STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Governor Gina M. Raimondo

STATE OF RHODE ISLAND

DEPARTMENT OF REVENUE

Economic Development Tax Incentives Evaluation Act:

Evaluation of
"Investment Tax Credit"

(including "Biotechnology Investment Tax Credit" and "Specialized Investment Tax Credit")

(R.I. Gen. Laws §§ 44-31-1, 44-31-1.1 & 44-31-2)

Tax Years 2013 through 2015

Office of Revenue Analysis

June 29, 2018

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Foreword

The *Economic Development Tax Incentives Evaluation Act: Tax Years 2013 through 2015* was prepared at the request of Paul L. Dion, Ph.D., Chief of the Office of Revenue Analysis in accordance with Rhode Island General Laws § 44-48.2-4. This report was prepared by the Office of Revenue Analysis team which includes Bethany Scanlon, Senior Economic and Policy Analyst, Joseph Codega Jr., Data Analyst III, and Madiha Zaffou, Principal Economic and Policy Analyst under the direction of Mr. Dion.

Part I: Introduction

Pursuant to Rhode Island General Laws § 44-48.2-4, titled *Rhode Island Economic Development Tax Incentives Evaluation Act of 2013*, the Chief of the Office of Revenue Analysis (ORA) is required to produce, in consultation with the Director of the Rhode Island Commerce Corporation, the Director of the Office of Management and Budget, and the Director of the Department of Labor and Training, a report that contains analyses of economic development tax incentives as listed in R.I. Gen. Laws § 44-48.2-3(1). According to R.I. Gen. Laws § 44-48.2-4(1), the report "[s]hall be completed at least once between July 1, 2014, and June 30, 2017, and no less than once every three (3) years thereafter".

The additional analysis as required by R.I. Gen. Laws § 44-48.2-4(1) shall include, but not be limited to the following items as indicated in R.I. Gen. Laws § 44-48.2-5(a):

1) A baseline assessment of the tax incentive, including, if applicable, the number of aggregate jobs associated with the taxpayers receiving such tax incentive and the aggregate annual revenue that such taxpayers generate for the state through the direct taxes applied to them and through taxes applied to their employees;
2) The statutory and programmatic goals and intent of the tax incentive, if said goals and intentions are included in the incentive's enabling statute or legislation;
3) The number of taxpayers granted the tax incentive during the previous twelve-month (12) period;
4) The value of the tax incentive granted, and ultimately claimed, listed by the North American Industrial Classification System (NAICS) Code associated with the taxpayers receiving such benefit, if such NAICS Code is available;
5) An assessment and five-year (5) projection of the potential impact on the state's revenue stream from carry forwards allowed under such tax incentive;
6) An estimate of the economic impact of the tax incentive including, but not limited to:
    i. A cost-benefit comparison of the revenue forgone by allowing the tax incentive compared to tax revenue generated by the taxpayer receiving the credit, including direct taxes applied to them and taxes applied to their employees;
    ii. An estimate of the number of jobs that were the direct result of the incentive; and
    iii. A statement by the Chief Executive Officer of the Commerce Corporation, as to whether, in his or her judgment, the statutory and programmatic goals of the tax benefit are being met, with obstacles to such goals identified, if possible;
7) The estimated cost to the state to administer the tax incentive if such information is available;
8) An estimate of the extent to which benefits of the tax incentive remained in state or flowed outside the state, if such information is available;
9) In the case of economic development tax incentives where measuring the economic impact is significantly limited due to data constraints, whether any changes in statute would facilitate data collection in a way that would allow for better analysis;
10) Whether the effectiveness of the tax incentive could be determined more definitively if the General Assembly were to clarify or modify the tax incentive's goals and intended purpose;

11) A recommendation as to whether the tax incentive should be continued, modified, or terminated; the basis for such recommendation; and the expected impact of such recommendation on the state's economy;
12) The methodology and assumptions used in carrying out the assessments, projections and analyses required pursuant to subdivisions (1) through (8) of this section.

The current report is one part of a series of reports for each one of the tax credits to be analyzed according to R.I. Gen. Laws § 44-48.2-3(1). This report concerns R.I. Gen. Laws Chapters 44-31 entitled "Investment Tax Credit" containing sections 1 ("Investment Tax Credit"), 1.1 ("Biotechnology Investment Tax Credit"), and 2 ("Specialized Investment Tax Credit"). This report measures the economic impact associated with the tax credit during tax years 2013 through 2015. This analysis is performed at the micro level using employment and wages information provided by Division of Taxation and Rhode Island Department of Labor and Training. The report is divided into five sections. Section I provides a detailed description of the tax incentive and its statutory programmatic goals and intent. Section II provides a benchmarking analysis for this tax credit. Section III presents a description of the data provided and used in the analysis by ORA. Section IV assesses the economic impact generated under the Investment Tax Credit using a "breakeven" cost-benefit analysis. Section V discusses relevant policy recommendations that could help in the decision process as to whether the tax credit should be continued, modified, or terminated.

1. Description of the Incentive

R.I. Gen. Laws Chapter 44-31 (entitled "Investment Tax Credit") provides businesses with a reduction in their tax liability equal to a percentage of the cost of certain property investments. The investment property must be utilized by the business for manufacturing, or, in the case of non-manufacturing firms, more than 50 percent of the firm's gross revenue must originate from out-of-state sales. The credit may be taken against the business corporation tax (R.I. Gen. Laws Chapter 44-11), the taxation of banks (R.I. Gen Laws Chapter 44-14), and the taxation of insurance companies (R.I. Gen Laws 44-17) for all eligible taxpayers.[1] The amount of the credit as well as eligibility criteria vary based on the industry in which the business operates and other rules specified in statute. For example, a more generous credit percentage is granted to high-wage firms and special categories such as high performance manufacturing, businesses making certain investments in employee training, biotechnology firms, and firms undertaking the rehabilitation and reconstruction of certified mill buildings.[2] The amount of the tax credit taken in a single year cannot reduce a tax liability by more than 50 percent of the taxpayer's pre-credit liability or beneath the statutory minimum tax amount, with the exception of high performance manufacturers for which the 50 percent limitation does not apply. Unused credit amounts may be carried forward for seven years following the year in which credits are earned, with the exception of recipients of the

[1] It was formerly possible to claim the Investment Tax Credit against the personal income tax imposed by R.I. Gen. Laws Chapter 44-30. However, R.I. Gen. Laws § 44-30-2.6 (under heading "(F) Credits against tax.") does not include the Investment Tax Credit among the list of credits allowable against the personal income tax effective for tax years beginning on or after January 1, 2011.
[2] As of July 1, 2009 there is no longer any mechanism for a taxpayer to certify new credits for the in relation to mill building rehabilitation and reconstruction costs. Further information provided below in this section.

Biotechnology Investment Tax Credit which are allowed to carry forward credits for 14 years. Credit-eligible investments must be made in relation to property which is depreciable for a term of at least four years or acquired by lease for a term of twenty years or more, though this requirement is waived for certain computer and telecommunications hardware.

The broadest credit eligibility pathway is open to all taxpayers making qualified property investments according to R.I. Gen. Laws § 44-31-1(b)(1). The credit rate for these taxpayers is equal to four percent of total qualifying investment. There are no restrictions by industry nor are there any requirements for taxpayers to apply and receive certification prior to claiming a credit. This group of Investment Tax Credit-eligible taxpayers need simply to claim the credit and complete Rhode Island Form 3468 when filing their tax return.[3]

Taxpayers may be able to claim a credit equal to 10 percent of total qualifying investment if they qualify under one of many eligibility options defined in statute. These eligibility options each have additional criteria related to the industry in which the taxpayer business operates and/or the wages of its employees.

Several eligibility options are administered by the Department of Labor and Training, Labor Market Information (LMI) group. These taxpayers must submit an application, in which the taxpayer attests to satisfying any applicable credit eligibility criteria. These taxpayers must meet *one* of the following criteria based on the applicant's employment in order to be certified by LMI:

- Per R.I. Gen. Laws § 44-31-1(b)(3)(v)(A), the median annual wage paid to the full-time equivalent employees of a business must be above the average wage paid by all taxpayers in the state which share the same two-digit Standard Industrial Classification (SIC) code.[4] Eligibility is limited to firms in the industries designated by the following SIC codes: 20 through 39, 50 and 51, 60 through 67, 73, 76, 80 through 82, 87, 89, or 781.[5] For non-manufacturing firms, defined as belonging to SIC codes 50 and 51, 60 through 67, 73, 76, 80 through 82, 87 and 89 or 781 (excluding 7371, 7372, and 7373), an additional requirement that more than 50 percent of a firm's gross revenue result from sales to out-of-state customers or the federal government applies per R.I. Gen. Laws § 44-31-1(b)(3)(v)(B).

- Per R.I. Gen. Laws § 44-31-1(b)(4)(ii) the median annual wage paid to its full-time equivalent employees is equal to or greater than 125 percent of the average annual wage paid by all employers statewide. For these firms the list of eligible industries per R.I. Gen. Laws § 44-31-1(b)(3)(v)(A). These taxpayers are subject to the rules related to the gross revenue of non-manufacturing firms per R.I. Gen. Laws § 44-31-1(b)(3)(v)(B).

- Per R.I. Gen. Laws § 44-31-1(b)(4)(iii), for manufacturing firms, defined as belonging to SIC codes 20 through 39, the average annual wage paid to full-time equivalent employees

[3] RI Form 3468 is included in Appendix: Exhibit D of this report.
[4] R.I. Gen. Laws defines eligibility in terms of SIC codes. LMI has administered this program in terms of the equivalent NAICS codes as NAICS codes have begun supplanting SIC codes since their adoption in 1997.
[5] Description of these codes can be found in the Appendix, Exhibit A.

classified as production workers is above the average annual wage paid to the production workers of all taxpayers in the state sharing the same two-digit SIC code.

An additional ten percent credit eligibility option is administered by the Governor's Workforce Board (GWB). These firms must submit an application to GWB which attests to satisfying all credit eligibility requirements and be granted certification prior to claiming any tax credit. Credit eligibility criteria for these taxpayers are as follows:

- Per R.I. Gen. Laws § 44-31-1(b)(4)(i), the employer's expenses for training or retraining its employees exceeds two percent of its total payroll costs, and the firm conducts business within the list of eligible industries specified in R.I. Gen. Laws § 44-31-1(b)(3)(v)(A). These businesses are subject to the rules related to the gross revenue of non-manufacturing firms per R.I. Gen. Laws § 44-31-1(b)(3)(v)(B).

R.I. Gen. Laws Chapter § 44-31-1(b)(3)(ii) defines eligibility criteria for "high performance manufacturers", defined as businesses with SIC codes 28, 30, 34, 36, and 38. The tax credit granted to high performance manufacturers is equal to 10 percent of qualified investment, but the limitation that the credit amount allowed to be used in a single year shall not exceed 50 percent of the pre-credit tax liability does not apply; however, the credit shall not reduce a taxpayer's liability below the statutory minimum amount. High performance manufacturer investment tax credit applicants must pay employees a median annual wage above the average annual wage paid by all taxpayers in the state which share the same two-digit SIC code and meet one of the following conditions: (i) have training expenses which exceed two percent of total payroll costs; (ii) pay its full-time equivalent employees a median annual wage equal to or greater than 125 percent of the average annual wage paid to employees statewide; or, (iii) pay its full-time equivalent production workers an average annual wage above the average annual wage paid to production workers of all taxpayers in the state which share the same two-digit SIC code.[6]

Also contained in R.I. Gen. Laws Chapter 44-31 are two additional sections creating a "Biotechnology Investment Tax Credit" and a "Specialized Investment Tax Credit" for taxpayers undertaking the rehabilitation of qualified mill buildings.[7]

- *Biotechnology Investment Tax Credit:* Per R.I. Gen. Laws § 44-31-1.1 a company engaged biotechnology is entitled to a 10 percent credit for all investments in personal and tangible property including buildings and structural components of buildings. Biotechnology is defined as commercial biological research and development or manufacturing and sale of biotechnology products or active pharmaceutical ingredients. Taxpayers qualifying for a

[6] ORA was unable to identify any special administrative procedures for certifying the credits granted to high performance manufacturer. However, line 7 of the "ITC Calculation" worksheet in Rhode Island Division of Taxation Form 3468 acknowledges a separate calculation procedure for high performance manufacturers.

[7] ORA was unable to confirm that any credits were issued as part of the Investment Tax Credit programs established by R.I. Gen. Laws § 44-31-1.1 or § 44-31-2 during the period of analysis covered by this report. ORA was unable to determine what, if any, administrative procedures are in place for the purposes of administering the Biotechnology Investment Tax Credit defined in Rhode Island General Laws § 44-31-1.1. ORA notes that the R.I. Gen. Laws Chapter 42-64.7 entitled "Mill Building and Economic Revitalization Act" which defines eligibility for the Specialized Investment Tax Credit was repealed and replaced by R.I. Gen. Laws Chapter 42-64.9, which expired on July 1, 2009.

credit under this section must pay its employees that work a minimum of thirty hours per week within the state, a median annual wage greater than or equal to 125 percent of the average annual wage paid statewide to employees that work a minimum of thirty hours per week within the state. Eligible firms must also provide benefits typical of the biotechnology industry.

The primary distinguishing factor of the Biotechnology Investment Tax Credit is an extended carryforward term. Biotechnology Investment Tax Credit recipients are able to carry forward credits for as many as 15 years following the year in which the credit was earned. Recipients are entitled to carryforward credits for seven years plus an additional eight years as long as the company maintains an average quarterly number of employees for each calendar year that is 9.5 percent greater than the average quarterly number of employees in fourth year of the initial credit, the company's average quarterly median wage is not less than the company's average of its quarterly median wage for the three pervious calendar years, and the company pays its employees a median annual wage greater than 125 percent of the average annual wage paid by all employers in the state per R.I. Gen. Laws § 44-31-1.1(b)(1).

- *Specialized Investment Tax Credit:* Per R.I. Gen. Laws § 44-31-2 a taxpayer may claim credit in the amount of 10 percent of the costs incurred for the rehabilitation of a building certified under R.I. Gen. Laws § 42-64.7-6.

2. Statutory and Programmatic Goals and Intent of the Tax Incentive

This information is unavailable. Statutory and programmatic goals and the intent of the tax incentive are not defined in the enabling statute.

Part II: Benchmarking and Background

The following benchmarking and background analysis provides some historical and national context for the analysis of the Rhode Island Investment Tax Credit (ITC). This section provides some information on the availability of broad-based investment tax credits nationwide, as well as discussion of the local economic factors that motivated the adoption of an investment tax credit. While the Rhode Island ITC is not exclusively focused on manufacturing sectors, its enabling statute puts special emphasis on manufacturing. Therefore, this section provides additional data on the historical employment and output of the manufacturing sectors in Rhode Island, comparison states, and nationwide. [8]

To the extent that the availability of an investment tax credit influences a multi-state firm's decision to invest in Rhode Island *vs.* a competitive out-of-state location, it is important to consider the characteristics of the Rhode Island credit to that offered by other states. For this purpose ORA selected four comparison states: Massachusetts and Connecticut, Rhode Island's two neighboring states, in addition to Indiana and Oregon, two national leaders in manufacturing. ORA identified these leading states as those in which manufacturing sectors contribute the largest relative share to state gross domestic product compared to all states.

For purposes of this benchmarking analysis, ORA defined manufacturing activity in terms of North American Industrial Classification System (NAICS) codes. ORA included NAICS codes 31 through 33 representing manufacturing activity.

Throughout the benchmarking and background section, data are presented for Rhode Island, comparison states, and the United States whenever possible. ORA acknowledges that it may be useful to look beyond these four comparison states. This comparison is simply intended to be a concise starting point for future discussions.

State investment tax credits have become more common throughout the second half of the twentieth century. For example, a report by the Federal Reserve Bank of San Francisco tracked the historical adoption of broad-based investment tax credits by the 50 states plus Washington D.C.[9] The adoption of Investment Tax Credits began at zero states in 1968, three states in 1975, nine states in 1986, and twenty states by 2004. This count excludes investment tax credits that are targeted at specific industries (*e.g.*, "Biotechnology") or specific geographic regions (*e.g.*, distressed neighborhoods or regions targeted for industrial development). While the original Rhode Island credit once focused solely on capital investment used for the purpose of manufacturing, the eligibility criteria has since been expanded to include a broad variety of wholesale, retail, and service-providing industries as well. The Rhode Island ITC is therefore considered in the San Francisco Federal Reserve report to be a broad-based credit.

[8] See Part III for more information on the breakdown of credit usage by industry in terms of manufacturer vs. non-manufacturer. While manufacturers represent only a portion of ITC usage, ORA highlights statistics regarding the historical employment and output of Rhode Island manufacturing sectors because of the special emphasis in the enabling statute.

[9] Chirinko, Robert S. and Wilson, Daniel J., "State Investment Tax Incentives: What are the Facts?" (November 1, 2006). Federal Reserve Bank of San Francisco Working Paper No. 2006-49. Available at SSRN: https://ssrn.com/abstract=1007816

ORA identified that all four comparison states offered some type of investment tax incentive. The following table which contains the name of the investment tax incentive of a selected comparison program in each state, a legal citation, a brief description of credit features, as well as information on any identified credit cap and carryforward provisions.

Investment Tax Credits in Rhode Island and Selected Comparison States

	RI	MA	CT	IN	OR
Credit Name	Investment Tax Credit	Investment Credit for Certain Corporations	Tax Credit for Investment in Fixed Capital	Hoosier Business Investment Tax Credit	Strategic Investment Program
Statutory Reference	R.I. Gen. Laws § 44-31-1	Mass. Gen. Laws ch.63, § 31A	Conn. Gen. Stat. § 12-217w	Ind. Code § 6-3.1-26	Or. Rev. Stat. § 285C.600 – § 285.635
Credit Features	A broad-based credit of 4% of qualified capital investments or up to 10% for firms meeting specialized criteria. Non-exclusively focused on manufacturing.	3% of the cost of tangible property is allowed only for companies engaged in the manufacturing, research and development, agriculture or commercial fishing industries.	Broad-based 5% tax credit for any new fixed capital investments.	Credit not to exceed 10% of the qualified investment made by the taxpayer.	Provides a 15-year property tax exemption on a portion of large capital investments to encourage the development of capital-intensive facilities.
Cap	50% of tax liability with exceptions for "high performance manufacturers". Never reduces liability below statutory minimum.	Tax credit should not exceed the amount of tax liability	Tax credit should not exceed the amount of tax liability	$50M credit amount for "non-logistics" qualified investments; $10M for "logistics" investments.	Tax benefit depends on total investment costs; tax benefit defined in statute for investments ranging from $25M to $1.0B+; relative tax savings are greatest for massive-scale investments.
Carryforward	Up to 7 years	Up to 3 years	Up to 5 years	Up to 9 years	Exemption in place for 15 years
Source	http://webserver.rilin.state.ri.us/Statutes/TITLE44/44-31/44-31-1.HTM	https://www.cga.ct.gov/current/pub/chap_208.htm#sec_12-217w	https://malegislature.gov/Laws/GeneralLaws/PartI/TitleIX/Chapter63/Section31A	http://iga.in.gov/legislative/laws/2017/ic/titles/006#6-3.1-26	https://www.oregonlegislature.gov/bills_laws/ors/ors285C.html

Note: Credit characteristics reflects current policy as identified by ORA in March 2018. This table presents a single comparison credit program for each comparison state determined by ORA to be most similar to the Rhode Island Investment Tax Credit. All states offer a variety of business-focused credits not included in this table.

The table reveals that all comparison states offer some type of credit aimed at reducing the marginal cost of capital investment – either to attract investment that might otherwise take place in other states or to offset unique costs of operating a capital-intensive business, such as providing property tax relief. It should be noted that Rhode Island's investment tax credit criteria, defined as a fixed percent of total investment not to exceed a portion of a firm's tax liability is comparable to that of neighboring Massachusetts and Connecticut. The long carryforward terms and high credit caps found in the leading states of Indiana and Oregon reflect the fact that these manufacturing giants are targeting capital investment on a much more massive scale than Rhode Island. It is also interesting to note that Oregon's Strategic Investment Program provides relief in the form of a long-term property tax exemption.[10] In states with a high tax burden on commercial real estate and tangible personal property, property tax burden can become a major consideration for capital-intensive firms making location and investment decisions.

The following table depicts Rhode Island's ranking in a 2016 50-state plus Washington D.C. comparison published by the Lincoln Land Institute. This study compares the property tax burden for a sample company located in the largest city in each state. The commercial comparison considers the tax burden on a sample commercial firm with $1,000,000 of commercial real estate and an additional $200,000 in tangible personal property. The industrial comparison considers the tax burden on an example firm with $1,000,000 of real estate and an additional $1,000,000 of tangible personal property.

2016 Lincoln Land Institute Property Tax Rank

(51 States including DC rank; 1 = highest tax burden)

	Rank	
State (City)	**Commercial**	**Industrial**
Connecticut (Bridgeport)	4	10
Rhode Island (Providence)	*5*	*13*
Indiana (Indianapolis)	11	7
Oregon (Portland)	21	15
Massachusetts (Boston)	28	38

Source: Lincoln Land Institute, *50 State Property Tax Comparison for 2016*, available: https://www.lincolninst.edu/sites/default/files/pubfiles/50-state-property-tax-comparison-for-2016-full.pdf

Notes: Comparison ranks the property tax burden of sample businesses in largest city in each of the 50 states plus Washington D.C. Refer to source for details and methodology.

As is evident from the table, Rhode Island has higher commercial and industrial property tax burdens than the comparison states, save for Connecticut.

There are many limitations associated with the Lincoln Land Institute comparison, including that it only compares the property tax burden for the single largest city in each state, but it is included here for convenience in highlighting the broad differences in tax burdens between states. The data

[10] Oregon does not have a general state sales tax so local governments are limited in their ability to raise revenue through local option sales taxes. As a result, much of Oregon's local government expenditures are financed through property taxes. This is likely the reason that Oregon's Strategic Investment Program provides relief in the form of a long-term property tax exemption.

suggest that a firm making a location decision between Providence Rhode Island and Boston Massachusetts would face a significant difference in property tax burden. Considering Boston's fiscal year 2018 commercial property tax rate of $25.20 per thousand[11] and Providence's rate of $36.70 per thousand[12], a business with one million dollars of commercial real estate would realize $11,500 in annual tax savings in Boston compared to Providence.

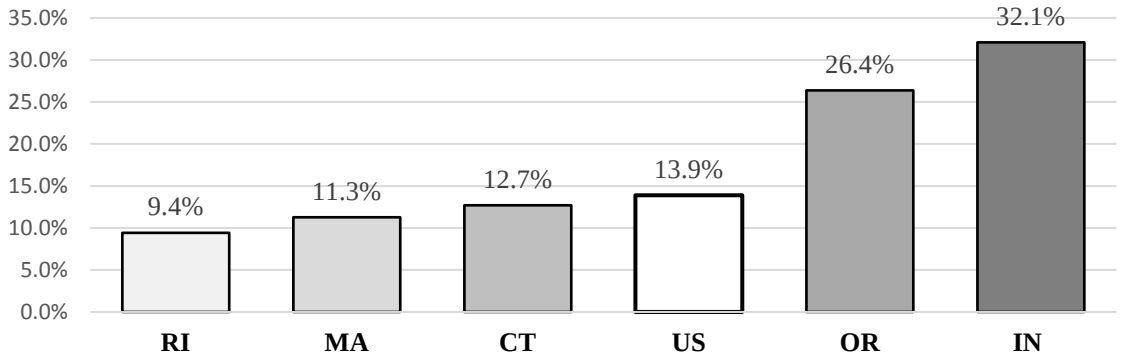
It is possible that the investment disincentive created by Rhode Island's high property tax burden could be a justification for the Rhode Island ITC. However, it is interesting to note that even the two high-performing manufacturing states of Oregon and Indiana are in the top half of the nation in terms of commercial and industrial property tax burden as measured by the Lincoln Land Institute. These data suggest that property taxes by themselves are not a total impediment to commercial and industrial development though it is unknown to what extent high property tax burdens in these states are offset via economic development tax incentives, such as a broad-based investment tax credit, or through other differences in their tax bases.

The remaining portion of the benchmarking analysis devotes special attention to the manufacturing sectors in Rhode Island, comparison states, and nationwide. While the ITC is not exclusively devoted to manufacturers, several eligibility criteria carve out special provisions available only to certain types of manufacturers.

Analysis of data from the U.S. Department of Commerce, Bureau of Economic Analysis reveal that the Rhode Island manufacturing sector is relatively small when compared to the national average when measured in terms of the sector's contribution to state gross domestic product (GDP). The following chart depicts the relative contribution of the manufacturing sector to state GDP. The levels are calculated as five-year averages to smooth any year-to-year volatility or measurement error.

[11] https://www.boston.gov/sites/default/files/imce-uploads/2017-12/2018_taxrates3q.pdf
[12] http://www.municipalfinance.ri.gov/documents/data/taxrates/2017-Tax-Rates-12-31-16-FINAL.pdf

Manufacturing Sector Contribution to GDP*
(Five-Year Average Calendar Years 2012 - 2016)



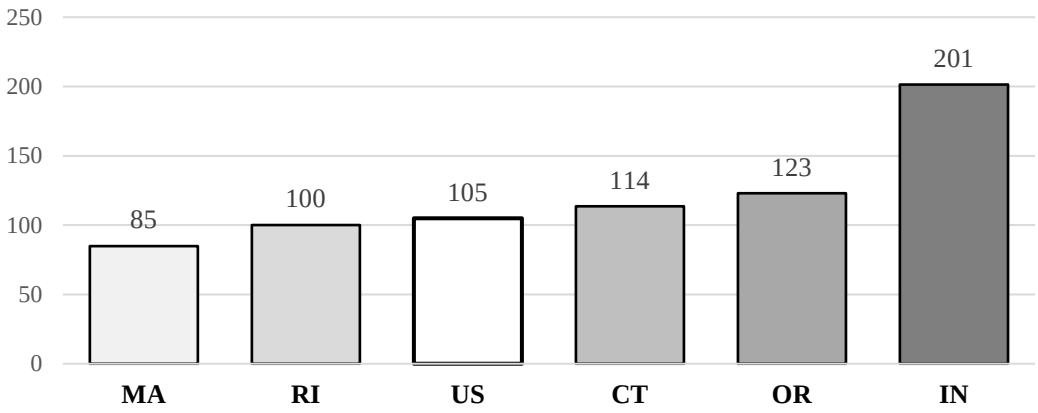
Source: ORA Calculations based on data from United States Department of Commerce, Bureau of Economic Analysis, last updated 11/21/2017.

* Manufacturing sector contribution to GDP calculated as manufacturing industries (NAICS codes 31 through 33) gross domestic product divided by all industries gross domestic product, both figures measured in current dollars.

The data presented in the chart indicate that manufacturing is less concentrated in Rhode Island relative to comparison states and nationwide. Rhode Island manufacturing trails that of Massachusetts and Connecticut, but all three neighboring states are below the national average of 13.9 percent of total private sector GDP. The leading states of Oregon and Indiana are home to manufacturing sectors that contribute about twice as much as the national average when measured as a share of total private sector GDP. In fact, by this measure Oregon and Indiana are the two most manufacturing-intensive states in the nation.

The following chart presents data on the relative contribution of manufacturing jobs to the total private sector workforce in Rhode Island, comparison states, and nationwide as reported by the U.S. Department of Labor, Bureau of Labor Statistics (BLS). Specifically, the chart shows manufacturing employment per thousand private sector workers for all industries.

Manufacturing Sector Jobs Per Thousand*
(Five-Year Average, Calendar Years 2012- 2016)



Source: ORA calculations based on United States Department of Labor, Bureau of Labor Statistics

* Manufacturing jobs per thousand calculated as total employment, manufacturing industries (NAICS codes 31 through 33), private, divided by total employment, all industries, private x 1,000

The bar graph shows that Rhode Island has a lower concentration of manufacturing jobs than the national average but is in the middle of the neighboring states of Massachusetts and Connecticut.

With respect to the quality of jobs in the manufacturing, ORA calculated the ratio of average annual wages in the manufacturing sectors to average annual wages for all private sector employment utilizing BLS data. The following table displays the absolute and relative wages of manufacturing jobs in the Rhode Island, comparison states, and nationwide:

Manufacturing Industries Employee Pay

(Five-year Average, Calendar Years 2012 through 2016 Annual Pay)

State	Average Annual Wage: Manufacturing, Private [a]	Average Annual Wage: All Industries, Private [b]	Ratio of Manufacturing to All Industries [c]
Rhode Island	*$54,344*	*$47,235*	*115.1%*
United States	**$62,750**	**$51,318**	**122.3%**
Connecticut	$80,401	$64,816	124.0%
Massachusetts	$83,059	$64,779	128.2%
Indiana	$57,713	$42,948	134.4%
Oregon	$64,256	$46,126	139.3%

Source: ORA calculations based on United States Department of Labor, Bureau of Labor Statistics, Quarterly Census of Wages and Employment establishment survey data

[a] Average CY 2012 – 2016 of manufacturing industries (NAICS codes 31-33), private, average annual pay.

[b] Average CY 2012 – 2016 of all industries, private, average annual pay

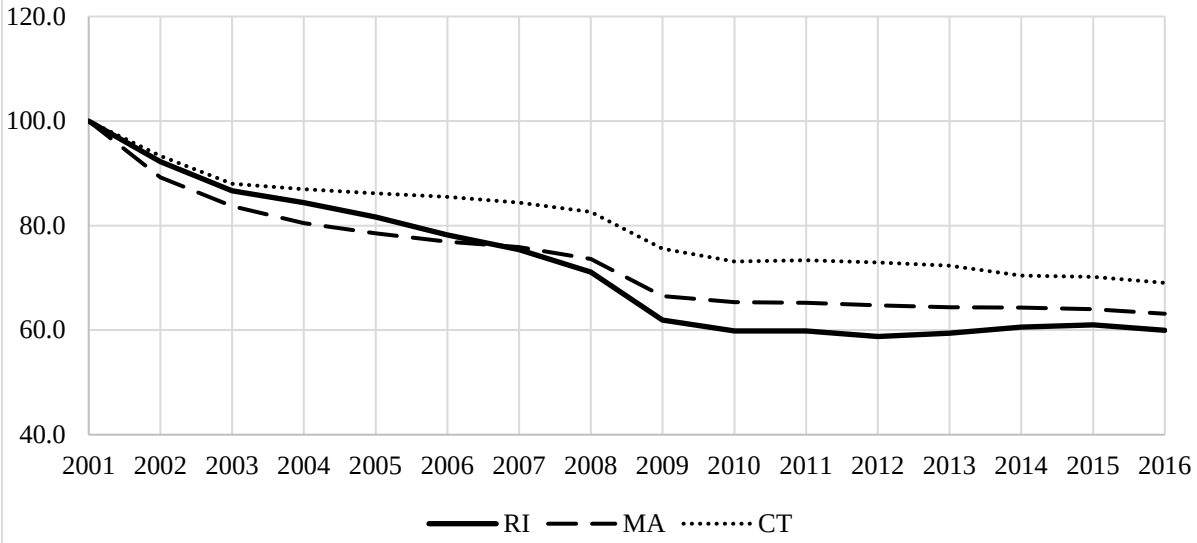
[c] Ratio of manufacturing industries average annual wage to all industries average annual wage

The calculations show that manufacturing jobs pay better than the average private sector job in all comparison states and nationwide. This indicates that manufacturing jobs tend to be "good jobs" when measured in terms of relative wages. However, Rhode Island has the lowest ratio of average manufacturing wages to private sector average wages. In fact, the Rhode Island ratio of manufacturing wages to average private sector wages of 115.1 percent is the only comparison state below the national average of 122.3 percent. While manufacturing jobs are relatively high-paying in Rhode Island, they are not as high-paying when measured against comparison states and nationwide.

In the three-state region of Connecticut, Massachusetts, and Rhode Island manufacturing employment has been in a general decline over the past fifteen years – with dramatic decreases in employment during the early 2000s followed by a period of relative stability following 2009. The employment index depicted in the chart below shows a decline in manufacturing employment from calendar years 2001 through 2016. For Rhode Island, this decline was steeper than the trend experienced in the two neighboring states.

Manufacturing Industries Employment Index

CY 2001 = 100.0



Source: United States Department of Labor, Bureau of Labor Statistics

Note: The employment index is constructed by setting base year CY 2001 employment in Manufacturing Industries (NAICS 31-33) equal to 100 and inflating the figure by the employment

Part III: Report Data Description

The analysis of the ITC in this report required an analysis of micro-level taxpayer data. ORA encountered significant challenges related to data access. In order to gain sufficient access to data while respecting confidentiality concerns, ORA entered into Memoranda of Understanding (MOU) with the Rhode Island Department of Revenue, Division of Taxation (Division of Taxation), Rhode Island Department of Labor and Training (DLT), and Rhode Island Commerce Corporation (CommerceRI). These MOUs sought to preserve the confidentiality of individually identifiable taxpayers consistent with the statutory mandates regarding secrecy and confidentiality of taxpayer information. In this context, ORA relied on data provided by DLT and the Division of Taxation for tax years 2013, 2014, and 2015, to the extent such information were provided, as required by R.I. Gen. Laws § 44-48.2-5(b). The data provided by DLT to ORA consist of the following:

- Summary data extracted from the "Request for Certification Letter" as provided by the Governor's Workforce Board (GWB).
- Summary data extracted from the "RI 10% Investment Tax Credit Certification Form" as provided by the Labor Market Information (LMI) group.
- Cost of tax credit administration.

The data provided by the Division of Taxation consist of the following:

- Credit, firms and employment information provided by the Division of Taxation's Project Oversight and Development section;
- Withholding tax payment records on file provided by the Division of Taxation's Employer Tax Section;
- Corporate tax payments on file provided by the Division of Taxation's Forms Section;
- ORA Personal Income Tax Simulation Model (ORA PIT Model). The ORA PIT Model is constructed using the most recent personal income tax return data made available by the Division of Taxation. At the time of analysis, the most recent personal income tax return data made available to ORA was for tax year 2015.
- Cost of tax credit administration.

ORA made no attempt to verify the accuracy of the data provided and made minimal corrections to the data in order to be able to execute specific calculations for the report. The data included in this report are unaudited and reported as compiled.

1. Number of Taxpayers Granted Tax Credit

According to the Division of Taxation an average of 49 companies received the ITC over tax years 2013 through 2015 with an average value of $12.25 million. The following table provides a breakdown of the number of ITC recipients and the corresponding tax credit amounts received by tax year and tax type:

Investment Tax Credit Amounts and Recipients by Tax Type
(Millions of Dollars, Tax Years 2013 – 2015)

	TY 2013	TY 2014	TY 2015	Three-Year Total	Three-Year Average
Business Corporation Tax					
Credit Amount	$14.43	$19.44	$2.23	**$36.10**	**$12.03**
Number of Recipients	47	54	43	**144**	**48**
Insurance Premiums Tax					
Credit Amount	$0.30	$0.00	$0.34	**$0.64**	**$0.21**
Number of Recipients	N/A	0	4	**4**	**2**
Financial Institutions Tax					
Credit Amount	$0.00	$0.00	$0.00	**$0.00**	**$0.00**
Number of Recipients	0	0	0	**0**	**0**
Total					
Credit Amount	**$14.73**	**$19.44**	**$2.57**	**$36.74**	**$12.25**
Number of Recipients	**47**	**54**	**47**	**148**	**49**

Source: November 2017 Revenue Estimating Conference (REC) Taxation Testimony.
Note: The data source did not provide a number of ITC recipients for the insurance premiums tax in tax year 2013.

2. Value of Tax Credit Granted by NAICS Code

ORA obtained data from the Division of Taxation's Project Oversight and Development Section (PODS) regarding ITC amounts received by firms for tax years 2013 through 2015. However, only tax year 2015 data from this source closely matched the data provided by the Division of Taxation during their November 2017 Revenue Estimating Conference Testimony for tax year 2015. Facing this contradiction, ORA determined to present only 2015 tax year data for ITC amounts received by NAICS industry, and deemed other information to be unreliable.

ORA matched each recipient firm to its corresponding industry code according to the North American Industry Classification System (NAICS) in order to accurately simulate direct shocks to the Rhode Island economy with the REMI model.[13] However, ORA found that some of the industries were represented by only one or two ITC recipients. In this context, ORA is unable to disclose ITC amounts received by NAICS codes as it may violate taxpayers' confidentiality. ORA determined to break down the ITC amounts received in tax year 2015 into manufacturing and non-manufacturing sectors. The following table depicts the amount of the ITC received by firms in those two industry groups during tax year 2015:

[13] Refer to "'Breakeven' Cost-Benefit Analysis" section below for more information regarding the REMI PI+ model utilized in this analysis.

Investment Tax Credit Usage in Manufacturing and Non-Manufacturing Industries
(Tax Year 2015)

	Count of Recipients	Percent of Total	Credit Amount	Percent of Total
Manufacturing Industries	24	53.3%	$550,056	21.6%
Non-Manufacturing Industries	21	46.7%	$1,997,226	78.4%
All Industries	**46**	**100.0%**	**2,547,282**	**100.0%**

Source: Division of Taxation, PODS

Notes: The total ITC amount provided in this table differs slightly from the amount provided in the previous section for tax year 2015 due to variations between data sources. ORA is unable to provide any additional explanation.

3. Cost of Administration

The administration of the ITC program involves both the Division of Taxation and DLT. The responsibilities of DLT are divided among two offices: The Governor's Workforce Board (GWB) and the Labor Market Information (LMI) group. Using data provided by these agencies, ORA found that the total cost to administer the tax credit was $25,453 in tax years 2013-2015. The total direct cost incurred by DLT in tax years 2013-2015 to administer the ITC program was $13,575 while the indirect costs incurred by the Division of Taxation to administer the tax credit were $11,878 for the same time period. The following table provides a description of the cost of administration in each tax year:

Investment Tax Credit: Cost of Administration by Office and Tax Year
(Tax Years 2013 – 2015)

	Cost of Administration				
Cost Incurring Entity	**TY 13**	**TY 14**	**TY 15**	**Total**	**Average**
DLT	**$4,525**	**$4,525**	**$4,525**	**$13,575**	**$4,525**
GWB	$100	$100	$100	$300	$100
LMI	$4,425	$4,425	$4,425	$13,275	$4,425
Division of Taxation	**$1,973**	**$6,464**	**$3,442**	**$11,878**	**$3,959**
Total Cost	**$6,498**	**$10,989**	**$7,967**	**$25,453**	**$8,485**

Source: Division of Taxation and RI Department of Labor and Training

4. Number of Aggregate Jobs and Direct Taxes Paid by Recipient's Employees

The Division of Taxation provided ORA with data on taxes paid by employees of the ITC recipient firms. Only tax year 2015 data was available[14]. ORA utilized its personal income tax simulation model to determine employee statistics as well as the taxes they paid. The following table provides the number of ITC firms' employees as identified by both the Division of Taxation and ORA and the breakdown of this information by residence status.

[14] Data is unavailable for tax years 2013 and 2014 as stated by the Division of Taxation

Employees of ITC-Beneficiary Firms:
Identified Tax Filings by Resident and Non-Resident Status
(Tax Year 2015)

	TY 2015
Total Employees Reported	**17,143**
Count of Employees Identified by Taxation	16,702 of 17,143
Count of Employees Identified by ORA	14,088 of 16,702
Identified	***14,088***
Resident	10,740
Non-Resident	3,348
Not Identified	***3,055***
Resident	unknown
Non-Resident	unknown

Source: Division of Taxation, Office of Revenue Analysis personal income tax model

In order to determine taxes paid, ORA utilized the ratio of reported wages through the ITC firms compared to total federal adjusted gross income listed on the tax return for the tax year. This ratio was multiplied by the total taxes paid in that tax year to report total apportioned taxes paid for income earned from the ITC recipient firm.

Employees of ITC-Beneficiary Firms:
Personal Income Taxes Paid by Identified Taxpayers
(Tax Year 2015)

	TY 2015
Total RI Personal Income Taxes Paid†	***$36,484,775***
Resident	$24,708,539
Non-Resident	$11,776,236
Taxes paid per Identified Job	***$2,590***
Resident	$2,301
Non-Resident	$3,517

Source: Division of Taxation

† Taxes paid reflects only the amounts paid by employees for which the Division of Taxation and ORA were able to identify a tax filing. Also, taxes paid reflects apportioned taxes by amount of reported wages attributable to employment with ITC beneficiary firms. The above taxes paid do not reflect total taxes paid by identified taxpayers.

5. Direct Taxes Paid by Recipients

The Division of Taxation provided ORA with data on taxes paid by the 45 ITC recipient firms in tax year 2015[15]. The following table describes the breakdown of this information by firms' location of domicile.

[15] Data is unavailable for tax years 2013 and 2014 as stated by the Division of Taxation.

Investment Tax Credit Recipient Firms:
Taxes Paid by Location of Domicile
(Tax Year 2015)

	RI Firms [a]	Non-RI Firms [b]
Count	**25**	**20**
Percent	55.6%	44.4%
Taxes Paid	***$3,646,296***	***$1,996,863***
Percent	64.6%	35.4%
Credit Amount	***$1,232,052***	***$1,315,230***
Percent	48.4%	51.6%

Source: Division of Taxation, Office of Revenue Analysis calculations

Note: The ITC may only be claimed in relation to investments that are physically located in Rhode Island, but may be claimed by firms for which their primary place of business or headquarters is located in another state. Domiciliary status deduced by tax filing and/or primary mailing location and was used as a best available proxy for determining the extent to which tax credits were claimed by in-state *vs.* out-of-state firms.

[a] Category includes all Rhode Island-domiciled firms. This generally means that the firm's principal place of business is in Rhode Island.

[b] Category includes all non-Rhode Island domiciled firms. This typically means that the firm has a presence in Rhode Island but may have its primary place of business located in some other state. This category also includes firms for which ORA was unable to identify a location of domicile.

6. Measuring the Extent to which Benefits Remained in the State

R.I. Gen. Laws § 44-48.2-5(a)(8) requires that this analysis report on the extent to which benefits associated with the tax incentive remained in the state, if such information is available. In consideration of this requirement, ORA has presented tables on taxes paid by recipient firms by location of domicile and their employees by resident *vs.* non-resident status.

The amount of ITC earned by a firm is tied to its investment activity such as expenditures on buildings, durable equipment, and computer hardware. ORA has no data available to confirm the extent to which the qualifying investment purchases that generated the tax credit amounts resulted from purchases from Rhode Island vendors or out-of-state vendors. When investment spending is modeled in the "breakeven" cost-benefit analysis in this report, the REMI PI+ economic modeling software allocates investment spending by Rhode Island firms between in-state *vs*. out-of-state vendors according to standard assumptions which are calibrated based on historical data describing the regional and national economy.

7. Additional Data to Support Evaluation of Statutory and Programmatic Goals and Intents of the Tax Incentive

Additionally, using the data provided by the Division of Taxation's Project Oversight and Development Section, ORA identified firms receiving multiple incentive programs in addition to the investment tax credit in tax year 2015.

The following table describes the portion of ITC recipients that received additional Rhode Island tax credits in tax year 2015:

Additional Credit Usage Among ITC-Recipient Taxpayers

(Tax Year 2015)

Group of ITC Taxpayers	Usage Amount	Count of Taxpayers
Usage by Taxpayers Claiming ITC Only	$1,356,885	31
Usage by Taxpayers Claiming ITC and Additional Credit/s	$1,160,213	14
Total ITC Usage by All Taxpayers	**$2,517,098**	**45**

Source: Division of Taxation, Project Oversight and Development Section

The table indicates that 31 percent, or 14 out of 45, ITC recipients claimed at least one additional credit in tax year 2015. The following table provides additional detail by identifying amounts and types of additional credit usage.

Identifying Additional Tax Credits Received by ITC-Recipient Taxpayers

(Tax Year 2015)

Tax Incentive	Incentive Amount
Investment Tax Credit – Total, All Firms	$2.517,098
ITC – Firms Claiming ITC and Additional Credit/s	$1,160,213
Other Tax Incentive	**Incentive Amount**
Jobs Development Act	ND
Historic Tax Credit	ND
Research & Development Expense	ND
Enterprise Zone Credit	ND
Jobs Training Tax Credit	ND
Scholarship Tax Credit	ND
Total Other Credits	**$6,877,405**

Source: Division of Taxation, Project Oversight and Development Section

Notes: 14 out of 45 ITC-recipient firms also received additional credits in TY 2015. These 14 firms claimed $1,160,213 of the $2,517,098 of ITC total in TY 2015.

ND indicates incentive amount is not disclosed in order to protect the taxpayer confidentiality. Credits are listed in descending order by usage.

This table indicates that 14 out of the 45 taxpayers that received Investment Tax Credit in tax year 2015 claimed a total of $1,160,213 of ITC and a total of $6,877,405 in other Rhode Island business tax credits. These other tax credits include the Research and Development Expenses Credit (R.I. Gen. Laws Chapter 44-32), Jobs Training Tax Credit (R.I. Gen. Laws § 42-64.6-4), Jobs Development Act Rate Reduction (R.I. Gen. Laws § 42-64.5-3), Historic Structures Tax Credit (R.I. Gen. Laws § 44-33.2-3), Enterprise Zone Wage Tax Credit (R.I. Gen. Laws § 42-64.3-6), Tax Credits for Contributions to Scholarship Organizations (R.I. Gen. Laws Chapter 44-62). The number of taxpayers claiming each additional credit cannot be reported due to taxpayer confidentiality constraints. However, based on the data presented in the table above, ORA determined that for every one dollar of Investment Tax Credit, there is an additional $2.73 in other tax credits.

Additionally, the *Tax Credit & Incentive Report* published annually by the Division of Taxation includes limited information on ITC usage. The Investment Tax Credit is not included among the credits and incentives reported on by the Division of Taxation in its annual *Tax Credit & Incentive*

Report; however, to the extent that recipients of credits and incentives covered by the report self-reported Investment Tax Credit amounts, it is included in the "Additional Incentives Received" section of the annual *Tax Credit & Incentive Report.* The following is a compilation of ITC amount received using information from the *Tax Credit & Incentive Report* for fiscal years 2014 through 2016.

Investment Tax Credit Usage
as Published in *Tax Credit & Incentive Reports*
(Fiscal Years 2014 – 2016)

Fiscal Year	Taxpayer	ITC Amount
2016	CVS	$9,523,127
	Electric Boat	$1,463,695
	Factory Mutual Insurance Company	$249,392
	Tiffany and Company	$159,407
	Waterrower, Inc.	$9,641
	Subtotal	**$11,405,262**
2015	CVS Pharmacy	$3,530,954
	Electric Boat	$1,065,721
	Tiffany and Company	$160,190
	Subtotal	**$4,756,865**
2014	CVS Pharmacy	$4,938,976
	Electric Boat	$923,509
	Subtotal	**$5,862,485**
	Grand Total	**$22,024,612**

Source: ORA Compilation of Division of Taxation, *Tax Credit & Incentive Reports*

Furthermore, DLT's Labor Market Information (LMI) group provided ORA with data on ITC applicant companies' average wages and their associated NAICS codes for tax years 2013 through 2015. Analyzing this data ORA found that most of the NAICS codes provided by LMI were represented by less than ten ITC applicants. Therefore, in order to protect taxpayer confidentiality, the following table reports the wages paid to employees across all ITC applicants.

Wages Paid by DLT LMI Investment Tax Credit Applicants
(Tax Years 2013 – 2015)

	TY 2013	TY 2014	TY 2015	Average
Average Wage	$57,569	$62,412	$57,020	**$59,000**
Min. Wage Paid	$27,486	$31,195	$28,751	**$29,144**
Max. Wage Paid	$108,723	$124,038	$113,590	**$115,450**
Applicants Count	33	33	56	**41**

Source: RI Department of Labor and Training, Labor Market Information group.

Notes: Table includes data limited to those applicants applying for the ten percent ITC via eligibility pathways administered by the Department of Labor and Training, Labor Market Information group.

Part IV: Evaluation of the Economic Impact of the Tax Credit

This section of the report addresses two major objectives defined in R.I. Gen. Laws § 44-48.2-5: first, to provide a projection of the potential impact of the Investment Tax Credit on state revenues from projected future use and carryforward; and, second, to produce a breakeven cost-benefit analysis that can determine the net impact on state revenues resulting from the ITC.

1. Assessment and Five-Year Projection of Revenue

ORA assumes that the issuance of the Investment Tax Credit under current law will follow historical issuance patterns. Therefore, ORA assumed a three-year moving average in the total amount of the tax credit that would be assigned in future calendar years. The following table provides the distribution of the anticipated amount of the Investment Tax Credit to be issued in each fiscal year.

Jobs Development Act: Revenue Projection

(Millions of Dollars)

Fiscal Year	Projections
2016	$7.41
2017	$11.83
2018	$10.08
2019	$9.77
2020	$10.56

Source: ORA calculations based on data provided by the Division of Taxation

Notes: Projections are constructed as a three-year moving average of ITC usage by tax year. Most recent three years of historical data included in moving average are tax years 2013 through 2015. It should be noted that while tax year 2016 data was available, it was not used in the projections because it does not include any extensions or amended returns that have not yet been processed by the Division of Taxation. Projected credit usage by tax year is converted into fiscal year under the assumption that each fiscal year represents the average of the two constituent tax years (*e.g.*, assume FY 2017 is equal to average of TY 2016 and TY 2017).

ORA assumes that changes to the business corporation tax implemented for tax years beginning on or after January 1, 2015 may permanently reduce expectations for the amount of ITC to be claimed in future tax years. This assumption is not reflected in the projections contained in this table. For a full discussion of this issue refer to "Findings and Recommendations" section below.

2. "Breakeven" Cost-Benefit Analysis

- *Introduction to "Breakeven" Cost-Benefit Analysis Methodology*

Pursuant to R.I. Gen. Laws § 44-48.2-5(6), ORA conducted a "breakeven" cost-benefit analysis to measure the net impact on state revenues resulting from the ITC under a variety of assumptions regarding what would have happened in the Rhode Island economy if the credit had not been available. To provide additional insight, ORA also produced breakeven analyses with respect to employment and Rhode Island gross domestic product (RI GDP).

To execute these cost-benefit analyses, ORA utilized Regional Economic Models, Incorporated's (REMI) 70-sector model of the Rhode Island economy via the REMI PI+ software platform to produce estimates of the total economic effects of the tax credits issued in tax years 2013 through 2015. [16] The dynamic capabilities of the REMI PI+ model allows one to estimate the impacts of exogenous shocks to the state's economy, including changes to public policy, shifts in consumer behavior and demand, and developments in industry.

The analysis is based on self-reported firm-level data on employment and wages, as well as data from the Division of Taxation and publicly available historical data on the regional and national economies. Direct benefits are entered into the REMI model as policy variables simulating changes in industry sales, exogenous final demand, non-residential investment spending, employment, and compensation or wages. ORA assigned these costs and benefits to a profile of sectors among the 70 sectors available in the REMI PI+ model in proportion with the amount of the three-year average of ITC usage and profile of Rhode Island general fund expenditures.

The "breakeven" approach developed for this report allows a reader to assume that the ITC leveraged various levels of economic activity required of recipient firms to receive a tax credit. This assumption means that some portion of the economic activity required of recipient firms to receive a tax credit would not have occurred in the absence of the tax credit. Under this assumption, firms made this portion of their long-term production and investment decisions based on the availability of an incentive over a period of time, and removal of that tax credit in a given year would undo all such decisions.

- *Modeling Costs*

ORA assumes that the ITC is funded by an equivalent reduction in state government spending – that is, when the state government forgoes revenue by issuing tax credits, there are fewer funds available for other spending priorities. ORA modeled these adjustments based on a comprehensive historical analysis of Rhode Island general fund expenditures for each tax year within the scope of this analysis. This analysis compiled all state general fund expenditures and assumed that the level of these expenditures could be adjusted to maintain a balanced general fund budget. The breakdown of general fund expenditures by category is shown in the following table:

[16] The REMI model consists of four economic impact methodologies: input-output analysis, computable general equilibrium dynamics, econometric estimation techniques, and economic geography and migration flows. Detailed documentation on the REMI PI+ v2.0.6 model employed in this analysis is available at: http://www.remi.com/resources/documentation

Three Year Average of Rhode Island General Fund Expenditures
(Calendar Years 2013 - 2015)

Industry Description	NAICS Code	Percent of Total
Ambulatory Healthcare Services [17]	621	33.8%
Educational Services	61	31.7%
State Wages, Salary, and other Compensation	n/a (entered as "state/local govt. compensation" and "employment")	23.3%
Social Assistance	624	3.4%
Local Government Spending	n/a (entered as "local government spending")	2.3%
Professional, Scientific, and Technical Services	54	1.2%
Administrative and Support Services	561	1.0%
Wholesale Trade	42	0.96%
Remaining/Other	19 additional industries, and also non-residential capital investment	2.3%
	Total:	**100.0%**

Source: ORA analysis of Rhode Island general fund expenditure data.

- *Modeling Benefits*

The cost-benefit methodology employed by this report assumes that the availability of the ITC impacted some portion of recipient firms' decisions to undertake major investments in Rhode Island. In this way, the methodology assumes that a portion of investment activity as well as related industry sales and employment associated with the investment would not have taken place but for the availability of the ITC. ORA modeled investment spending utilizing the "non-residential investment spending" policy variable in the REMI PI+ model. This analysis assumes that all credit recipients utilized the ITC at the ten percent credit rate. Therefore, one dollar of ITC leverages ten dollars of investment spending. According to analysis of United States Economic Census data for the Rhode Island manufacturing industry, ORA further assumed that approximately $47 of gross sales were associated each dollar of investment spending.

ORA discounted the impact of the ITC on industry sales by 50 percent to account for the fact that a portion of a firm's gross sales originated from customers inside the state of Rhode Island, and may have cannibalized sales that would otherwise have been made by other Rhode Island firms. ORA formulated this assumption based on R.I. Gen. Laws § 44-31-1(b)(3)(v)(B)(I) requiring that more than 50 percent of the gross revenue of certain recipients of the Investment Tax Credit to be sourced from customers outside the state.

Costs and benefits were summed over four years to ensure that the analysis included the full extent of the lingering benefits of the investment spending response. Investment spending has the most dramatic impact in the year in which investment takes place, resulting from the construction industry activity related to construction of structures and any sales to manufacturers, wholesalers, retailers, and trades for the purchase and installation of durable equipment. Investment spending has a continuing impact as long as the property and durable equipment related to the investment remains in service. ORA selected a four-year period of analysis because R.I. Gen. Laws § 44-31-1(b)(1) specifies that ITC-qualified investments shall have a useful life of at least four years. Furthermore, after conducting sensitivity tests on this assumption, ORA determined that the vast majority of economic benefits related to investment spending in the REMI model took place within the first four years.

- *Important Limitations Regarding ORA Assumptions*

ORA cautions that as a result of data limitations and lack of statutory purpose regarding the goals and intent of the ITC, the results of this cost-benefit analysis are particularly dependent on ORA assumptions. ORA has provided as much supporting documentation and discussion in order to make these assumptions as transparent as possible.

The following chart summarizes the U.S. Economic Census data utilized in constructing the ratio of investment spending (capital expenditures) to gross sales utilized in this report.

Manufacturing Industries Key Economic Statistics and "Average Company" Calculations

Key Economic Statistic	Statewide Total	"Average Company"
Count of Companies	1,474	1
Capital Expenditures	$239.6M	$163,000
Gross Sales [a]	$11.262B	$7,641,000
Value Added [b]	$5.738B	$3,893,000
Number of Employees	39,608	27
Total Compensation [c]	$3.323B	$2,255,000
Assumed Rhode Island Tax Burden [d]	$43.0M	$29,000

Source: U.S. Census Bureau, "Manufacturing: Geographic Area Series: Detailed Statistics for the State: 2012 (EC1231A2)," 2012 Economic Census of the United States. Source defines manufacturing as NAICS codes 31-33. Source data was released on June 16, 2015 and was the most recently available data at time of report publication.

Notes:

[a] ORA assumes Census variable "total value of shipments and receipts for services" to be a proxy for gross sales.

[b] Gross domestic product is equal to the sum of value added across the economy; therefore, value added can be interpreted as a firm's contribution to GDP.

[c] ORA assumes that compensation is equal to the sum of Census variables "annual payroll", "employer's cost for health insurance", "employer's cost for defined benefit pension plans", "employer's cost for defined contribution plans", and "employer's cost for other fringe benefits".

[d] Calculated by ORA by multiplying value added times 0.75 percent (the average ratio of Rhode Island business taxes to GDP as calculated for the period of analysis covered by this report by ORA).

ORA assumed that these data, which describe the Rhode Island manufacturing industry, are representative of all ITC recipients. This is supported by the fact that the ITC enabling statute contains provisions which specifically target manufacturing industries, and a majority of credit recipients are manufacturers. However, when calculated in terms of dollars of credit usage, non-manufacturing recipients claim a majority of the annual ITC amount. This data source is only available for selected industries, including the manufacturing industries, which are not broadly encompassing enough to account for the wide variety of non-manufacturing ITC recipients. Facing these data constraints, ORA assumed that the ratios derived in relation to the manufacturing industries were representative of all ITC recipients.

On one hand, these data suggest that if evaluators were to assume that the full economic footprint of ITC-recipient firms were attributable to the ITC credit, there would be substantial leverage associated with each dollar of ITC. A dollar of ITC would leverage ten dollars of investment spending, $470 in total sales, and $1.78 in business tax revenue. Under this assumption, it is plausible that the ITC would have a positive net impact on state general revenues, gross domestic product, and employment if a significant portion of recipient firms chose to locate in the state as a result of ITC availability.

On the other hand, the fact that capital expenditures and state tax burden are relatively insignificant compared to the gross sales of the firm suggest that it may not be plausible that a firm would consider locating in Rhode Island from a competitive out-of-state location merely because of the availability of the ITC. An average manufacturing firm undertakes approximately $163,000 in

annual capital expenditures. Assuming that the firm qualified to utilize the ITC at the ten percent credit rate would allow this example firm to earn $16,300 in ITC in relation to its $163,000 in capital expenditures – though it would be limited by its tax liability from using this full amount in the first year and would have to carry forward a portion to use in a future year. This cost savings to the firm is equal to approximately 0.2 percent of gross sales. This incentive is relatively small compared to the magnitude of other business expenses such that it may not have a determinative impact on a firm's investment or location decisions. For example, other business costs such as wages, local property taxes, and logistics costs are likely to vary by more than 0.2 percent of gross revenue between competitive out-of-state business locations.[18] To the extent that the ITC fails to provide sufficient incentive to influence firm's location decisions, it merely represents a marginal cost savings to the firm. If one assumes that the ITC provides only a marginal incentive, it is unlikely that the ITC would break even with respect to state general revenues.

Furthermore, ORA encountered other difficulties in constructing a set of assumptions to use in a breakeven analysis:

There is no "typical" credit recipient. Conducting a breakeven analysis would require either having perfect, complete data on all credit recipients – which is not practical – or having enough data in order to make generalizations and construct a profile of a typical recipient or groups of recipients. While the enabling statute makes special reference to manufacturing firms, the credit is broadly available to a wide range of industries, as long as these taxpayers meet the requirement that more than 50 percent of gross revenue results from sales outside the state. In fact, usage data indicate that a majority of credit usage is claimed by non-manufacturing firms. ORA does not have access to sufficiently detailed information to construct profiles of the economic footprint for the various industries which make use of the credit. Furthermore, self-disclosed usage published in the Division of Taxation's *Tax Credit & Incentive Reports* suggest that a large portion of the annual ITC amount is delivered to just a few credit recipients. This fact means that generalizing based on averages would be inappropriate, and fine-tuning the cost-benefit analysis to reflect the characteristics of just a few taxpayers, even if it were possible for ORA to obtain such data, would violate taxpayer confidentiality.

The ITC is used extensively in combination with other credits. On average each dollar of ITC is awarded in combination with $2.73 of other Rhode Island business credits. While it is plausible that firms may make production location decisions based on the availability of an entire menu of business credits, it is difficult to assess the impact of a single component of this package – especially when the ITC is one of the least significant incentives awarded to an average ITC-recipient. Evaluating the ITC in isolation is potentially misleading and inappropriate. While evaluating it in combination with complementary credits is a worthy goal, it extends beyond the scope of this current report. Furthermore, this task would require additional data access and resources beyond what is currently granted to ORA.

[18] For example, see the variation in average manufacturing wages presented above in the "Benchmarking" section of this report.

ORA currently has limited access to data on firm characteristics These data would be necessary for constructing a breakeven cost-benefit analysis that would consider the extent to which the credit influenced firms' investment or location decisions. For example, ORA does not have access to data to determine the breakdown between four percent credit rate and 10 percent credit rate recipients. ORA also does not have the practical capability nor legal authority to examine the entire tax return of credit recipients. DLT maintains data necessary for confirming compliance with ITC eligibility criteria, such as an application containing the firm's NAICS code and average wages per worker but this data is not sufficient for economic analysis. DLT data does not indicate the final credit amount claimed by recipients (or whether the recipient utilized a credit at all; for example, it is possible that a firm applies for certification but ends up with no tax liability against which to apply the credit), nor does the DLT data indicate the total number of workers or other metrics that would indicate the economic footprint of the firm such as gross sales, etc.

With these assumptions and warnings in mind, ORA encourages readers to interpret the findings of the cost-benefit analysis with appropriate scrutiny.

- *The "Breakeven" Approach*

A fundamental challenge in evaluating economic development incentives is determining the extent to which an incentive actually stimulated or attracted new economic activity rather than subsidized economic activity that would have been largely present even in the absence of the incentive. On one hand, the availability of a tax incentive might have a decisive influence on a firm's production decision. In this case it might be appropriate for an evaluator to attribute all of the firm's economic activity to the incentive. On the other hand, an incentive program may simply reward or subsidize behavior that likely would have occurred anyway. In this case the tax credit might have an impact on a firm's marginal productivity, but it would be inappropriate to attribute the full economic activity of the firm solely to the availability of the tax incentive. Real world conditions often make it difficult or impossible for an evaluator to assess where on this continuum the impact of any given tax incentive falls.

In the case of the ITC program, the determination of the extent to which production activity would have taken place in the absence of the credit is further complicated by a lack of statutory clarity. For example, a common feature of an economic development tax incentive is a "but for" provision, whereby recipients attest that they would not have engaged in the underlying activity if the credit were not available, possibly with some amount of due diligence taking place to confirm this attestation during the application process. While it should be made clear that a "but for" provision does not represent sufficient evidence in and of itself that the incentive-related activity is net new to the state, its presence at least signals the intent of lawmakers that the credit ought to be awarded to projects that might not otherwise have been undertaken. However, the ITC is available to all taxpayers meeting statutory requirements regardless of whether the taxpayer business had considered competitive out-of-state alternative locations or would have been unable to undertake the investment without the credit. Considering the availability of investment tax credits across states, it is possible that some portion of ITC-related investment would not have located in Rhode Island but for the availability of the credit. However, it would overstate the economic benefits of

the ITC program to assume that all productions would not have occurred but for the availability of the incentive. Furthermore, to assume that the ITC influenced investment decisions would require the assumption that the ITC incentive was sufficient to overcome the significant cost of relocating a capital-intensive business across state lines.

In this context, ORA conducted a breakeven analysis. This analysis allows for the evaluation of an incentive program's performance under a wide range of assumptions regarding the level of economic activity that would have taken place if the program had not been available. Furthermore, the breakeven analysis specifies the proportion of economic activity associated with the incentive program recipient that one must assume to have been attributable to the incentive program in order for the total benefits to equal its total costs, where benefits and costs are measured as the impact on state general revenues (*i.e.*, the condition that must be satisfied for the incentive program to "pay for itself").

The breakeven percentage should be interpreted as follows: if the reader believes the assumption to be plausible, that at least the amount of economic activity implied by the breakeven percentage can be attributed to the availability of the tax incentive, then one can infer that the incentive has a net positive impact on state general revenues. In the opposite case, if the reader believes that the amount of economic activity attributable to the tax incentive was less than the level implied by the breakeven percentage, then one can infer that the incentive had a net negative impact on state general revenues. Holding other factors equal, a lower breakeven percentage is more desirable than a higher breakeven percentage if the goal of an incentive program is to cost the state as little revenue as possible.

A tax incentive program fails to breakeven, under any counterfactual assumption, when the breakeven percentage is greater than 100 percent. This implies that even if 100 percent of the economic activity associated with the incentive recipient was assumed to have taken place strictly because of the incentive's availability, a net negative impact on state general revenues would have resulted. Because breakeven percentages above 100 percent do not have a meaningful interpretation, under this outcome ORA simply publishes that the incentive program fails to breakeven.

The "breakeven" analysis cost-benefit analysis models 100 percent of ITC costs as a $12,247,208 reduction in state government spending, where this amount is equal to the average ITC usage for tax years 2013 through 2015. This cost is distributed across industries in proportion with historical discretionary state general fund expenditures for calendar years 2013 through 2015 as compiled by ORA and entered into the REMI model as a combination of exogenous demand, employment, compensation, local government spending, and capital spending policy variables. Benefits are modeled at 100 percent as an increase in non-residential investment in the amount of $122,472,080 as well as an increase in industry sales of $61,236,040. Industry sales are distributed across industries in proportion with the industries of the recipients of actual credit recipients in tax year

2015.[19] The amount of benefits are scaled according to the assumed percentages listed in each results chart, but the costs are always held fixed at 100 percent.

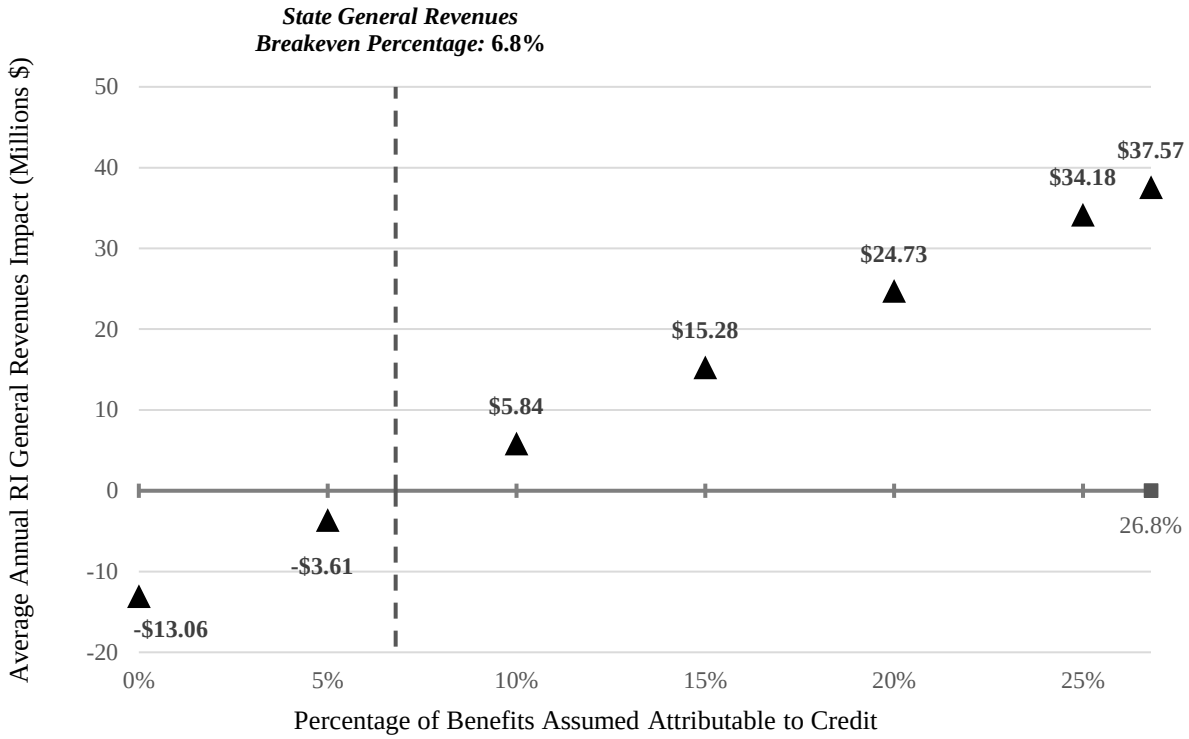
In all of the following analyses, the range of breakeven percentages is limited to between zero and 26.8 percent in recognition of the fact that the value of the ITC represents 26.8 percent of the total state tax incentives received by ITC-recipient firms. It is not logical to interpret breakeven percentages above 26.8 percent because doing so would disregard the impact of the additional state tax credits utilized by ITC-recipient firms. In other words, if the ITC represented 26.8 of the total incentive value claimed by an average firm, it would be inappropriate to attribute greater than 26.8 percent of the firm's presence to the availability of the ITC.

[19] A technical note for readers familiar with the REMI model: The ITC is a long-standing program, and its economic impact is reflected in the historical data with which the REMI model baseline is calibrated. Adding additional ITC-related economic activity to the REMI model would double count the impact of the program. For this reason, ORA modeled the impact of the ITC in the REMI model by *removing* the costs and benefits associated with the ITC. The signs of the REMI output were then reversed when presenting results in this report so that they would have a more logical, natural interpretation.

Also, ORA modeled the economic benefits of the ITC with non-residential investment and industry sales policy variables. The industry sales policy variable results in some investment response. To avoid double counting the investment response, ORA nullified the investment response generated by industry sales so that the only direct investment response generated by the simulation was that specified by the non-residential investment policy variable.

The following chart provides results of the breakeven analysis with respect to Rhode Island general revenues.

Investment Tax Credit:
Rhode Island General Revenue Breakeven Analysis
(Average Annual RI General Revenue Impact, Calendar Years 2013-2015)



Notes: Label accompanying each marker refers to net RI general revenue impact resulting from a cost-benefit analysis assuming the labeled percentage of ITC benefits. General revenue impact is equal to the net revenue impact resulting from the direct, indirect, and induced effects in addition to the cost of paying back the cost of the tax credit. Note that the breakeven percentage is defined as the percent of benefits included in a cost-benefit analysis resulting in a net zero state RI general revenues impact.

Source: ORA calculations utilizing REMI PI+

A breakeven percentage of 6.8 percent can be interpreted to mean that if one assumes that 6.8 percent or more of the investment activity and industry sales associated with ITC firms would not have been located in the state if not for the availability of the tax credit, then the ITC "pays for itself" in terms of state general revenues.

A breakeven percent of 6.8 percent implies that one must assume that at least $8.3 million dollars of investment spending and $195.7 million dollars of industry sales would not have taken place but for the availability of the tax credit. Put in terms of the Rhode Island manufacturing industry, it is necessary to assume that at least 51 average Rhode Island manufacturers with 27 employees

each would have had to locate in the state strictly as a result of the ITC[20]. Only if a reader considers it to be plausible that at least this level of economic activity can be attributed to the credit is it appropriate to consider that the ITC "pays for itself" in terms of state general revenues.

To estimate the impact on state general revenues, ORA found it necessary to make an assumption regarding what level of economic activity would have taken place in the absence of the ITC. ORA considered that in order for the ITC to have an impact on a firm's location and investment decisions, the value of the credit to the firm would have to be relatively large. A 2018 report from the W.E. Upjohn Institute for Employment Research suggests that the value of a typical economic development tax incentive in the first year of award is equal to approximately seven percent of a firm's total wages.[21] This is consistent with ORA's observation that recently-offered Rhode Island tax credit packages typically range between $2,500 and $7,500 per employee.[22] For these reasons, ORA calibrated its assumption regarding the portion of investment spending and industry sales by ITC-recipient firms that was attributable to the ITC such that the value of the ITC per employee was equal to approximately $5,000. This resulted in the assumption reflected in the table below that 12.5 percent of the investment and industry sales of ITC-recipient firms could be attributed to the availability of the ITC.

Investment Tax Credit: Detailed Revenue Impacts

(Average Annual RI General Revenue Impact, Calendar Years 2013 - 2015)

Item Description	Amount
General Revenue Generated by Credit by Component	
Personal Income Tax	$7,541,194
Sales and Use Taxes	$7,382,220
Other Taxes	$337,336
Total Departmental Receipts	$2,326,994
Other Sources	$2,568,213
Total General Revenue Generated by Credit	$22,806,158
Revenue Forgone Due to Credit	$(12,247,208)
Net Change in General Revenue, After Paying for Incentive	$10,558,950
New Revenues Generated for Every Dollar of Credit	$1.86

Source: ORA calculations based on historical Rhode Island revenue amounts and REMI PI+ simulation.

This table shows the detailed revenue impact that ORA calculated, based on the assumption that 12.5 percent of the investment activity and industry sales associated with ITC-recipients was "caused" by the availability of the credit. This shows that economic activity attributable to the ITC program generated a total $22.8 million of state general revenues – however, this figure does not include the $12.2 million cost of the credit itself. Therefore, in an average year during the period of calendar years 2013 through 2015 Rhode Island gives up $12.2 million in revenue on the ITC

[20] These figures are based on the "Manufacturing Industries Key Economic Statistics and 'Average Company' Calculations" table provided above.

[21] Bartik, Timothy J. 2018. "Who Benefits from Economic Development Incentives? How Incentive Effects on Local Incomes and the Income Distribution Vary with Different Assumptions about Incentive Policy and the Local Economy." Upjohn Institute Technical Report No. 18-034. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research. https://doi.org/10.17848/tr18-034

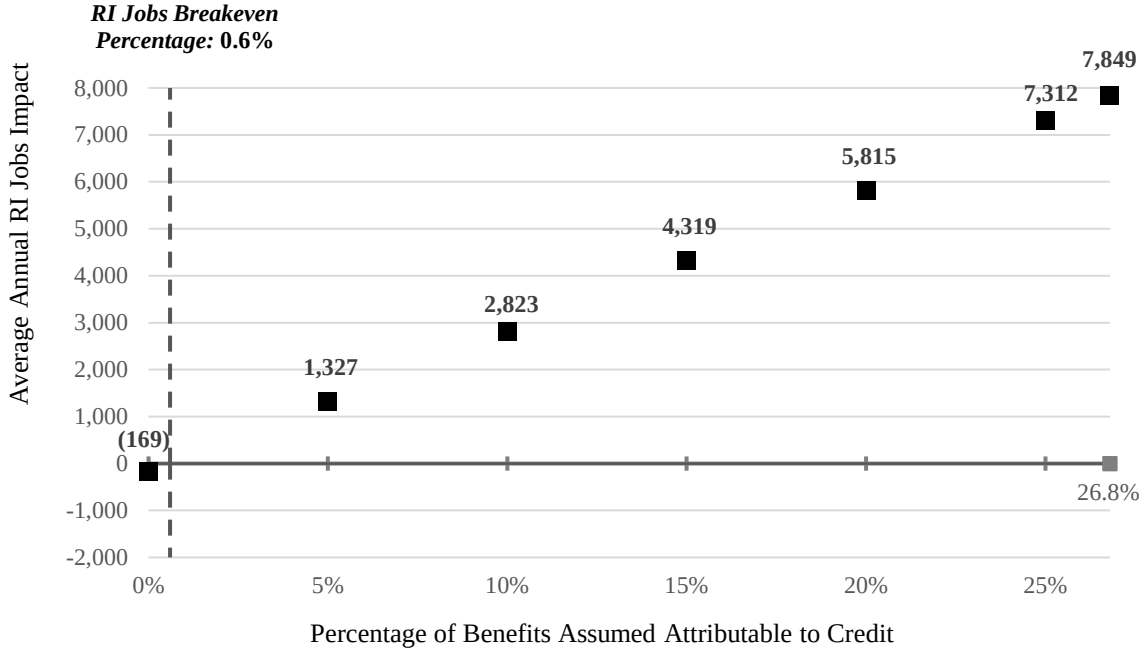
[22] The following is an example of a typical tax credit package: http://commerceri.com/finance-business/taxes-incentives/qualified-jobs-incentive/

program and receives $22.8 million of new revenues in return, equal to an average annual net gain of $10.6 million in net general revenue. Expressed another way, for every dollar spent on the ITC program the state generates $1.86 of new revenue. This payback ratio shows that new revenues generated from the ITC-incentivized activity exceed the total costs of the ITC and add a new net positive revenue amount to the state.

The breakeven framework can also be extended to employment and Rhode Island GDP. In these contexts, the breakeven percentage can be interpreted as the percentage of economic activity associated with ITC-recipient firms assumed to be attributable to the availability of the tax incentive necessary for the increase in employment or GDP resulting from new economic activity to outweigh the employment or GDP losses resulting in the reduction in government spending necessary to fund the credit.

The following chart shows the results of a breakeven analysis with respect to employment.

Investment Tax Credit:
Rhode Island Jobs Breakeven Analysis
(Average Annual RI Jobs Impact, Calendar Years 2013-2015)



Notes: Label accompanying each marker refers to RI jobs impact resulting from a cost-benefit analysis assuming the labeled percentage of ITC benefits. Note that the breakeven percentage is defined as the percent of benefits included in a cost-benefit analysis resulting in a zero state RI jobs impact.

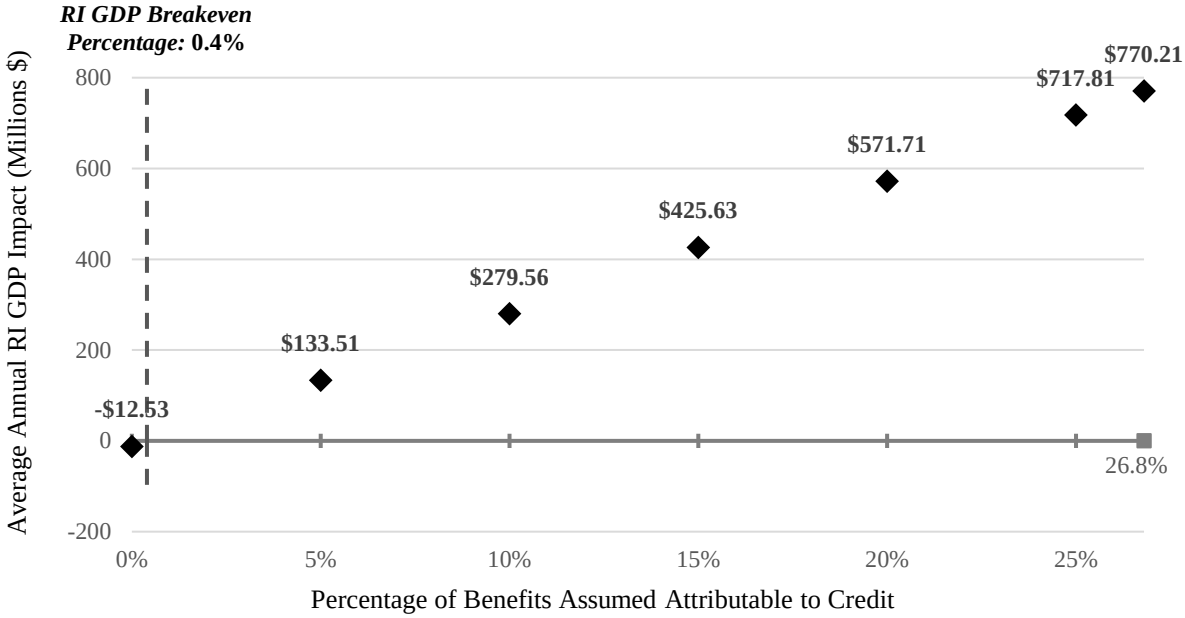
Source: ORA calculations utilizing REMI PI+

The employment breakeven percentage of 0.6 percent implies that the ITC has a net positive impact on Rhode Island employment if at least 0.6 percent of investment spending and industry sales

associated with the ITC-recipient companies would not have occurred but for the availability of the tax incentive.

The following chart shows the results of a breakeven analysis with respect to Rhode Island gross domestic product (RI GDP).

Investment Tax Credit:
Rhode Island GDP Breakeven Analysis
(Average Annual RI GDP Impact, Calendar Years 2013-2015)



Notes: Label accompanying each marker refers to RI GDP impact resulting from a cost-benefit analysis assuming the labeled percentage of ITC benefits. Note that the breakeven percentage is defined as the percent of benefits included in a cost-benefit analysis resulting in a zero state RI GDP impact.

Source: ORA calculations utilizing REMI PI+

The RI GDP breakeven percentage of 0.4 percent implies that the ITC program has a net positive impact on RI GDP as long as at least 0.4 percent of investment spending and industry sales associated with the ITC-recipient companies would not have occurred but for the availability of the tax incentive.

Part V: Discussion and Recommendations

1. Statement by the CEO of the Commerce Corporation

The Secretary of Commerce, who serves as Chief Executive Officer of the Rhode Island Commerce Corporation pursuant to R.I. Gen. Laws § 42-64-1.1(b), provided the following statement pursuant to R.I. Gen. Laws § 44-48.2-5(a)(6)(iii):

Statement from the CEO of the Commerce Corporation:

ORA demonstrates that the usage of the Investment Tax Credit has realized significant benefits for Rhode Island's economy. It generates $1.86 for every dollar of credit issued, and has a net positive impact on employment and GDP growth in the state. Rhode Island's manufacturing sector is a key beneficiary of the Investment Tax Credit but this sector could be positioned more advantageously if this tax credit were to be strengthened. During the period of this report, Rhode Island's manufacturing sector saw an increase of over 1,000 jobs. This is encouraging, but we must build upon positive trends to ensure that Rhode Island's manufacturing industry reaches its full potential — through the growth of manufacturers large and small. The Commerce Corporation continues to support efforts to make Rhode Island's business tax climate more favorable to industrial business growth by, for example, expanding the Investment Tax Credit to smaller manufacturers by creating a refundable option to increase their competitiveness in Rhode Island

2. Discussion of Data Concerns

ORA encountered difficulty reconciling data from various publicly available data sources. The two primary data sources for ITC usage statistics were the November 2017 Division of Taxation testimony at the Revenue Estimating Conference and the annual Division of Taxation *Tax Credit & Incentive Report*. ORA found that much of the inconsistency and ambiguity could be resolved with more specific labeling of tax periods and regular backwards revision of historical data.

Consider the following table which compares Division of Taxation November 2017 Revenue Estimating Conference (REC) testimony with self-disclosed credit usage as reported in the Division of Taxation *Tax Credit & Incentive Reports*. The REC testimony includes usage by all ITC recipients. The *Tax Credit & Incentive Report* includes only a portion of ITC usage. The *Tax Credit & Incentive Report* only contains comprehensive disclosure of six state tax credit programs, of which the ITC is not included. Recipients of the six covered tax credit and incentive programs are required to report any usage of additional state tax credits; [23] therefore, ITC usage is included

[23] Credits covered by the *Tax Credit & Incentive Report* include Rhode Island Commerce Corporation Project Status (R.I. Gen. Laws § 42-64-10), Incentives for Innovation and Growth (R.I. Gen. Laws Chapter 44-63), Jobs Development Act (R.I. Gen. Laws Chapter 42-64.5), Distressed Areas Economic Revitalization Act – Enterprise Zones (R.I. Gen. Laws Chapter 42-64.3), Motion Picture Production Tax Credit (R.I. Gen. Laws Chapter 44-31.2), and Historic Preservation Tax Credits 2013 (R.I. Gen. Laws Chapter 44-33.6).

Further information regarding reporting requirements applicable to these tax credit recipients is contained in Rhode Island Division of Taxation Notice 2016-03 available at:

incidentally in the Tax Credit & Incentive Report only when self-disclosed by recipients of covered tax credits.

Investment Tax Credit Data Sources Compared

(Amounts in Millions of Dollars)

November 2017 REC Testimony		**Annual *Tax Credit & Incentive Reports***	
Tax Year	**ITC Amount [a]**	**Fiscal Year**	**ITC Amount [b]**
TY 2013	$14.73	FY 2014	$5.86
TY 2014	$19.44	FY 2015	$4.76
TY 2015	$2.57	FY 2016	$11.40

Source: Division of Taxation Testimony at the November 2017 Revenue Estimating Conference (REC) and Division of Taxation *Annual Credit & Incentive Reports.*

[a] Source reports on aggregate ITC usage by *all* taxpayers.

[b] Source reports on self-disclosed ITC usage only by certain taxpayers subject to annual *Tax Credit & Incentive Report* reporting.

The self-disclosure provided by the *Tax Credit & Incentive Report* is useful for the purposes of transparency but its ambiguity and unreliability makes it unsuitable for purposes of economic analysis. The *Tax Credit & Incentive Report* is published by fiscal year despite the fact that tax credits and the underlying activity by which firms earned these credits are typically earned or measured on a tax year basis. While it is generally appropriate to assume that credit usage reported in a fiscal year was claimed in the prior tax year (*e.g.*, credits usage reported in FY 2016 corresponds to TY 2015, as implied by the arrangement of rows in the above table), the data in the table suggest that this may not always be the case. The $11.40 million of credit usage reported by the fiscal year 2016 *Tax Credit & Incentive Report* exceeds the total amount of ITC reported for tax year 2015 in the November 2017 Division of Taxation Revenue Estimating Conference Testimony. It is unknown whether this discrepancy results from data revision or ambiguous reporting of data by fiscal year *vs.* tax year. This particular data discrepancy could be resolved through a well-communicated policy of backwards revision of historical credit usage data as well as more precise reporting of credit usage by tax year.

The table above also reveals that a significant portion of ITC usage is claimed by a few firms. The usage reported in the *Tax Credit & Incentive Reports* between fiscal year 2014 through 2016 represents self-disclosed credit amounts for between two and five firms annually. During the time period of TY 2013 – TY 2015 / FY 2014 – FY 2016 these two to five firms were responsible for $22.02 million or 60 percent of a reported $36.74 million of ITC usage. This example highlights the difficulty in providing rigorous economic analysis while maintaining taxpayer confidentiality in a situation dealing with a small sample of taxpayers. This challenge is further complicated when just a few of those taxpayers are responsible for a significant portion of credit usage.

While it is acceptable from a standpoint of confidentiality to present taxpayer data in aggregated form, and ORA has made every effort to do so throughout this report, there are practical limitations

http://www.tax.ri.gov/Tax%20Website/TAX/notice/Notice%202016-03%20--%20Tax%20credits%20and%20incentives.pdf

to this approach. When dealing with a small state such as Rhode Island, a small number of taxpayers claiming narrowly-focused tax incentives often makes it impossible to aggregate data into sufficiently large units of analysis to prevent a reader from being able to infer confidential taxpayer information.

In recent years, the ITC has been claimed by nearly 50 taxpayers annually – which is potentially a large enough sample size such that statistical aggregation techniques could be utilized to preserve taxpayer confidentiality – the recipients of the ITC are from a diverse range of industries, consist of businesses ranging from small to large, claim a wide variety of credit amounts, utilize the credit at either a four percent and ten percent rate, and qualify for the credit via one of seven potential eligibility pathways. It is not possible to make meaningful generalizations regarding an "average" credit recipient without dividing taxpayers into sub-groups and categories. ORA determined that the most precise categorization possible in this report was to describe credit recipients in two groups: manufacturing and non-manufacturing.

3. ORA Recommendations

Finding #1: The statutory goals of the Investment Tax Credit and related Biotechnology Investment Tax Credit and Specialized Investment Tax Credit are NOT defined in R. I. Gen. Laws § 44-31-1, § 44-31-1.1, or § 44-31-2. Therefore, it is not possible to measure performance against statutory objectives.

Related Recommendations:

- Policymakers should determine goals and objective of the tax incentive program in order to provide guidance to evaluators.

Discussion Supporting Finding #1:

R.I. Gen. Laws § 44-48.2-5(a)(10) requires the Office of Revenue Analysis to offer recommendations "as to whether the effectiveness of the tax incentive could be determined more definitively if the general assembly were to clarify or modify the tax incentive's goals and intended purpose." Discussion related to the goals and purposes of the ITC are as follows:

The success of a tax incentive program is usually related to the extent to which its goals and objectives were achieved. In this context, the lack of statutory goals makes it very difficult to evaluate the Investment Tax Credit and related programs given that the outcomes the tax credit is trying to incentivize are not defined under the program's governing statute. The statute provides no clarification with respect to the extent to which the Investment Tax Credit is intended to provide a marginal cost savings to local firms making capital investments *vs.* attract capital investment from competitive out-of-state locations. While this difference is subtle, making this determination will help to inform cost-effective incentive design and evaluation.

A major ambiguity regarding the goals of the Investment Tax Credit is the extent to which the program is intended to encourage firms to make marginal increases in the level of Rhode Island employment or to impact firm location and investment decisions of major projects. The extent to

which the ITC leverages private investment by facilitating Rhode Island investment projects that would not have otherwise been possible without the credit has a determinative impact on the cost-effectiveness of the tax credit. This consideration could be addressed by policymakers when defining the goals and intent of the ITC.

Furthermore, taxpayer confidentiality poses a major obstacle to evaluators of a tax credit program claimed by a relatively small number of taxpayers. If statutory goals and intents were defined, policymakers could also determine what if any enhanced data reporting and disclosure rules must be put in place to collect data and measure performance relative to statutory goals.

Finding #2: - While adequate from a standpoint of confirming taxpayer compliance with eligibility requirements, current reporting requirements are inadequate for economic analysis.

Related Recommendations:

- Consider legislative change to enhance data reporting and revise disclosure rules for ITC recipients similar to those required by recipients of credits covered in the Division of Taxation's annual *Tax Credit & Incentive Report*.
- There is currently minimal administrative burden imposed on ITC credit recipients. Policymakers should consider the tradeoffs between efficiency and transparency when deciding the extent to which to enhance data reporting and disclosure requirements.
- To produce more rigorous analysis than what is contained in this report would require analysis of individual tax returns which may require enhanced capacity as well as additional statutory authority for the Office of Revenue Analysis.

Discussion Supporting Finding #2:

R.I. Gen. Laws § 44-48.2-5(a)(9) requires the Office of Revenue analysis to offer recommendations "[i]n the case of economic development tax incentives where measuring the economic impact is significantly limited due to data constraints, whether any changes in statute would facilitate data collection in a way that would allow for better analysis." Discussion related to this topic is as follows:

There is an inherent tradeoff between administrative efficiency and transparency involved in offering broadly available tax credits such as the four percent Investment Tax Credit. For many taxpayers the credit is offered as an "entitlement" – claiming the credit requires no pre-approval or certification other than filling out Rhode Island Form 3468 when filing their tax return.[24]

[24] Taxpayers claiming the ITC at the four percent credit rate face no additional reporting requirements other than filing a tax return with Rhode Island Form 3468. This form documents the investments that generated the tax credit, but provides no information regarding the economic characteristics of the firm claiming the credit. Taxpayers claiming the ITC at the ten percent credit rate are required to apply for certification with the Rhode Island Department of Labor. This process requires firms to attest to average/median wage levels or workforce training expenditures necessary to satisfy credit eligibility criteria, but does not provide any additional information regarding economic characteristics of the firm.

This method of administering a tax credit presents minimal burden on the taxpayer and tax administrators. However, the only data available for evaluating the effectiveness of such a tax credit is an analysis of data contained in tax returns – which is protected under confidentiality statutes. It is possible that useful information could be gleaned from the tax returns of credit recipients, but ORA does currently have the practical ability nor legal authority to access individual tax returns. While the Economic Development Tax Incentives Evaluation Act of 2013 requires that tax incentives programs be subject to cost-benefit analysis and that certain characteristics of tax incentive recipients be published, the fact that a taxpayer claimed a tax credit does not grant the state permission to release confidential personal and business information contained in the tax return or otherwise waive rights to confidentiality.

One option for policymakers to consider is to require public reporting of key metrics from all ITC recipients. ITC recipients would claim the credit with the understanding and consent that certain information will be publicly disclosed. At a minimum, public disclosure should require that the identity and tax credit amount be publicly reported. Optionally, credit recipients could be required to file an annual report with the Division of Taxation that contains key data for economic analysis including total employment, payroll, and gross sales. To minimize the administrative burden, such reporting could only be required for taxpayers claiming more than some minimum threshold (*e.g.*, basic disclosure might only apply to taxpayers claiming more than $5,000 of ITC; requirement to file more detailed annual report might apply to taxpayers claiming more than $10,000). The Division of Taxation's annual *Tax Credit & Incentive Report* provides an existing prototype for this type of disclosure, but it does not currently include the ITC. This reporting requirement could replace the credit pre-certification process currently administered by DLT's Labor Market Information (LMI) group and Governor's Workforce Board (GWB).

An alternative, less intensive recommendation, is to enhance data collected as part of the credit certification process currently administered by LMI and GWB. Currently, the certification forms present only the minimum required information necessary for applicants to demonstrate compliance with eligibility criteria.[25] For example, the current certification form administered by LMI requests only basic identifying information on the applicant, median or average wage paid to the relevant group of the firm's employees, and a declaration by a representative of the taxpayer attesting under penalty of perjury that the wage information provided is true. Applicants are instructed to retain supporting documentation as they may be subject to verification by the Division of Taxation, but no additional documentation requested from applicants at the time of certification. Requesting additional fields as part of the certification application would make the data collected by the form more useful for economic analysis. Useful fields include the firm's total Rhode Island payroll, a description of the assets or property placed into service as a result of the firm's qualifying investment, total employee count, the firm's total sales, and the portions of total sales that originate from in-state *vs.* out-of-state customers.

[25] Further information regarding the administration of the ten percent Investment Tax Credit by the Department of Labor and Training is available at: http://www.dlt.ri.gov/lmi/business/invtax.htm
Copies of the certification forms completed by ten percent credit recipients can be found in Appendix, Exhibit B and Exhibit C at the end of this report.

ORA recommends further investigation as to whether these changes would require legislative change or if they can be accomplished under current law.

Finding #3: - Usage of the Investment Tax Credit fell dramatically in tax year 2015, coinciding with the adoption of a major corporate tax reform:

- Business corporation tax reform instituted a rate reduction, mandatory unitary combined reporting, single-sales-factor apportionment, and market-based sourcing.
- A dramatic reduction in taxes owed by ITC-recipient firms rather than a reduction in ITC-qualifying investment spending seems to have driven reduction in ITC usage.

Related Recommendations:

- Policymakers should discuss whether the Investment Tax Credit remains justified as a result of this significant change in the Rhode Island tax environment.

Discussion Supporting Finding #3:

November 2017 Division of Taxation Revenue Estimating Conference testimony indicates that ITC usage fell from $19.44 million in tax year 2014 to $2.57 million in tax year 2015 – a decrease of 87 percent or $16.87 million. A major business corporation tax reform took place effective for tax years beginning on or after January 1, 2015. The reform instituted changes including a reduction in the corporate tax rate, mandatory unitary combined reporting, single-sales-factor apportionment, and market-based sourcing. An ORA investigation of historical data on durable investment and non-residential property investment showed stable, modest growth in 2015 – providing no evidence to support that a dramatic reduction in ITC-qualifying investment may have caused this decrease in ITC usage. It is possible that the dramatic reduction in credit usage was driven by the adoption of the tax reform.

Among the various tax reforms that took effect in tax year 2015, the shift from a three-factor apportionment formula to a single-sales-factor apportionment formula is particularly relevant. When the ITC was adopted, Rhode Island General Laws specified a three-factor formula for apportioning income earned by a C-corporation operating in multiple states with nexus in Rhode Island based on property, sales, and payroll for purposes of assessing the business corporation tax under R.I. Gen. Laws § 44-11-2. The proportion of a C-corporation's United States income that was subject to tax was equal to the average of the proportions of a company's property, sales, and payroll that was located/took place in Rhode Island.[26] Under this tax regime, an increase in a company's Rhode Island property, holding other factors equal, would result in an increase in Rhode Island taxable income. A tax scheme whereby firms with more Rhode Island property are subject to higher taxable income has the potential to disincentive Rhode Island investment. Providing a reward, in the form of a business corporation tax credit, for firms with increased Rhode

[26] Considering the emphasis on manufacturing given in this analysis, it is worth noting that prior to the adoption of single-sales-factor apportionment, manufacturers had been able to elect the use of a three-factor apportionment formula that assigned double-weight to the sales factor. This partially mitigated the investment and employment disincentives caused by the equally weighted three-factor formula by diminishing the relative significance of property and payroll in the apportionment calculation.

Island investment spending could potentially mitigate this disincentive. It is unknown if this was the deliberate intent of the Investment Tax Credit because the Investment Tax Credit has no statutory purpose.

For tax years beginning on or after January 1, 2015, Rhode Island adopted a single sales factor apportionment formula for determining Rhode Island taxable income for C-corporations subject to the business corporation tax. Under this apportionment formula, the proportion of a C-corporation's United States income that is subject to tax is equal to the portion of the firm's total sales that took place in Rhode Island. This formula eliminated the potential negative consequence of the three-factor apportionment formula to discourage a multi-state firm from making property and payroll investments in Rhode Island. To the extent that the Investment Tax Credit was justified on the assumption that three-factor apportionment discouraged multi-state firms from making property investments in Rhode Island, the adoption of a single sales factor apportionment has made the Investment Tax Credit unnecessary.

The adoption of single sales factor apportionment has had a significant impact on the Rhode Island corporate tax environment for multistate firms to such an extent that the Investment Tax Credit may no longer serve as a meaningful employment incentive for some or all firms. An example of the type of firm that is likely to benefit from the shift to single-sales-factor apportionment is a Rhode Island-headquartered corporation with a physical presence in many states. A large percentage of such a firm's payroll spending and property investment may take place at its Rhode Island corporate headquarters, but a relatively small percentage of its national sales are made to Rhode Island customers. In general, it is expected that such a firm would pay significantly less business corporation tax under single-sales-factor apportionment than had been previously paid under three-factor apportionment. While the ITC would have had a substantial dollar value for such a firm under three-factor apportionment, it is possible that the ITC would be far less valuable under single-sales-factor apportionment because the single sales factor apportionment formula has significantly reduced such a firm's Rhode Island apportioned taxable income, and for most taxpayers the value of the ITC is limited by half of the firm's tax liability and subject to carryforward limitations.

ORA found that the ITC only breaks even under an assumption that the incentive impacts the location and investment decisions of recipient firms. If the ITC primarily functions as a marginal reduction in the cost of capital, it is unlikely that the program breaks even. This means that the cost-effectiveness of the Investment Tax Credit relies on its ability to facilitate firms locating or undertaking business operations in Rhode Island that would not have occurred but for the availability of the credit. If the value of the Investment Tax Credit to an individual taxpayer has been reduced to the point that it no longer represents a meaningful cost savings to the firm, it will simply subsidize behavior that would have taken place anyway, likely with a net negative revenue impact. In light of the tax year 2015 Rhode Island corporate tax reforms, it is necessary to consider whether a broad-based investment tax credit remains meaningful or necessary.

Finding #4: - A best practice of tax incentive design is the inclusion of a sunset provision. The Investment Tax Credit does not contain a sunset provision.

Related Recommendations:

- Add a sunset provision.

Discussion Supporting Finding #4:

An important feature of a sunset is that it provides legislators with a regular opportunity to reconsider the continued relevance of the tax credit program and revise program features as needed. This will provide an opportunity to target the tax credit to particular industries and recalibrate benefits amounts so as to remain in line with competitor states. For example, the 2015 Rhode Island corporate tax reform had a major impact on the local business tax landscape, which presumably had an impact on the effectiveness and necessity of tax incentive programs such as the ITC, but no legislative changes were made to the ITC in response to this change. A sunset provision would help to ensure that such reconsiderations and revisions occurred at regular intervals.

Finding #5: - The Specialized Investment Tax Credit defined under R.I. Gen. Laws § 44-31-2 has been effectively repealed:

- ORA has been unable to identify any usage of the credit within the time period of analysis covered by this report.
- Following the repeal of R.I. Gen. Laws Chapter 42-64.7, ORA has been unable to identify a legal pathway by which any new credit usage could be authorized.

Related Recommendations:

- Formally repeal the Specialized Investment Tax Credit.

4. ORA Conclusions and Overall Recommendations

R.I. Gen. Laws § 44-48.2-5(a) (11) requires the Office of Revenue analysis to make a recommendation "as to whether the tax incentive should be continued, modified, or terminated." The Office of Revenue Analysis recommends that the Investment Tax Credit and related programs be reconsidered according to the recommendations described in the previous section.

Appendix

Exhibit A: SIC Codes to NAICS Codes

SIC	SIC DESCRIPTION	NAICS	NAICS DESCRIPTION
Division D: Manufacturing			
20	Food And Kindred Products	31	Manufacturing
21	Tobacco Products	31	Manufacturing
22	Textile Mill Products	31	Manufacturing
23	Apparel And Other Finished Products Made From Fabrics	31,32,33	Manufacturing, Manufacturing, Manufacturing
24	Lumber And Wood Products, Except Furniture	32,33	Manufacturing, Manufacturing
25	Furniture And Fixtures	32,33	Manufacturing, Manufacturing
26	Paper And Allied Products	32	Manufacturing
27	Printing, Publishing, And Allied Industries	32,51	Manufacturing, Information
28	Chemicals And Allied Products	31,32,33	Manufacturing, Manufacturing, Manufacturing
29	Petroleum Refining And Related Industries	32	Manufacturing
30	Rubber And Miscellaneous Plastics Products	31,32,33	Manufacturing, Manufacturing, Manufacturing
31	Leather And Leather Products	31,32,34	Manufacturing, Manufacturing, Manufacturing
32	Stone, Clay, Glass, And Concrete Products	32,33	Manufacturing, Manufacturing
33	Primary Metal Industries	32,33	Manufacturing, Manufacturing
34	Fabricated Metal Products, Except Machinery And Transportation E	32,33	Manufacturing, Manufacturing
35	Industrial And Commercial Machinery And Computer Equipment	31,33	Manufacturing, Manufacturing
36	Electronic And Other Electrical Equipment And Components, Except	33,51	Manufacturing, Information
37	Transportation Equipment	33, 48, 54, 81	Manufacturing, Transportation and Warehousing, Professional, Scientific and Technical Services, Other Services
38	Measuring, Analyzing, And Controlling Instruments; Photographic,	32,33	Manufacturing, Manufacturing
39	Miscellaneous Manufacturing Industries	31,32,33	Manufacturing, Manufacturing, Manufacturing
Division F: Wholesale Trade			
50	Wholesale Trade-durable Goods	42,44, 45	Wholesale Trade, Retail Trade, Retail Trade
51	Wholesale Trade-non-durable Goods	31, 42, 44, 45, 54	Manufacturing, Wholesale Trade, Retail Trade, Retail Trade, Professional, Scientific and Technical Services

SIC	SIC DESCRIPTION	NAICS	NAICS DESCRIPTION
Division H: Finance, Insurance, And Real Estate			
60	Depository Institutions	52	Finance and Insurance
61	Non-depository Credit Institutions	52	Finance and Insurance
62	Security And Commodity Brokers, Dealers, Exchanges, And Services	52	Finance and Insurance
63	Insurance Carriers	52	Finance and Insurance
64	Insurance Agents, Brokers, And Service	52	Finance and Insurance
65	Real Estate	53, 54, 71, 81	Real Estate and Rental and Leasing, Professional, Scientific and Technical Services, Arts, Entertainment and Recreation, Other Services
67	Holding And Other Investment Offices	52, 53, 55, 81	Finance and Insurance, Real Estate and Rental and Leasing, Management of Companies and Enterprises, Other Services
Division I: Services			
73	Business Services	(31, 32, 33), 42, 44, ,(48, 49), 51, 52, 53, 54, 56, 71, 81	(Manufacturing), Wholesale Trade, Retail Trade, (Transportation and Warehousing), Information, Finance and Insurance, Real Estate and Rental and Leasing, Professional, Scientific and Technical Services, Administrative and Support and Waste Management and Remediation Services, Arts, Entertainment, and Recreation, Other Services
76	Miscellaneous Repair Services	33, 44, 48, 56, 71, 81	Manufacturing, Retail Trade, Transportation and Warehousing, Administrative and Support and Waste Management and Remediation Services, Arts, Entertainment and Recreation, Other Services
80	Health Services	33, 54, 62,	Manufacturing, Professional, Scientific and Technical Services, Healthcare and Social Assistance
81	Legal Services	54	Professional, Scientific and Technical Services
82	Educational Services	51, 61	Information, Educational Services
87	Engineering, Accounting, Research, Manage	23, 54, 56, 61	Construction, Professional, Scientific and Technical Services, Administrative and Support and Waste Management and Remediation Services, Educational Services
89	Miscellaneous Services	51, 54, 56, 71	Information, Professional, Scientific and Technical Services, Administrative and Support and Waste Management and Remediation Services, Arts, Entertainment and Recreation

Exhibit B: RI Department of Labor and Training ITC Certification Form

Department of Labor and Training

1511 Pontiac Avenue Cranston, RI 02920

Rhode Island 10% Investment Tax Credit Certification Form

Name of Person Requesting Certification:	**Date:**
Address:	**Tax Year:** 2017
Fax Number:	**Phone Number:**
Name & Address of Company to be Certified:	
Federal Identification Number:	**NAICS Code:**

Employers* may qualify for the 10% Investment Tax Credit by meeting one of the following three criteria:

1) The employer's median annual wage paid to its full-time equivalent employees must be greater than the average annual wage paid by all employers in the state in the same three digit NAICS Code.

or

2) The employer's median annual wage paid to its full-time equivalent employees is greater than or equal to 125 percent of the average annual wage paid by all employers in the state.
(49,558 X 125 % = $61,948 from 7/1/2017 thru 6/30/2018)

or

3) For manufacturing employers only - the average annual wage paid to the employer's full-time equivalent employees classified as production workers (as defined by the Department of Labor and Training) is greater than the average annual wage paid to all production workers in the state in the same three digit NAICS Code.

Median Annual Wage Paid by Employer to its full-time equivalent employees: **$**_____ ***(For Options 1 or 2 only)***	**Average Annual Wage Paid by Employer to its full-time equivalent *production* employees:** **$**_____ ***(For Option 3 only)***

I hereby declare under penalty of perjury that the wages provided above are true.

Signature of Employer Representative: _____

Based on the information provided above, the Department of Labor and Training has determined that this company meets the wage requirements under option ___ to qualify for the RI 10% Investment Tax Credit under section 44-31-1 of the General Laws. Dept of Labor & Training's endorsed document must be included with the applicable filed Income Tax Return.

Department Representative: _____

Date of Certification: _____

*Employers classified in the following eligible NAICS codes may qualify for the 10% Investment Tax Credit: 311, 313-316, 321-327, 331-337, 339, 423-425,511,518, 522-525, 531,533,541,551,561, 611,621-623, 811, 51211,5122,and 7115.

Employers are advised to retain supporting documentation as they may be subject to verification by the RI Division of Taxation.You may submit this form by mail, or fax it to the LMI Unit at (401) 462-8766.

This certification is for the RI 10% Investment Tax Credit, as only a "qualified taxpayer", under Section 44-31-1 of the RI General Laws.

Exhibit C: Governor's Workforce Board Request for Certification Letter

RI Investment Tax Credit
Request for Certification Letter

Please refer to the Rhode Island Investment Tax Credit Act, Title 44, Chapter 31, of Rhode Island General Laws for a complete review of the requirements of this program.

Purpose
Rhode Island Law, Section 44-31-1 provides for a 10 Percent Investment Tax Credit. This credit is available to employers classified in manufacturing, wholesale trade, finance, insurance, real estate and selected services industries. In order to be eligible for the credit, the employer must be paying above average wages or investing significantly in employee training. In addition, more than half of the revenue of non-manufacturing firms must come from out-of-state sales or sales to the federal government.

Employers may qualify for the 10% Investment Tax Credit by meeting one of three criteria, including that the firm invests at least 2% of total payroll costs in worker training.

In order to qualify for the credit under the above criteria, an entity must submit a letter specifying total wages, total amount spent on training, and the computation of the percent spent on training to the Governor's Workforce Board in order to receive a letter from the GWB certifying these expenses. This Request Form satisfies this requirement.

For GWB ONLY:

Date Request Received:_____

Date Certification Letter Issued: Application No.

Governor's Workforce Board
RHODE ISLAND
train for success · connect for growth

CONTACT INFORMATION:

Company Name: _____

Address: _____

City: _____ State: _____ Zip: _____

Telephone Number: _____ Email Address: _____

Contact Person: _____

Federal Tax ID No.: _____ RI Employer ID: _____

2. Primary NAICS Code (if you are unsure, please visit https://www.naics.com/search/): _____

3. Total Number of RI-based Employees: _____

TRAINING SUMMARY:

Please provide a narrative description of all training programs included in the training costs total:

COST SUMMARY:

Below please itemize the costs associated with all training programs included in the training costs total (Example: June 2013 Call Center Training: $50,000, January 2015 Team Building Training: $8750). The total these costs to arrive at the total Amount Spent on Training. If you need more space please attach an appendix to this document.

AMOUNT SPENT ON TRAINING	
TRAINING PROGRAM	**COST**
TOTAL	$ 0.00
TOTAL PAYROLL (TOTAL WAGES)	
TOTAL	
Amount Spent on Training / Total Payroll (Expressed as a %, must be greater than 2%)	
% of Payroll Spent on Training	

RI Investment Tax Credit Act - Request for Certification Letter

Signatory Page:

The information contained in this document is accurate to the best of my knowledge.

I certify that my company is an eligible employer, and that only qualifying training expenses for eligible employees will be taken as the tax credit. I understand that any information contained in this document may be subject to audit/confirmation by the Governor's Workforce Board, the RI Division of Taxation, and any other relevant authority.

NOTE: This credit can no longer be claimed on the RI Personal Income Tax Returns.

_____

Signature of CEO or Manager of Rhode Island Facility

Please return this completed request for certification to:

RI Investment Tax Credit
Governor's Workforce Board RI
1511 Pontiac Avenue
Building 72-2
Cranston, RI 02920

Employers are advised to retain supporting documentation for their records.

Exhibit D: Rhode Island Form 3468

State of Rhode Island and Providence Plantations
Form RI-3468
Investment Tax Credit

15131399990101

Name	Federal employer identification number	For the year ending:

U.S. BUSINESS CODE NUMBER

☐ Check if company is a high performance manufacturer

Schedule A: 10% Investment Tax Credit Calculation - Attach DLT 10% ITC Certification Letter

Description of Property	Date Placed in Service	Date Acquired	Life	Cost	% Qualifying	Basis for Credit
(a)						
(b)						
(c)						
(d)						
(e)						
(f)						
(g)	Total Basis Eligible for 10% Investment Tax Credit. Add all amounts from Basis for Credit column .					
(h)	Credit Amount for 10% Investment Tax Credit. Multiply Total Basis from line g by 10% (0.1000) . . . (You must attach current year 10% ITC Certification Letter from the Department of Labor and Training) . . .					
(i)	Unused 10% Investment Tax Credit from Prior Year(s). . . Attach schedule showing Year Generated, Amount Generated, Amount(s) Used and Year(s) Used . . .					
(j)	Total 10% Investment Tax Credit Available. Add lines h and i . . .					

Schedule B: 4% Investment Tax Credit Calculation

Description of Property	Date Placed in Service	Date Acquired	Life	Cost	% Qualifying	Basis for Credit
(k)						
(l)						
(m)						
(n)						
(o)						
(p)						
(q)	Total Basis Eligible for 4% Investment Tax Credit. Add all amounts from Basis for Credit column lines k - p. . .					
(r)	Credit Amount for 4% Investment Tax Credit. Multiply Total Basis from line q by 4% (0.0400) . . .					
(s)	Unused 4% Investment Tax Credit from Prior Year(s) . . . Attach schedule showing Year Generated, Amount Generated, Amount(s) Used and Year(s) Used . . .					
(t)	Total 4% Investment Tax Credit Available. Add lines r and s . . .					

R.I. Gen. Laws § 44-31

State of Rhode Island and Providence Plantations

Form RI-3468

Investment Tax Credit

15131399990102

Name	Federal employer identification number	For the year ending:

ITC Calculation - **Note: This worksheet does not take into account other Rhode Island Credits. Refer to each credit law for proper usage order of credits.**		
1.	Enter Tax Amount from Form RI-1120C, line 11	
2.	Enter Minimum Tax Amount (RI-1120C - enter $450.00)	
3.	**Maximum ITC Amount.** Subtract line 2 from line 1	
4.	Enter 4% credit amount from Schedule B, line t	
5.	**4% ITC Credit Used.** If line 4 is less than or equal to line 3, enter the amount from line 4 here. If line 4 is more than line 3, enter the amount from line 3 here	
6.	**Tax Balance after 4% ITC credit usage.** Subtract line 5 from line 3	
7.	Multiply line 6 times 50% (0.5000) and enter here. 10% ITC is limited to half the tax amount. However, if the entity is a high performance manufacturer, enter amount from line 6. The half tax limitation does not apply to high performance manufacturers	
8.	**10% ITC Credit Used.** Enter the lesser of line 7 or the 10% ITC amount from Schedule A, line j	
9.	**2016 ITC Credit.** Add lines 5 and 8. Enter here and on Schedule B-CR, line 8	
10.	**4% ITC carryforward amount.** Subtract line 5 from Schedule B, line t	
11.	**10% ITC carryforward amount.** Subtract line 8 from Schedule A, line j	

State of Rhode Island and Providence Plantations

Form RI-3468

Investment Tax Credit

Investment Tax Credit
R.I. Gen. Laws § 44-31

INSTRUCTIONS

1. For taxable years beginning on or after July 1, 1974, Section 31 of Chapter 44 of the Rhode Island General Law allows an investment tax credit of two percent (2%) of the cost or other basis used for federal income tax purposes on certain property. Provided, however, the amount of the credit shall be four percent (4%) of the cost or other basis for federal income tax purposes of tangible personal property and other tangible property, including buildings and other structural components of buildings that are acquired, constructed, reconstructed or erected after December 31, 1993. For taxable years ending on or after 1/1/1998, the credit is (10%) for certain tangible personal property and other tangible property, excluding buildings and structural components of buildings, motor vehicles and furniture, which are acquired after 1/1/1998. To qualify for such credit the items must (a) be depreciable pursuant to Sec. 179 (d) thereof, (b) have a useful life of 4 years or more, (c) have a situs in this state, and (d) be principally used by the taxpayer in the production of goods by manufacturing, processing or assembling.

2. The items listed in this schedule should be in such form as will present an accurate statement. Complete details substantiating the amounts shown must be made available on request.

3. At the election of the taxpayer, an investment tax credit may be allowed on otherwise qualifying property in lieu of elective deductions on facilities qualifying as: (a) Air and water pollution control facilities and (b) Research and Development facilities.

4. If the property is disposed of or ceases to be in qualified use during the INITIAL taxable year, the credit allowed is 2%, 4% or 10% of the cost or other basis of the property multiplied by a fraction the numerator of which is the months of qualified use during the year of purchase and the denominator of which is the total months of useful life (submit rider for such items).

5. Credit may not be claimed on property leased to or from others, unless such lease is treated for federal income purposes as an installment purchase rather than a lease.

6. The total credit may not reduce the tax for any year to less than $500.00 starting with years beginning 1/1/2004 and thereafter. For tax years 1/1/2004 through 12/31/2014, the total credit may not reduce the tax for any year to less than $500.00. Effective with tax year beginning 1/1/2015, the total credit may not reduce the tax to less than $450.00. Unused investment tax credit amounts may be carried forward for seven years.

7. If property is disposed of or ceases to be in qualified use other than the initial taxable year, the difference between the credit taken and the credit allowed for actual use must be added back in the year of disposition on the appropriate line of tax on Form RI-1120C and not on Form RI-3468. A taxpayer may not reduce the amount of tax liability created by a recapture of investment tax credit by investment tax credits allowed for the year in which the asset is disposed of, nor can it be reduced by any carryover of investment tax credit to that year. The recapture is the tax credit taken on property ceasing to qualify multiplied by a fraction the numerator of which is the useful life of property in months less the qualified use in months and the denominator is the useful life of the property in months.

   For example, qualified property is purchased by a calendar year taxpayer on 1/1/1975 for $100,000.00 and has a useful life of 10 years (120 months) for federal depreciation purposes. The credit taken for 1975 is 2% of $100,000.00 or $2,000.00. If it is disposed of or traded in on 12/31/1980 after being used for 6 years (72 months), $800.00 of the credit originally taken must be added back for 1980, since the asset was disposed of while it still had 4 years (48 months) of useful life remaining at 40%.

$$\$2{,}000.00 \times \frac{120-72}{120} = \$800.00$$

   (Submit rider for such items)
   A recapture of a portion of the investment tax credit is required where property on which a credit has been allowed is disposed of or ceased to be in qualified use except: (a) where property was in qualified use for its entire useful life, or (b) where property was in qualified use for more than twelve consecutive years.

10% Investment Tax Credit - If you qualify for the 10% investment tax credit, you must submit a copy of your 10% ITC Certification from the Department of Labor and Training.

Credit Carryover Schedule - If you have unused credit from prior years, you must attach a schedule detailing the type of investment tax credit (4% or 10%), the amount of credit generated, the year the credit was generated, the amount of credit used, and the year the credit was used.