

City's businesses wary of tax split

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Published 04/26/2004

Providence business leaders are opposing legislation that would create separate tax classifications for commercial and residential property, a move city officials say would lessen the tax burden on homeowners still stinging from four years of increased levies.

Nine out of 39 municipalities in Rhode Island have different tax rates for commercial and residential property. All of them have higher rates for businesses by an average of \$7.20 per \$1,000 of property.

City officials say the legislation would sever the link between commercial and residential property, which are both taxed at the same rate.

"It would allow the city the opportunity to ensure business and residential property owners pay about 45 percent of the tax burden each," said John C. Simmons, chief of administration to Providence Mayor David N. Cicilline.

James G. Hagan, president and CEO of the Greater Providence Chamber of Commerce, said other avenues should be investigated before splitting the tax rates.

"Business property in the city is already overvalued," he said. "Most properties sell for 70 percent of what the city has them valued. Businesses are already being taxed enough."

The Chamber also opposes two other bills aimed at increasing tax revenue in the city. The first would place a tax on parking in the city garages and the other would continue a tax on tangible business items like computers.

"We want officials to look at contract negotiations as a way to save money, not think of new ways to create taxes," Hagan said.

The property tax legislation, sponsored by Paul E. Moura, a Providence Democrat, would separate residential and commercial properties so each would be taxed a different rate. The city needs General Assembly approval to split the rates.

Providence's tax rate for residential and commercial property is \$38.82.

The bill would also make way for homestead exemptions of up to 50 percent of the value of a residence.

"This same concept is being used in Boston and other cities in Rhode Island," Simmons said. "It lets us equally place 45 percent of the burden on commercial and residential property taxpayers."

If the city continued to use the same tax rate on each, the proportion of tax burden would be shifted to the residential side since values on residential property have increased faster than commercial property values.

The 2002 revaluations resulted in residential properties making up 65 percent of the taxable value. The residential share in the 2003 revaluations jumped to 73 percent.

“And, there has been a state reduction in aid of about \$4 million to \$5 million this year alone,” Simmons said, adding that residents would pay for the brunt of the void.

The legislation was scheduled to be heard by the House Corporations Committee last week.

Commercial property owners in Providence say they are nervous about the impact of the legislation.

“If they are asking the Legislature to change the tax classification, then there should be more detail,” said Joseph R. Paolino Jr., partner at Paolino Properties Inc. and former mayor of the city.

Paolino says the city already has the highest business costs in the state, including tax rates and labor and property costs. “I’d be surprised if the mayor shifts the burden to the commercial end,” he said.

Daniel A. Baudouin, executive director of the Providence Foundation, sent a letter to the Providence City Council calling on officials to hold off on the legislation.

“We believe that more information from the recent revaluation, more analysis of the effects and more justification is needed before any change to the property tax classification is proposed,” states the letter, dated April 15.

It goes on to say that any city study of the classification should consider the “competitive tax structure” and how to ensure businesses would remain in the city.

A bill to separate the commercial and residential taxes in East Providence has already passed the House. That city does have a homestead exemption, but officials are looking to have businesses pay more of the tax burden in the face of a \$1.3 million deficit in the school budget.

East Providence Mayor Rolland R. Grant said the city has proposed tax rates of \$19.60 per \$1,000 of commercial property and \$15.40 for residential property.

The East Providence Chamber of Commerce wrote a letter condemning city officials for proposing the split, calling it a “short-term fix” to appease voters.

“Once this separate tax rate is created, there will be no end in the rise of (business) taxes versus the homeowners,” reads the letter, signed by its Executive Director Laura A. Lawrence and the Chamber’s board Chairman James A. Hurton. “Unfortunately, the businesses will be voting with their feet and taking their businesses elsewhere and discouraging others from moving in.”

Tim Butts, senior property tax analyst with Berwyn, Penn.-based tax research and software company Vertex Inc., said the hot real estate market in Rhode Island has led to the residential property values to rise considerably. He adds that legislative initiatives, like the one being considered, are often politically necessary.

“It might have to do with elections,” he said. “Reducing residential taxes keeps residents happy” and they outnumber commercial property owners.

Rhode Island caps property tax increases at 5.5 percent a year and Butts does not expect to see the rates get out of hand because of the proposed legislation.

The city of Warwick has a split tax rate that it instituted back in 1998 after its revaluation process. Businesses pay a rate of \$37.11 per \$1,000 of property while residents pay \$27.83.

"I don't think it has hurt," said Warwick Mayor Scott Avedisian. "No business said they chose another location because of the property tax split. And, we've seen tremendous growth."

He said the process is inequitable, but reversing the process in his city after six years of existence would be difficult. The council is working on the budget process now and the possibility of commercial property tax increases is on the table.

"But, we have no plans to increase it," he said.

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