

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Governor Gina M. Raimondo



Economic Development Tax Incentives Evaluation Act:

*Evaluation of
“Incentives for Innovation and Growth Credit”
(R.I. Gen. Laws § 44-63-2)
Tax Years 2013 through 2015*

Office of Revenue Analysis

June 5, 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.

Part II: Description of the Tax Incentive

A tax credit against the tax imposed by Rhode Island General Laws Chapters 44-11 (“Business Corporation Tax”) and 44-12 (“Franchise Tax”) equal to 50.0 percent of the amount invested in an eligible qualified innovative company is allowed, but in no case shall the amount of the tax credit exceed \$100,000. A tax credit certificate may be issued in the name of the eligible company, an executive employee or employees of the company, an investor in the company or any combination thereof.

Only companies with business primarily in those industries or trades identified by the Rhode Island Commerce Corporation (CommerceRI) upon advisory resolution of the Rhode Island Science and Technology Advisory Council as “Innovation Industries” producing traded goods and services can be deemed eligible for the investment. CommerceRI can approve no more than \$1,000,000 in credits in any two year period.

If the allowable amount of the credit exceeds the tax liability of the investor in the taxable year the credit is earned, unused portions of the credit may be carried forward to no more than three succeeding tax years. No tax credit can be approved by CommerceRI after December 31, 2016. Due to the repeal of the franchise tax effective January 1, 2015, this credit will no longer be allowed against the taxes imposed by Rhode Island General Laws Section 44-12 for tax years beginning on or after January 1, 2015.

Part III: Tax Incentive Amount

For tax years 2013 through 2015 there was no recipient of this tax credit. ORA assumes no economic impact due to zero credit usage.

Part IV: 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:

“The Commerce Corporation believes strongly that fostering innovation and entrepreneurship is important to Rhode Island’s economic growth. The Corporation has made encouraging innovation and entrepreneurship a top priority in the last few years and has created several new programs to do so. These include the Innovation Voucher program, which helps Rhode Island small businesses partner with our universities to undertake new R&D activities, and the Innovation Campus, which is utilizing a \$20 million voter-approved bond to create new industry-university partnerships. The Commerce Corporation recommends that this tax incentive, which is closed to new applicants, be studied further to determine whether the program has the potential to supplement and strengthen existing efforts to encourage innovation and entrepreneurship. The Corporation would recommend this study address whether better marketing or any improvements to the program would attract greater usage. The Corporation does not presuppose any particular outcome of this kind of study; it may well show that this incentive should be modified or repealed.”

2. ORA Recommendations

The credit was sunset on December 31, 2016. Given that there was no usage of the credit in tax years 2013 through 2015, the Office of Revenue Analysis recommends repeal of the credit in its entirety.