers in the nation's largest corporations made an average of fifteen million five hundred thousand dollars ($15,500,000) in compensation in 2015, or two hundred seventy-six (276) times the annual average pay of the typical worker.

(5) A 2016 report by the Economic Policy Institute found that, over the last three (3) decades, chief executive officer compensation nationally has grown faster than other highly paid workers and is growing faster than corporate profits, the pay of the top one-tenth percent (0.1%) of all earners, and stock market growth.

(6) In 2015, the U.S. Securities and Exchange Commission adopted a rule requiring public corporations to disclose the ratio of the compensation of its chief executive officer to the median compensation of its employees. The new disclosure will help shareholders better evaluate chief executive officer compensation based on performance, and it offers local and state policymakers a tool for penalizing or rewarding corporations based on its ratio of chief executive officer to median worker pay, in order to develop policies to address the growing income inequality and gap between the very rich and the middle class. Publicly traded corporations are required to report the pay ratio for fiscal years that begin on or after January 1, 2017.

(7) Research indicates that corporations with high chief executive officer-worker pay ratios have lower employee morale and lower shareholder returns compared to corporations with lower ratios. For example, the job site Glassdoor analyzed one million two hundred thousand (1,200,000) chief executive officer ratings from current and former employees, finding that higher chief executive officer compensation is statistically linked with lower approval ratings for those executives. And, a review of pay ratios and long-term shareholder returns by CtW Investment Group found that corporations with high pay ratios perform worse than corporations with lower ratios over the next five (5) years.

(8) The spectacular concentration of income and wealth among the top one percent (1%) and one-tenth percent (0.1%) is bad for the economy and bad for democracy. If other jurisdictions follow Rhode Island's lead in enacting policies based on the U.S. Securities and Exchange Commission disclosures, shareholders may realize that extreme chief executive officer to median worker pay ratios reduce their profits and, with this result in mind, make changes to their pay structure.

(b) Pay ratio surtax shall be applicable to publicly traded corporations subject to U.S. Securities and Exchange Commission pay ratio reporting requirements. The following surtax is imposed in addition to the tax established in §44-11-2:

(1) For tax years beginning on or after January 1, 2018, a surtax of ten percent (10%) on the amount of the tax computed under §44-11-2 is imposed if a corporation subject to this section reports a pay ratio of at least one hundred to one (100:1) but less than two hundred fifty to one (250:1) on U.S. Securities and Exchange Commission disclosures.

(2) For tax years beginning on or after January 1. 2018, a surtax of twenty-five percent (25%) on the amount of the tax computed under §44-11-2 is imposed if a corporation subject to this section reports a pay ratio of two hundred fifty to one (250:1) or greater on U.S. Securities and Exchange Commission disclosures.

(3) The surtax shall be added to the amount of the tax computed under §44-11-2 in computing the total tax due by the corporation for the taxable year or years under this chapter. The estimated tax provisions of chapter 26 of title 44 shall apply to the surtax.

SECTION 2. This act shall take effect upon passage.

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EXPLANATION

BY THE LEGISLATIVE COUNCIL

OF

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This act would establish a surtax on the business corporation tax for publicly traded corporations subject to U.S. Securities and Exchange Commission disclosure and reporting requirements, if a subject corporation reports that the ratio of compensation of its chief executive officer to median worker is equal to or greater than one hundred to 1 (100:1).

This act would take effect upon passage.

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