

# The Hummel Report: Small Business Owners Navigate Unfriendly RI Tax Waters



Wilfrid's Seafood

Like thousands of small businesses in Rhode Island, Wilfrid's Seafood in Woonsocket faces a full menu of taxes and fees every year just to stay in business.

Lee Ann Sennick is the company's comptroller and sees them all come across her desk.



Sennick

"In this industry in particular there are a lot of licenses and permits you need to have - shellfish shipper license, food business license, different things to ship into Massachusetts, to bring product in from other states," Sennick tells The Hummel Report. "Everything has a fee attached to it and they're \$200, \$300, \$400, but every year 10 or 12 of those really adds up."

What Sennick didn't see until recently was an unexpected doubling of the federal unemployment tax that each of the 32,000 businesses in the state is required to pay every year. It has doubled over the past two years because Rhode Island has still not paid back more than \$200 million it borrowed from the Feds when its unemployment fund went insolvent in 2009.

The Federal Unemployment Tax Act helps fund the administration of unemployment benefits, pays part of the extended benefits thousands of Rhode Islanders have taken advantage of and funds job service

programs like netWORKri.



Langlais

Robert Langlais is an assistant director at the state's Department of Labor and Training, which oversees the unemployment insurance fund. He says Rhode Island businesses have been paying a higher rate each of the past two years because the state - along with more than a dozen others across the country - still owes the Feds hundreds of millions of dollars.

"If you borrow from the federal government, if you have a loan outstanding for more than two years, the federal government automatically increases the employer's federal tax," Langlais said. "It's an automatic payback of the loan."

And the added tax affects each business differently depending on its size.

"We were looking at a difference of \$840 this year, which was due and payable in January with our quarterly return, which is our year-end return," Sennick said. "That \$840 is the difference between sponsoring a little league team here in the community. That's a quarter of our advertising budget for the year; it's got to come out of somewhere."

Barbara Holmes is a CPA who saw an increase not only in some of her clients' federal unemployment tax, but her own as the owner of a small business herself.

"It wasn't the Gross National Product or anything but still, I can take \$400... and use it to better advantage potentially," Holmes said. "It directly hits the businesses - it's just another tax that the businesses have to sustain and if we don't become more business friendly in this state we're going to be in big trouble."

Sennick says she never got notification from the Rhode Island Department of Labor and Training about the tax increase and found out from a fellow businessman who asked if she'd seen it earlier this month. He had received the note from his payroll company, which is the first he'd heard about it.

The DLT provided us with notices it sent out, adding that it also held public workshops to answer employers' questions.

The DLT also says that in 2011 The General Assembly made structural changes to the unemployment system - including a reduction of benefits - that will help rebuild the system and erase the current \$214 million deficit.

But not anytime soon.

Hummel: "What's the long-term game plan to pay that off?"

Langlais: "With the 2011 changes we put in, we expect the loan to be paid off in 2015, about a year earlier than it would have been had we not made the changes in 2011. At that point we'll build up reserves, and have a healthy enough reserve so we won't have to borrow again."

Hummel: "But that means one or two more years, you're going to see..."

Langlais: "Right, you'll see it one or two more years, yes."

Hummel: "What message do you have for businesses who are facing this?"

Langlais: "The long-term we're going to get out of this; short-term, yes, there's some pain involved. They're not taking the brunt themselves because we are again reducing benefits, so in two years we'll be the same as Massachusetts and Connecticut as far as what employees receive."

Sennick and Holmes have their own message for the state of Rhode Island.

"My message for the state is basically to try and make Rhode Island a place where people *want* to do business," Sennick said, "where we *can* do business, where there's an incentive for people to come in here."

Holmes adds: "It's just annoying. This state is so unfriendly to businesses we have now, and in the beginning of 2013 we've become more unattractive for businesses. It's just not healthy."

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