

2017 -- S 0318

LC001054

STATE OF RHODE ISLAND

IN GENERAL ASSEMBLY

JANUARY SESSION, A.D. 2017

A N A C T

RELATING TO TAXATION

Introduced By: Senators Calkin, Seveney, and Goldin

Date Introduced: February 16, 2017

Referred To: Senate Finance

It is enacted by the General Assembly as follows:

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

3 **44-11-2.3. Pay ratio surtax.**

4 (a) Declaration of purpose and findings.

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

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

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

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

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

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

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

27 (7) Research indicates that corporations with high chief executive officer-worker pay
28 ratios have lower employee morale and lower shareholder returns compared to corporations with
29 lower ratios. For example, the job site Glassdoor analyzed one million two hundred thousand
30 (1,200,000) chief executive officer ratings from current and former employees, finding that
31 higher chief executive officer compensation is statistically linked with lower approval ratings for
32 those executives. And, a review of pay ratios and long-term shareholder returns by CtW
33 Investment Group found that corporations with high pay ratios perform worse than corporations
34 with lower ratios over the next five (5) years.

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

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

10 (1) For tax years beginning on or after January 1, 2017, a surtax of ten percent (10%) on
11 the amount of the tax computed under §44-11-2 is imposed if a corporation subject to this section
12 reports a pay ratio of at least one hundred to one (100:1) but less than two hundred fifty to one
13 (250:1) on U.S. Securities and Exchange Commission disclosures.

14 (2) For tax years beginning on or after January 1, 2017, a surtax of twenty-five percent
15 (25%) on the amount of the tax computed under §44-11-2 is imposed if a corporation subject to
16 this section reports a pay ratio of two hundred fifty to one (250:1) or greater on U.S. Securities
17 and Exchange Commission disclosures.

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

21 SECTION 2. This act shall take effect upon passage.

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EXPLANATION
BY THE LEGISLATIVE COUNCIL
OF
A N A C T
RELATING TO TAXATION

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

5 This act would take effect upon passage.

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