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

"Jobs Training Tax Credit Act"

(R.I. Gen. Laws § 42-64.6)

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.

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 § 42-64.6-4 entitled "Jobs Training Tax Credit" (JTTC) and measures the economic impact associated with the tax credit during tax years 2013 through 2015. This analysis is performed at the micro level using information provided by the Division of Taxation and the 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 Jobs Training Tax Credit. 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

A qualified employer is allowed a credit against the business corporation tax (R.I. Gen. Laws Chapter 44-11), the Taxation of Railroad Companies (R.I. Gen. Laws Chapter 44-13), Financial Institutions Tax (R.I. Gen. Laws Chapter 44-14), and Insurance Companies Gross Premiums Tax (R.I. Gen. Laws Chapter 44-17) equal to 50.0 percent of the qualifying expenses to provide training and/or retraining to qualifying employees.[1] A qualified employer must file an election and be approved by the Governor's Workforce Board (GWB).[2] According to statute, "[T]he election shall set forth any information that the [GWB] shall require describing the program and/or retraining [of] employees, the duration of the program, an estimate and description of the amounts to be spent to implement the program, the nature of the program to be provided to employees, an estimate of the number of the employees who shall be covered by the program and the relationship, if any, of the employer to the party or parties offering the program and the agreement of the employer to provide additional information following the date of an election that shall be requested by the [GWB]." A qualifying employee is an individual, other than a highly compensated employee as defined in federal law, employed by the employer in Rhode Island for at least 30 hours per week, and who earns, or will earn immediately upon completion of the training and/or retraining program, 150.0 percent of the state minimum wage.[3] Qualifying expenses are all expenses directly

[1] It was formerly possible to claim the JTTC 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 Jobs Training 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] The JTTC enabling statute refers to the "Human Resources Investment Council" as the administering entity of the tax credit. Per R.I. Gen. Laws § 42-102-1.2 the Human Resources Investment Council was renamed as the "Governor's Workforce Board Rhode Island." Throughout this report the name Governor's Workforce Board (GWB) is used.

[3] The full JTTC election/application is included in Appendix: Exhibit C at the end of this report.

attributable to providing the training or retraining of qualifying employees that shall improve the skills required of those employees.

Fifty percent of the credit amount can be used in the taxable year in which the expense is incurred with the balance to be used in the succeeding tax year. The credit is non-refundable and shall not reduce a taxpayer's liability below the statutory minimum tax. Note that because many taxpayers do not have sufficient tax liability to utilize the credit, GWB approves many JTTC elections/applications for which credits are never utilized. The maximum credit per employee is no more than $5,000 in any three-year period.

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: Background and Benchmarking

The following benchmarking and background analysis provides some historical, regional, and national context for the analysis of the Rhode Island Jobs Training Tax Credit (JTTC). This section provides some information on the availability of similar tax credits in neighboring states, as well as discussion of local economic factors related to labor force skills and training. Where appropriate, this section provides data on Rhode Island, other New England states, and nationwide. Data generally are compiled from public sources such as the U.S. Department of Labor, Bureau of Labor Statistics, U.S. Census Bureau, and the U.S. Department of Education, National Center for Education Statistics. In many cases, ORA was unable to find any state-level data on measures of non-degree workforce training – such as attainment of alternative credentials and completion of on-the-job training. In these cases, national data and discussion from academic journals and publicly-available consultancy reports are presented.

Educational attainment is a key component of a dynamic economy, as it affords individual employees access to higher paying jobs, attracts top-paying employers, and allows the workforce to adapt to the evolving demands of the modern labor market.

Research shows that individuals with higher levels of formal educational attainment generally have greater labor force participation and higher wages. Formal educational attainment is generally defined in terms of the highest formal educational credential earned by an individual – for example, less than a high school diploma, high school diploma, some college, associate's degree, bachelor's degree, and graduate degree. The following table compares the unemployment rate and median weekly earnings of the 25+ year-old United States population tabulated by level of formal educational attainment.

Unemployment and Earnings by Level of Formal Educational Attainment

(United States Population, Calendar Year 2015)

Highest Education Level	**Unemployment Rate**	**Median Weekly Earnings**
Doctoral degree	1.7	$1,623
Professional degree	1.5	$1,730
Master's degree	2.4	$1,341
Bachelor's degree	2.8	$1,137
Associate's degree	3.8	$798
Some college, no degree	5.0	$738
High school diploma	5.4	$678
Less than a high school diploma	8.0	$493
All Education Levels	**4.0**	**$860**

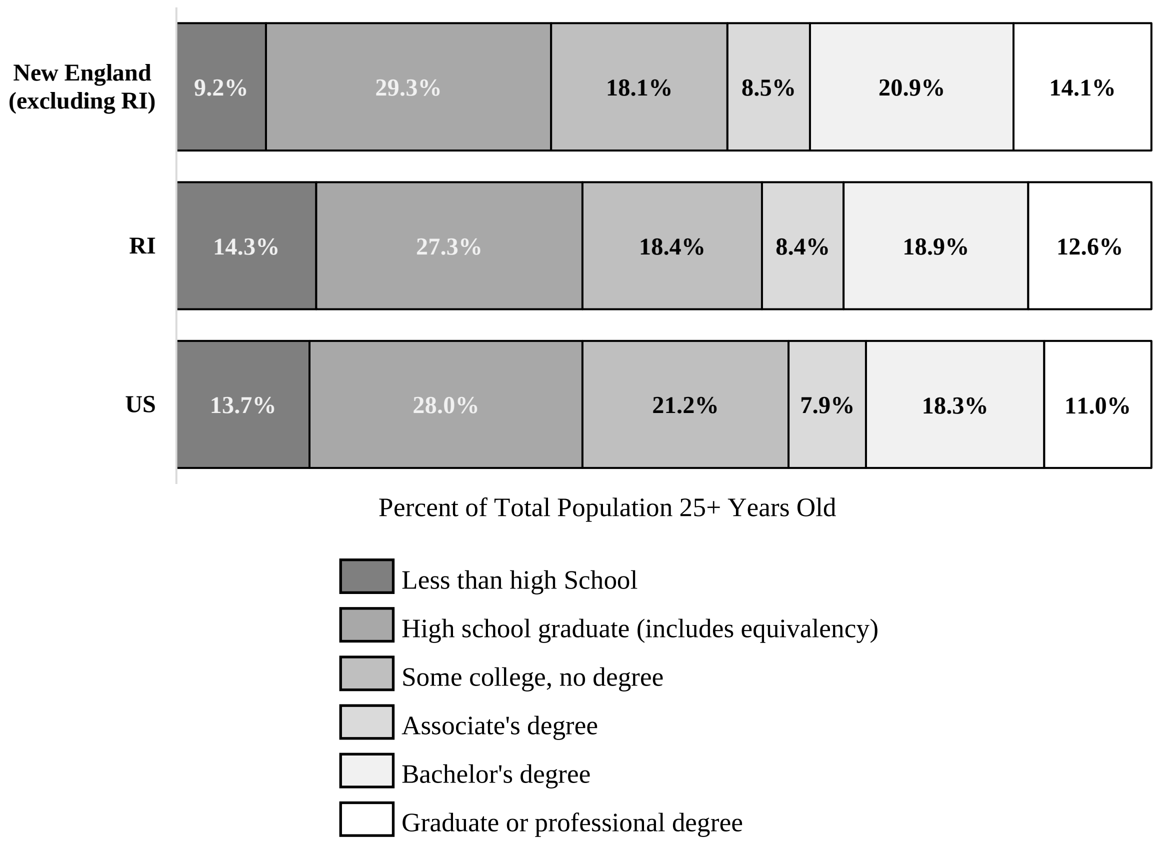
Source: Current Population Survey, U.S. Bureau of Labor Statistics, available: https://www.bls.gov/careeroutlook/2016/data-on-display/education-matters.htm

Note: Data are for persons age 25 and over. Earnings are for full-time wage and salary workers.

As shown in the table above, individuals achieving higher levels of education are less likely to be unemployed and have higher median earnings. For example, the unemployment rate for individuals with a bachelor's degree is 2.6 percentage points lower than the rate for individuals with only a high school diploma, and the median weekly earnings among bachelor's degree holders are $459 or 68 percent higher than peers with only a high school diploma.

The following data provides comparison data on Rhode Islanders' levels of formal educational attainment compared with the rest of New England, and the nation:

Formal Educational Attainment in Rhode Island,
Other New England States, and United States
(Three-year Average, Calendar Years 2013-2015)

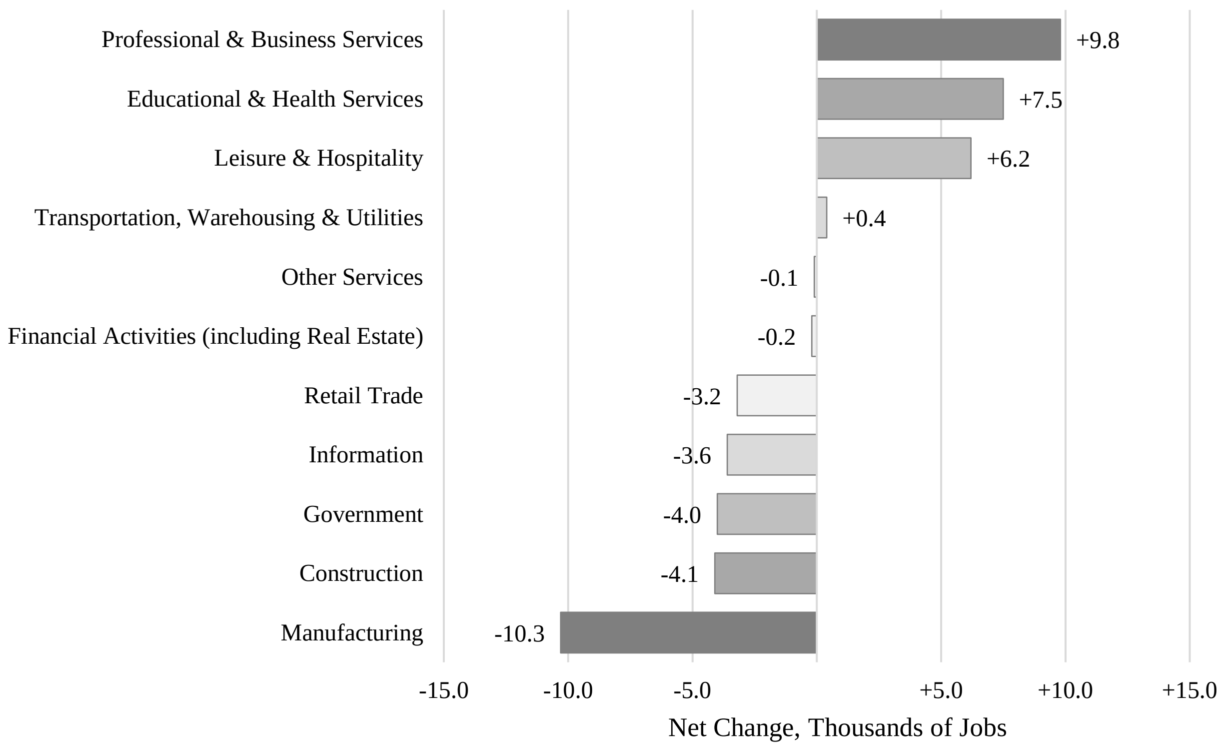


Source: American Community Survey, Calendar Years 2013 through 2015, U.S. Census Bureau

The data provided in the previous chart shows that on average, Rhode Islanders have lower levels of formal educational attainment than residents of other New England States, but a higher level of college degree attainment compared to the national average. Compared with other New England states, Rhode Island has a greater portion of the population that holds a high school diploma or less and lower proportion holding an associate's degree or higher. When compared with national averages it is notable that Rhode Island has a greater proportion of individuals at both the upper and lower extremes of the educational spectrum. Rhode Island has a greater proportion of individuals with less than a high school diploma than the national average and has a greater proportion of individuals possessing at least an associate's degree.

While the level of educational attainment is an important component of a strong labor force, it is also essential that education focuses on skills that matter. In other words, workforce education and skills must be aligned with the demands of local employers. Over the past years and decades, the Rhode Island economy has transitioned away from traditional goods-producing industries, which traditionally offered living wages to a large number of low and moderate skill workers, towards service producing industries, in which higher salaries are available but often only to those with the most in-demand skills and education. The following chart highlights these trends by depicting net changes in Rhode Island employment from the time period of 2007 through 2016.

Rhode Island Net Change in Employment by Industry
(Net Change in Jobs between Calendar Years 2007 and 2016)



Source: ORA calculations based on Current Employment Statistics, Rhode Island Department of Labor and Training

The rapidly changing blend of employment, shown in the chart above, demonstrates the need for a nimble workforce. Total private, non-farm employment decreased by 2,100 employees over this ten-year period, which was driven by the fact that an increase of 2,000 private sector jobs was offset by a decline of 4,000 government jobs. Goods-producing industries lost 14,500 jobs while service-producing industries gained 12,300 jobs. The industries with the largest increases in employment were professional & business services, educational & health services, leisure & hospitality, and transportation, warehousing & utilities which gained a combined 23,900 jobs between 2007 and 2016. The industries with decreasing employment included manufacturing, construction, government, information, retail trade, financial activities, and other services which lost a combined 25,600 jobs. The changing breakdown of labor demanded by state industry highlights the need for employee retraining and flexibility.

Various consultancy reports have heralded an oncoming skills shortage, gap, and mismatch in the United States economy over the past twenty years – making claims such as public schools are not graduating students with basic competency in skills necessary to thrive in the workforce, institutions of higher education are not graduating sufficient numbers of students in key fields such as STEM (science, technology, engineering, and math) or healthcare, and that the needs of the changing workforce are evolving faster than current workers can adapt.[4] For example, a 2012 report conducted by Deloitte Consulting and the Manufacturing Institute focused on the skills gap in the manufacturing sectors.[5] This study revealed alarming statistics such as the findings that 67 percent of surveyed employers reported a moderate to severe shortage of qualified workers, 56 percent expected the shortage to grow worse, and 5 percent of jobs at surveyed firms were unfilled due to a lack of qualified applicants. At these firms, access to a "highly skilled, flexible workforce" was cited as the most important factor in determining their effectiveness over the next five years. 83 percent of firms surveyed by the Deloitte / Manufacturing Institute study stated that they utilized "internal employee training and development programs" to "mitigate existing skill gaps" – which was the most popular response.

A 2012 report by the American Society for Training & Development (ASTD), an association of workplace learning and development professional, indicated similar sentiments regarding the perceived skills gap in the United States' economy.[6] In a survey of 377 employers in a variety of industries, 84 percent answered "yes" to the question "Is there a skills gap in your organization now?" The ASTD report noted that the biggest skills gaps are found among middle- and high-skills job. Middle-skills jobs are "highly specialized mechanical, technical, and production careers that may require industry or government certification but not necessarily a bachelor's degree. Industries with notable middle-skills shortages include manufacturing, construction, and healthcare. High-skills jobs typically require a degree, and ASTD expected the largest shortages to be in the STEM fields.

Other reports take the position that the much-publicized skills gap is largely overblown. For example, a 2015 journal article by Peter H. Capelli published in the *Indstrial and Labor Relations Review*, highlights that many reports warning of the impending skills shortage are published by consultancies and industry groups with a financial stake in the problem utilizing less-than-scientific survey approaches.[7] A 2013 report by the Boston Consulting Group (BCG) expresses

[4] For example, see: Chambers, Elizabeth G., Mark Foulon, Helen Handfield-Jones, Steven M. Hankin, and Edward G. Michaels, 1998, "The war for talent," *McKinsey Quarterly* (3): 44–57.

[5] Deloitte and the Manufacturing Institute, 2011, "Boiling point? The skills gap in U.S. manufacturing." Available: http://www.themanufacturinginstitute.org/~/media/A07730B2A798437D98501E798C2E13AA.ashx

[6] American Society for Training and Development [ASTD], 2012, "Bridging the skills gap: Help wanted, skills lacking. Why the mismatch in today's economy?" Available: https://www.nist.gov/sites/default/files/documents/mep/Bridging-the-Skills-Gap_2012.pdf

[7]Peter H. Cappelli, "Skill Gaps, Skill Shortages, and Skill Mismatches: Evidence and Arguments for the United States," ILR Review, Vol 68, Issue 2, pp. 251 – 290 First Published January 23, 2015 https://doi.org/10.1177/0019793914564961

similar skepticism towards the perceived skills crisis, finding "little evidence of a meaningful and persistent skills gap."[8] According to this report, the "real problem" as it relates to skills shortages in the manufacturing sector "is that companies have become too passive in recruiting and developing skilled workers at a time when the U.S. education system has moved away from a focus on manufacturing skills in order to put greater emphasis on other capabilities." BCG notes that U.S. manufacturers have scaled back in-house training and are not sufficiently taking advantage of important sources of up-and-coming talent such as high schools and community colleges.

These sources seem to indicate that the skills gap is significant in terms of maintaining regional competitiveness, even if they have not reached consensus on whether the issue will eventually reach crisis levels. Many sources focus on a manufacturing skills gap, which is especially worth highlighting because this sector is identified as having lost the most jobs in Rhode Island over the past ten years. National studies suggest that companies report difficulty filling positions, yet invest little in worker training programs or increases in wages. In this context it is possible that collaborative approaches between the private sector, non-profit institutions, and government may be able to address such barriers to firms and employees realizing their full economic potential.

In consideration of this, ORA investigated the availability of job-related training programs in other New England states. ORA identified a variety of state-administered workforce development programs in all New England states. The following list contains an example from each state:

- Massachusetts Workforce Training Fund: http://workforcetrainingfund.org/programs/general-program/guidelines/
- Connecticut Manufacturing Innovation Fund Incumbent Worker Training Program: https://www.ctdol.state.ct.us/IWTmanufappform.htm
- Vermont Training Program: http://accd.vermont.gov/economic-development/funding-incentives/vtp
- New Hampshire Job Training Fund: http://www.nhjobtrainingfund.org/
- Maine Apprenticeship Program: http://www.maine.gov/labor/jobs_training/apprenticeship.html

While all states had a variety of workforce development programs, ORA also investigated the availability of tax credit programs similar to Rhode Island's JTTC. ORA found that only one other New England state, Connecticut, offered a tax credit comparable to the JTTC. The following table provides a brief description of the tax credit features in each state, as well as any information on any identified credit cap and carryforward provisions.

[8] Boston Consulting Group, 2013, "The U.S. skills gap: Could it threaten the U.S. manufacturing renaissance?" Available: http://image-src.bcg.com/Images/BCG_The_US_Skills_Gap_Aug_2013_tcm9-95768.pdf

Jobs Training Tax Credit in Rhode Island and Selected Comparison States

	Rhode Island	Connecticut
Program Name	Jobs Training Tax Credit	Human Capital Investment Tax Credit
Law Reference	R.I. Gen. Laws § 42-64.6-4	Conn. Gen. Stat. § 12-217x
Credit Features	50% of the qualifying expenses to provide training and/or retraining to qualifying employees. Allows wages/salaries to be counted for a portion of credit-eligible expenses. Application required.	5% of the amount paid or incurred by a corporation for human capital investments. Does not allow wages/salaries to be counted as credit-eligible expenses. No application required.
Cap	Maximum credit per employee is $5,000 in any three-year period and is non-refundable.	Credit cannot exceed the amount of corporation business tax otherwise payable
Carryforward	50 percent of credit allowable in the taxable year in which expenses occurred with the balance to be allowed in the following year.	Up to 5 years
Source	http://webserver.rilin.state.ri.us/Statutes/TITLE42/42-64.6/42-64.6-4.HTM	http://www.ct.gov/drs/cwp/view.asp?a=3807&q=522172 & https://www.cga.ct.gov/current/pub/chap_208.htm#sec_12-217x

Notes: Information reflects the terms of the program identified by ORA as of the time of report publication.

As indicated in the table above, a tax credit is not a typical mechanism for funding workforce development in New England states. Both the Rhode Island and Connecticut credit programs are non-refundable, but they also have significant differences. The Connecticut credit rate is significantly less than in Rhode Island, but the credit is offered to any employer without any special application process other than submitting the necessary forms with their tax return. Additionally, the Connecticut program is made more valuable by the fact that it is not capped at a fixed dollar amount and it contains a more generous five-year carryforward provision.

Part III: Report Data Description

The analysis of the JTTC 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 consisted of the following:

- JTTC applicants in FY 2011 through FY 2017 provided by the Governor's Workforce Board (GWB).
- Annual reports for FY 2011 through FY 2017 provided by GWB.
- Cost of tax credit administration.

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

- Credit, firms and employment information;
- 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 two companies received the JTTC over tax years 2013 through 2015 with an average value of $1.93 million. The following table provides a description of the number of recipients of the JTTC and the corresponding tax benefit amounts received in each tax year:

Jobs Training Tax Credit Recipients
(Tax Years 2013 – 2015)

Tax Year	Number of Recipients	Total Benefit Received
2013	2	$1,620,000
2014	4	$3,579,736
2015	1	$588,428
Total	**7**	**$5,788,164**
Average	**2**	**$1,929,388**

Source: Division of Taxation Testimony at the November 2017 Revenue Estimating Conference.

It is notable that as few as a single taxpayer claimed the JTTC from tax years 2013 through 2015. Due to the small number of JTTC recipients, ORA was unable to publish all statutorily-required analyses in light of taxpayer confidentiality mandates. Such instances are noted throughout this report.

Also, as detailed later in the report, the statistics above refer to credit *usage* rather than *approvals*. In a typical year, GWB approves a higher count and amount of tax credits than are eventually claimed by taxpayers due to non-refundability and carryforward limitations as well as the order in which tax credits are applied in the tax calculation methodology (*e.g.*, firms exhaust their tax liability utilizing some other tax credits, resulting in them being unable to utilize the JTTC).

2. Value of tax credit granted by NAICS code

Due to statutory confidentiality mandates under R.I. Gen. Laws §§ 44-1-14, 44-19-30, 44-11-21, 44-14-23 and 44-30-95(c) and the risk of disclosure of taxpayer information, the Division of Taxation is unable to approve disclosure of information by ORA as required by R.I. Gen. Laws § 44-48.2-5(a)(4) as it pertains to the "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."

3. Cost of administration

The administration of the JTTC involves both the Division of Taxation and the Rhode Island Department of Labor and Training (DLT), Governor's Workforce Board (GWB). Using data provided by these agencies, ORA found that the total cost to administer the tax credit was $4,384 in tax years 2013-2015. The total direct cost incurred by GWB in tax years 2013-2015 to administer the JTTC was $900 while the indirect costs incurred by the Division of Taxation to administer the tax credit were $3,484 for the same time period. The following table provides a description on the cost of administration in each tax year:

<u>Jobs Training Tax Credit: Cost of Administration by Office and Tax Year</u>

(Tax Years 2013 – 2015)

	Cost of Administration				
Cost Incurring Entity	**TY 13**	**TY 14**	**TY 15**	**Total**	**Average**
DLT	$300	$300	$300	$900	$30
Division of Taxation	$84	$1,805	$1,679	$3,484	$1,189
Total Cost	**$384**	**$2,105**	**$1,979**	**$4,384**	**$1,219**

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

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

Due to statutory confidentiality mandates under R.I. Gen. Laws §§ 44-1-14, 44-19-30, 44-11-21, 44-14-23 and 44-30-95(c) and the risk of disclosure of taxpayer information, the Division of Taxation is unable to approve disclosure of information by ORA as required by R.I. Gen. Laws § 44-48.2-5(a)(1) as it pertains to the "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."

5. Direct Taxes Paid by Recipients

Due to statutory confidentiality mandates under R.I. Gen. Laws §§ 44-1-14, 44-19-30, 44-11-21, 44-14-23 and 44-30-95(c) and the risk of disclosure of taxpayer information, the Division of Taxation is unable to approve disclosure of information by ORA as required by R.I. Gen. Laws § 44-48.2-5(a)(1) as it pertains to the "the aggregate annual revenue that such taxpayers generate for the state through the direct taxes applied to them."

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

Due to statutory confidentiality mandates under R.I. Gen. Laws §§ 44-1-14, 44-19-30, 44-11-21, 44-14-23 and 44-30-95(c) and the risk of disclosure of taxpayer information, the Division of Taxation is unable to approve disclosure of information by ORA as required by R.I. Gen. Laws § 44-48.2-5(a)(8) as it pertains to the "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."

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

Additionally, the *Tax Credit & Incentive Report* published annually by the Division of Taxation includes limited information on JTTC usage. The Jobs Training 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 Jobs Training 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 JTTC amount received using information from the *Tax Credit & Incentive Report* for fiscal years 2014 through 2016.

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

Fiscal Year	Taxpayer	JTTC Amount
	CVS	$621,343
2016	Electric Boat	$2,541,907
	Subtotal	**$3,163,250**
	CVS Pharmacy	$468,222
2015	Electric Boat	$1,532,858
	Subtotal	**$2,001,080**
	CVS Pharmacy	$139,704
2014	Electric Boat	$923,509
	Subtotal	**$1,063,213**
	Grand Total	**$6,227,543**

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

It should be noted that the table above is only a partial listing of JTTC usage which was incidentally reported as part of a *Tax Credits & Incentives Report*.

Furthermore, the Governor's Workforce Board (GWB) provided ORA with data on all JTTC applicant companies' total trainees and total training costs for fiscal years 2011 through 2017. The following table presents this information for each fiscal year[9]:

Jobs Training Tax Credit Total Trainees and Total Training Costs
(Fiscal Years 2014 – 2016)

Fiscal Year	Total Applicants	Reported Trainees by Applicants	Reported Training Costs by Applicants
2014*	6	7,404	$15,071,045
2015	3	4,268	$4,362,064
2016	4	6,840	$4,323,286
Grand Total	**13**	**18,512**	**$23,756,395**

Source: Department of Labor and Training, GWB.

Note: ORA assumes that fiscal years 2014 through 2016 correspond to tax years 2013 through 2015. Data beyond this time period are provided in the appendix.

* One company submitted two applications across two different FEINs, therefore GWB received six applications from five companies.

During fiscal years 2014 through 2016, GWB processed a total of 13 applications, or an average of 4.25 per year. Note that the number of applicants exceeds the count of taxpayers claiming the credit. Not all taxpayers approved for credits are able to utilize their credits, due to the credits being limited by non-refundability and carryforward restrictions. For this reason, it is also important to note that count of trainees and reported training costs reported above are associated with credit *applicants*, and exceed the number of trainees and costs associated with credit

[9] The current report concerns tax years 2013 through 2015 and therefore the table provides data for the corresponding fiscal years 2014 through 2016. More data history is attached in the appendix.

recipients. GWB does not have access to information necessary to determine whether a credit recipient actually claimed a credit following approval of their application.

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 JTTC 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 JTTC.

1. Assessment and Five-Year Projection of Revenue

ORA assumes that the usage of the JTTC under current law will follow historical usage patterns. Therefore, ORA assumed a three-year moving average in the total amount of the tax credits that would be utilized in future calendar years. The following table provides the distribution of the anticipated amount of the JTTC to be claimed in each fiscal year.

Jobs Training Tax Credits:
Revenue Projection
(Millions of Dollars)

Fiscal Year	Projections
2017	$1.63
2018	$1.57
2019	$1.40
2020	$1.53
2021	$1.50

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

Notes: Projections are constructed as a three-year moving average of JTTC usage by tax year. Most recent three years of historical data included in moving average are tax years 2014 through 2016. 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 JTTC 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. Cost Benefit Analysis

Pursuant to R.I. Gen. Laws § 44-48.2-5(6), ORA conducted a cost-benefit analysis to measure the net impact on state revenues resulting from the Jobs Training Tax Credit under a variety of assumptions regarding what would have happened in the Rhode Island economy if the credit had not been available.

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 claimed in tax years 2013 through

2015.[10] 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 provided by 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, employment, and compensation or wages. ORA assigned these 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 JTTC amount.

- *Modeling Costs*

ORA assumes that the tax incentive is funded by an equivalent reduction in state government spending – that is, when the state government forgoes revenue by allowing a rate reduction, 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:

[10] 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

<u>Three Year Average of Rhode Island General Fund Expenditures</u>

(Calendar Years 2013 - 2015)

Industry Description	**NAICS Code**	**Percent of Total**
Ambulatory Healthcare Services [11]	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 modeled the $1,929,388 three-year average Jobs Training Tax credit as a commensurate adjustment to industry-specific production costs. This analysis estimates the economic and fiscal impacts of the incentives under the assumption that the tax credit impacted economic activity at recipient firms at the margin. This assumption means that the tax credit increased productivity at the recipient firm, but it did not leverage any additional investment beyond this immediate impact. Rather than making long-term production decisions based on the availability of an incentive in a given year, firms simply made short-term cost-structure decisions in response to the availability of an incentive. This is equivalent to assuming that training would have basically happened anyway, regardless of credit availability, but that the credit did make training marginally less expensive. Further, this analysis assumes that firms did not make location or production decisions as a result of the tax credit.

ORA observed that the "production cost" variable in the REMI model has a residual impact that lingers for several years. To capture the full extent of the benefits of the tax credit, ORA summed the costs and benefits, calculated in 2015 real dollars, over a period of five years, but has presented them below as if they all occurred in a single year.

- *Cost Benefit Results*

The following table provides more detailed information regarding the state general revenue impact

Job Training Tax Credit:
Detailed Revenue Impacts
(Average Annual RI General Revenue Impact, Calendar Years 2013-2015)

Item Description	Amount
General Revenue Generated by Incentive by Component	
Personal Income Tax	$3,785
Sales and Use Taxes	$3,705
Other Taxes	$169
Total Departmental Receipts	$1,168
Other Sources	$5,1,289
Total General Revenue Generated by Incentive	**$11,447**
Forgone Revenue Due to Incentive	**$(1,929,388)**
Net Change in General Revenue, After Paying for Incentive	**$(1,917,941)**
New Revenues Generated for Every Dollar of Incentive	**$0.01**

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

This table shows that the activity associated with the JTTC generated a total of $11,447 gain of state general revenues – however, this figure does not include the $1.93 million cost of the credit itself. Therefore, in an average year during the period of calendar years 2013 through 2015 Rhode Island gives up $1.93 million in revenue on the JTTC but still loses revenues in return, equal to an average annual net loss of $1.92 million in net general revenue. Expressed another way, under a "worst case" assumption that the tax credit represented only a marginal cost savings for activity that would largely have happened anyway, for every dollar spent on the JTTC the State collects one cent of new revenue.

The results of this analysis portray the JTTC in a very unfavorable light, largely because of the limited scope of benefits included in the analysis. While it is possible that the availability of the credit led to firm's making location or production decisions – that is, firms located projects in Rhode Island that would have otherwise taken place out of state, or engaged in projects that would otherwise have not been possible – there was no statutory nor data-driven justification for ORA to draw these conclusions. Furthermore, the JTTC enabling statute does not require as a condition of claiming the credit that the training activity would not have taken place but for the availability of the tax credit. It is possible that some or all of the training activities associated with the JTTC would have taken place in the absence of the credit. ORA had very little data regarding the economic footprints of recipient firms, which would have been necessary to model the impact of the recipient firms on the local economy.

The fact that there are many more applicants approved for credits than there are taxpayers who utilize credits is further indicative that much of the credit-generating training activity would have happened anyway, regardless of the incentive. If a firm applies for a credit, but is uncertain that they will have sufficient tax liability at the end of the year to utilize the credit, they must be prepared to finance the training on their own in the event that the credit ends up being valueless at year end. Logically, it seems that only those firms that could afford the training anyway would engage in training if the JTTC had an uncertain chance of being paid.

Productivity gains from training were an additional benefit that could have been included in the cost-benefit analysis, which would have improved the return on investment. For example, it is possible that investments in worker training had a lasting impact on worker productivity, employee retention/turnover, and efficiency. Some of these impacts are potentially lasting, that is, they impart a lasting benefit to employees even if they were to switch jobs. ORA had no empirical data on credit recipients and the outcomes of training activities by which to model this impact.

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:

"Since taking office, the Raimondo Administration has prioritized job training efforts. These efforts include instituting computer science programming in schools across the state, supporting organizations helping Rhode Islanders gain skills they need for jobs that pay, increasing investment in Rhode Island's community college and Career and Technical Education programs, and the Administration's signature job training program, Real Jobs Rhode Island. While the apparent goal of the Job Training tax credit is sound, the Commerce Corporation nevertheless believes it should be sunset, as proposed in the Governor's FY19 budget. The energy, attention, and resources to accomplish the important goal of job training should be directed toward the Real Jobs RI program. As currently implemented, this incentive benefits a very small subset of companies and the Commerce Corporation favors the broader-based, demand-driven efforts of Real Jobs RI to provide Rhode Islanders with the skills they need to access higher quality jobs."

2. Discussion of Data Concerns

ORA encountered difficulty reconciling data from various publicly available data sources. The two primary data sources for JTTC 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 JTTC recipients. The *Tax Credit & Incentive Report* includes only a portion of JTTC usage. The *Tax Credit & Incentive Report* only contains comprehensive disclosure of six state tax credit programs, of which the JTTC is not included. Recipients of the six covered tax credits and incentive programs are required to report any usage of additional state tax credits; [12] therefore,

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

JTTC usage is included incidentally in the Tax Credit & Incentive Report when self-disclosed by recipients of covered tax credits.

Jobs Training Tax Credit Data Sources Compared

(Amounts in Millions of Dollars)

November 2017 REC Testimony		**Annual *Tax Credit & Incentive Reports***	
Tax Year	**JTTC Amount [a]**	**Fiscal Year**	**JTTC Amount [b]**
TY 2013	$1.62	FY 2014	$3.13
TY 2014	$3.58	FY 2015	$2.00
TY 2015	$0.59	FY 2016	$1.06
Total	**$5.79**	**Total**	**$6.23**

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 JTTC usage by *all* taxpayers.

[b] Source reports on self-disclosed JTTC usage only by 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.*, credit 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 $1.06 million of credit usage reported by the fiscal year 2016 *Tax Credit & Incentive Report* exceeds the total amount of JTTC reported for tax year 2015 in the November 2017 Division of Taxation Revenue Estimating Conference Testimony.

In fact, the total usage for all three years of *Tax Credit & Incentive Reports* exceeds the usage in three years of REC testimony. The usage reported in the *Tax Credit & Incentive Reports* between fiscal year 2014 through 2016 represents self-disclosed credit amounts for two firms annually. During the time period of TY 2013 – TY 2015 / FY 2014 – FY 2016 these two firms were responsible for $6.23 million which *exceeds* the total amount of $5.79 million of reported JTTC usage. A further discrepancy is the fact that in calendar year 2015, REC testimony reported that there was a single credit user, while the FY 2016 *Tax Credit & Incentive Report* included self-disclosed usage from two recipients.

It is unknown whether these discrepancies result from taxpayer data revision (*e.g.*, a taxpayer filing a late or amended return) or ambiguous reporting of data by fiscal year *vs.* tax year. These particular data discrepancies could likely 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 fact that ORA was unable to report on several statutorily required metrics in this report highlights the difficulty in providing rigorous economic analysis while maintaining taxpayer confidentiality in situations dealing with a small sample of taxpayers. This challenge is further complicated when just a few of those taxpayers (or even a single taxpayer) 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 to this approach. In this case, the credit was claimed by as few as a single taxpayer in some years covered – making aggregation virtually useless as a means of shielding confidential data. In situations in which it is anticipated that only a few taxpayers will utilize a credit, there is little additional data that could be reported unless taxpayers had been required to consent to data-sharing as a condition of claiming the credit.

3. ORA Recommendations

Finding #1: The statutory goals of the Jobs Training Tax Credit are NOT defined in R. I. Gen. Laws § 42-64.6-4. 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 JTTC 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 Jobs Training 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 Jobs Training Tax Credit is intended to provide a marginal cost savings to local firms making workforce investments *vs.* attract workforce investment from competitive out-of-state locations. Furthermore, there is no specificity as to whether to credit is intended to provide a benefit to recipient firms or employee trainees. While these differences are subtle, making such determinations will help to inform cost-effective incentive design and evaluation.

Finding #2: - While adequate from a standpoint of confirming taxpayer compliance with eligibility requirements and fulfilling statutory obligations, current reporting is inadequate for economic analysis and lacks rigor.

Related Recommendations:

- Consider legislative change to enhance data reporting and revise disclosure rules for JTTC recipients similar to those required by recipients of credits covered in the Division of Taxation's annual *Tax Credit & Incentive Report*.
- To produce more rigorous analysis than what is contained in this report would require coordination with the Department of Labor and Training, Governor's Workforce Board to enhance data collection and rigorous annual reporting.
- Consider revision to the JTTC annual reporting statutes to make them more specific and rigorous.

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:

The enabling statue of the Jobs Training Tax Credit contains several data collection and evaluation features. However, ORA has found that they have been not used to their full potential; instead, annually required evaluations of the JTTC have been legally adequate, but perfunctory.

R.I. Gen. Laws § 42-64.6-8 requires that the "[Governor's Workforce Board (GWB)] shall annually prepare a report utilizing the information received in this act and other appropriate sources describing and evaluating the impact, if any, of this act on the state's economic resources and the number and type of qualifying employees being trained or retrained as a result of this chapter." In response to this requirement, GWB devotes a portion of the *Governor's Workforce Board Annual Report* to the Jobs Training Tax Credit. ORA found that this requirement was fulfilled in fiscal years 2011 through 2017, with the exception of FY 2016 when, according to GWB staff, the annual report was not completed "due to turnover in both the director and staff positions." The mention of the JTTC in the GWB typically occupies less than half of a page, consisting of a brief description of the credit terms, a summary of the total number of trainees and dollar amounts of credits approved, and a listing of the names of all approved credit applicants.[13] Based on credit amounts listed, ORA can infer that the trainee and credit amounts listed refer to approved applications and not actual usage. The annual reports contain no follow-up information on whether applicants followed through with training goals, whether the firms or employees experienced any improvement in employment outcomes such as increased wages or retention, nor any indication regarding whether the firm actually claimed a tax credit. While acceptable from the standpoint of

[13] The portion of the *Governor's Workforce Board Annual Reports* that cover the JTTC are presented in their entirety in Appendix: Exhibit A

satisfying the minimum statutory responsibility, these reports lack rigor, depth, and an analysis as to the economic impact of the tax credits.

GWB possesses authority to collect the necessary data to support a rigorous evaluation. R.I. Gen. Laws § 42-64.6-3(3) states that JTTC election/application shall include a variety of items necessary for confirming tax credit eligibility, but also shall include an "agreement of the employer to provide additional information following the date of an election that shall be requested by the [GWB]." ORA assumes that this "additional information" could include survey data and/or data on employee and firm outcomes that would be sufficient for conducting more rigorous analysis of the program. Furthermore, the regulation governing the program also suggests that GWB has interpreted their administrative powers to allow them to release data on program effectiveness as required by law. The regulation related to this statute states: "[T]he [GWB] reserves the right to compile information provided by individual employers into statistical reports to be published as it deems necessary and/or required by law."[14] ORA assumes that this may allow GWB to publish otherwise confidential information regarding applicants and credit-recipients as part of the annual report.

Policymakers should clarify the data collection, reporting, and evaluation role of GWB in administering the JTTC. ORA recommends that GWB maintain an annual reporting function, but that some portion of the evaluation could be supplanted by the reports required by under the Tax Incentive Evaluation Act of 2013. It may present a conflict of interest for the same entity tasked with administering the program, the Governor's Workforce Board, to also be responsible for its evaluation. Considering both GWB's and ORA's limited access to some of the taxpayer data necessary to perform a thorough evaluation, policymakers should consider whether data access and capacity must be improved for either one or both entities.

An alternative to relying completely on the GWB to report JTTC usage is to assign some credit usage reporting responsibility to the Division of Taxation. The Division of Taxation's *Tax Credit & Incentive Report* provides an existing framework for this type of reporting. Currently, this report requires recipients of six specified tax credits to file an annual report with the Division of Taxation, of which the JTTC is not included. For example, all taxpayers claiming the JTTC could be required to consent to the disclosure of their identities and credit usage amount, while JTTC-recipients over some minimum credit usage threshold (*e.g.*, $10,000 per year) could be required to file a more detailed annual report.

[14] Section II of Regulation ERLID #4003 Available:
http://sos.ri.gov/documents/archives/regdocs/released/pdf/48499e8fdcede8747dd787b02d0262e2/HRIC%20JTTC%20Rules%205-5-06.pdf

Finding #3: - Without assurances that some portion of JTTC recipients' economic activity would not have taken place in the absence of the credit, the JTTC fails to breakeven with respect to state revenues by a *wide* margin.

Related Recommendations:

- Revise the credit so as to focus on strategically valuable training activities
- Incorporate elements of "but for" due diligence into the application process
- Consider repeal of the JTTC if strategic workforce development goals can be better achieved through other new/existing workforce development initiatives.

Discussion Supporting Finding #3:

It is statutorily permissible for firms to make use of the JTTC for training activities that they would have undertaken anyway. There is no explicit requirement that firms document the efficacy of training programs for either the firm or trainees. At a minimum, ORA recommends incorporating some level of 'but for' due diligence into the application process. For example, firms should be required to demonstrate why the training being subsidized represents a new and expanded approach to training Rhode Island employees: Does the training allow the firm to move employees to the state that had formerly been located elsewhere? Is the firm expanding in some new capacity? *etc.* ORA has been unable to identify economic justifications for subsidizing training that simply represents "business as usual" at the firm, and does not present a new, expanded, or innovative approach to training the Rhode Island workforce. Policymakers should also require the publishing of follow-up data on the efficacy of training programs.

While an analysis of Rhode Island's other workforce development programs is beyond the scope of this report, ORA is aware that the state already has a variety of existing workforce development programs. It is possible that these existing programs better fulfill the state's strategic workforce development initiatives, and the most straightforward course of action would be to repeal the JTTC and focus administrative attention and funding on other programs – so long as they are designed with transparency and ongoing program evaluation in mind.

If they wish to revise rather than repeal the JTTC, ORA recommends that policymakers consider better targeting the JTTC at strategic workforce development priorities. This could include targeting firms from out-of-state locations, training lower- and middle-skill workers, providing incentive to train unemployed, underemployed workers, and retraining redundant workers. Additionally, the credit could be targeted or focused on strategically valuable industries.

Finding #4: - A best practice of tax incentive design is the inclusion of a sunset provision. The Jobs Training 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. 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 JTTC, but no legislative changes were made to the JTTC in response to this change. A sunset provision would help to ensure that such reconsiderations and revisions occurred at regular intervals.

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 Jobs Training Tax Credit be reconsidered according to the recommendations described in the previous section.

Appendix

Exhibit A: Jobs Training Tax Credit Annual Reports, Governor's Workforce Board

FY 2011

Job Training Tax Credits

Another way that the Governor's Workforce Board supports growing businesses is through the Job Training Tax Credit Act. Employers may receive tax credits equal to as much as 50 percent of their training costs, with a limit of $5,000 per employee over a three-year period. Only $1,000 of qualified expenses may be wages earned through training. The training may run the gamut, from academic remediation and ESL to technology applications and management skills. In FY 2011, more than $4.4 million in tax credits were awarded to the 26 companies listed below. Collectively, they were able to train nearly 5,200 RI workers. The tax credit recipients are listed below:

AAA Southern New England
AVID Airline Products of Rhode Island
Addiction Recovery Institute
Applied Radar
CVS Pharmacy
A Caring Experience Nursing Services
The Chemical Company
Décor Craft Inc
Eagles Industries
Electric Boat Corporation
Gem Management Company
Gem Mechanical Services
Gem Plumbing & Heating Services
Griggs & Browne
International Packaging Corporation
K&M Associates
Masters & Servant
Ocean State Jobbers
Preventure
PURVIS Systems
Raytheon Company
TD Bank North America
Technic
Urologic Specialist of New England
Vanguard Cleaning Systems
Woonsocket Glass & Mirror

Source: RI Governor's Workforce Board

FY 2012

Job Training Tax Credits

Another way that the Governor's Workforce Board supports growing businesses is through the Job Training Tax Credit Act. Employers may receive tax credits equal to as much as 50 percent of their training costs, with a limit of $5,000 per employee over a three-year period. Only $1,000 of qualified expenses may be wages earned through training. The type of training varies widely, from academic remediation and ESL to technology applications and management skills. In FY 2012, the 20 companies listed below were approved to receive tax credits in order to train approximately 9,500 RI workers.

AAA Southern New England

Addiction Recovery, South

Addiction Recovery, North

Advanced Pharmacy

Applied Radar, Inc

CVS Pharmacy

CVS Rx Services, Inc

Dama Jewelry

Davitt Design Build

Electric Boat

Gem Management

Gem Mechanical Services

Gem Plumbing & Heating Services

International Packaging

Ocean State Jobbers

Purvis Systems Inc

Raytheon Company

RI CVS Pharmacy, LLC

RI Pharmacy, LLC

Yushin America, Inc

Source: RI Governor's Workforce Board

FY 2013

Job Training Tax Credits

Another way that the GWB supports growing businesses is through the Job Training Tax Credit Act. Employers may receive tax credits equal to as much as 50 percent of their training costs, with a limit of $5,000 per employee over a three-year period. Only $1,000 of qualified expenses may be wages earned through training. The type of training varies widely, from academic remediation and ESL to technology applications and management skills. Job Training Tax Credits are available only to C Corporations and may not be claimed on RI personal income tax returns.

In FY 2013, the following companies listed below were approved to receive nearly $3 million in tax credits in order to train more than 4,100 RI workers:

- AAA Southern New England
- Alexion Pharmaceuticals
- Applied Radar
- CVS Pharmacy
- CVS Rx Services
- Raytheon
- RI CVS Pharmacy

Source: RI Governor's Workforce Board

FY 2014

Job Training Tax Credits

Another way that the GWB supports growing businesses is through the Job Training Tax Credit Act. Employers may receive tax credits equal to as much as 50 percent of their training costs, with a limit of $5,000 per employee over a three-year period. Only $1,000 of qualified expenses may be wages earned through training. The type of training varies widely, from academic remediation and ESL to technology applications and management skills. Job Training Tax Credits are available only to C Corporations and may not be claimed on RI personal income tax returns.

In FY 2014, the following companies were approved to receive nearly $4.5 million in tax credits in order to train more than 4,500 RI workers:

- AAA Southern New England
- Collette Vacations
- General Dynamics Electric Boat
- United Parcel Service

Source: Page 6 of FY 2014 Governor's Workforce Board Annual Report

Available:
http://gwb.ri.gov/wpcontent/uploads/2017/06/GWB_SWIO_AnnualReport_FY2014.pdf?189db0

FY 2015

Job Training Tax Credits

Another way that the GWB supports growing businessesAnother way that the GWB supports growing business¬es is through the Job Train¬ing Tax Credit Act. Employ¬ers may receive tax credits equal to as much as 50 percent of their training costs, with a limit of $5,000

per employee over a three-year period. Only $1,000 of qualified expenses may be wages earned through training. The type of training varies widely, from academic remediation and ESL to technology applications and management skills. Job Training Tax Credits are available only to C Corporations and may not be claimed on RI personal income tax returns.

In FY 2015, the following companies listed below were approved to receive nearly $4.3 million in tax credits in order to train more than 4,700 RI workers:

- AAA Southern New England
- Collette Vacations
- General Dynamics Electric Boat

Source: Page 6 of FY 2015 Governor's Workforce Board Annual Report

Available: https://gwb.ri.gov/wp-content/uploads/2017/06/GWB-2015-Annual-Report.pdf?189db0

FY 2016

The GWB did not complete an annual report in 2016 because of turnover of both the executive director and staff.

FY 2017

Administration of the Job Training Tax Credit

The Governor's Workforce Board is statutorily charged with approving letters of request for the state Job Training Tax Credit.

Employers may receive a tax credit equal to as much as 50% of their training costs, with a limit of $5,000 per employee over a three-year period. Only $1,000 of qualified expenses may be wages earned through training.

The type of training varies widely, from academic remediation and ESL to technology applications and management skills. Job Training Tax Credits are available only to C Corporations and may not be claimed on RI personal income tax returns.

In FY 2017, nearly $8 million in training costs were approved to train more than 8000 workers with the following companies:

- AAA Southern New England
- Amica Insurance Company
- CVS
- General Dynamics Electric Boat

Source: Page 30 of FY 2017 Governor's Workforce Board Annual Report

Available: https://gwb.ri.gov/wp-content/uploads/2017/06/Annual-Report-FY2017-Final.pdf?189db0

Exhibit B: Jobs Training Tax Credit Total Trainees and Total Training Costs

Jobs Training Tax Credit Total Trainees and Total Training Costs

(Fiscal Years 2011 – 2017)

Fiscal Year	Total Applicants	Reported Trainees	Reported Training Costs
2011	26	5,244	$4,501,809
2012	20	10,343	$4,038,359
2013	7	4,139	$2,966,980
2014[a]	6	7,404	$15,071,045
2015	3	4,268	$4,362,064
2016	4	6,840	$4,323,286
2017[b]	7	8,095	$7,952,292

Source: Department of Labor and Training, GWB.

Note: ORA assumes that fiscal years 2014 through 2016 are equivalent to tax years 2013 through 2015. Data beyond this time period is provided in the appendix.

[a] One company submitted two applications across two different FEINs, therefore GWB received six applications from five companies.

[b] One company submitted four applications across two different FEINs, therefore GWB received seven applications from four companies

Exhibit C: Jobs Training Tax Credit Application

RI Jobs Training Tax Credit Act
Application for Election

Please refer to the Rhode Island Jobs Training Tax Credit Act, Title 42, Chapter 64.6, of Rhode Island General Laws for a complete review of the requirements of this program.

Purpose

To grant a tax credit against the corporate income tax equal to 50% of actual training expenses for new and current employees.

Summary

Companies are eligible for a tax credit of up to $5,000 per employee, over a three year period, for their investments in retraining or upgrading the skills of their employees. Only $1,000 of wages per employee can be applied towards the three year $5,000 cap. For a company to qualify, employees must work at least 30 hours per week at the time of training, make 150% of the Rhode Island minimum wage at the end of training ($12.00) and be retained for eighteen months after the completion of the training.

As detailed in regulation, training can not start until the application (election) is approved by the Human Resource Investment Council. Please keep this in mind when planning your training programs and filing the application

The HRIC is responsible for approving qualifying expenses, qualifying employers and qualifying employees. Qualifying expenses are direct costs associated with providing training. For example, costs paid directly to instructors to provide training and wages paid to employees while in training. Costs such as room rental fees, conference fees, food and refreshments, travel, expenses to organize, administrative and overhead fees, etc. do not qualify for the credit.

Process

The employer shall submit two copies of the attached "RI Jobs Training Tax Credit Act Application for Election" to the Human Resource Investment Council. Along with the application, the employer must also obtain and file with the HRIC a "Certificate of Good Standing" from the Rhode Island Division of Taxation.

Upon receipt of **two signed copies of the application** (election), the Council or its designee shall register and review the application and subsequently recommend that it be approved, rejected or further information needed. The applicant will be notified in writing within sixty (60) days of the approval or denial. If further information is needed, the applicant will be contacted by the HRIC with a request for further documentation. If the information is not received within twenty (20) business days the application will be considered denied.

RI Jobs Training Tax Credit Act - Application for Election

If there is ongoing training over a long period of time or if trainees have yet to be hired, applicants may request that reporting requirements be applied retroactively. In those cases, the employer would submit documentation after the approved training program was complete. Please reference item number twelve (12) on page two (2) of the application.

Any substantial changes to your training plan shall require the filing of a new application and proposed modifications must by approved in writing by the HRIC before training can commence.

Application Review Checklist:

[ ] Training Plan Summary
[ ] Attach Trainer/Company Program Summary and Cost estimates for each Program
[ ] Budget Summary for ALL Training Programs
[ ] Budget Description for Each Training Program including; List of Employees with SS#, hours of training & wages
[ ] Tax Division Letter of Good Standing
[ ] Two Copies of Application Signed and Complete

For HRIC ONLY: Date Approved/Election Date___________________

Date Submitted Application No.

1. **Contact Information:**

Company Name: ____

Address: ____

City: ___________________________ State: _________ Zip: ________

Telephone Number: _____________ Email Address: _____________

Contact Person: ____

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

2. Primary NICS Code: ________________

3. Total Number of Employees: __________

4. Briefly describe your company's business:

5. Please indicate which of the following best describes the proposed training:

- ☐ Academic Remediation
- ☐ Total Quality Management
- ☐ Workplace Literacy
- ☐ College Courses
- ☐ Cross-Skill Training
- ☐ Technology Application
- ☐ New Employee Training
- ☐ Other Training (list)

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PROPOSED TRAINING PLAN SUMMARY:

6. Is the company receiving any state, federal, or local grants to offset all or a portion of the training cost?

No ☐ Yes ☐ If yes, how much and through which program. $ _________

If yes, please provide supporting documentation including an approved budget and cost sharing agreement.

7. Is the company taking advantage or intending to take advantage of any other state tax credits for job training?

No ☐ Yes ☐ If yes, explain:

8. Please provide a narrative description of all proposed training programs*:
(*Examples of training that would not be approved include; new employee orientations and personal development activities.)

9. Please explain why the training is being conducted? How will the training increase the necessary skills of the employee and increase the competitiveness of the company? How will the training be evaluated?

10. Where will the training take place?

11. If training is conducted outside of Rhode Island please explain why it is not feasible to conduct training in Rhode Island*.
(*Allowable expenses may only include the actual costs of the training, not travel, hotels, meals, conference fees, etc.)

12. In instances where there is continuing training or "rolling training" or where the trainees have yet to be hired, applicants may request that the reporting requirements be applied retroactively. In those cases, the employer would submit follow-up documentation after the approved training program was complete. The reporting requirements would include; a per page list describing

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RI Jobs Training Tax Credit Act - Application for Election

the training, the names of the trainers, the names of the employees that attended the training with their Social Security numbers, the dates of the training, and wages of the trainers and trainees that are being used towards the tax credit and documentation that the employees are receiving per hour wages that are 150% ($12.00) of the Rhode Island minimum wage.

☐ My company's training scenario is captured in the above paragraph. I would like to apply for follow-up retroactive reporting as described.

13. What number of full-time employees would be trained through these programs? ____________

14. Total hours of training for employees: _______________

15. Estimated start and completion date of training: ________________

Budget Summary for ALL Training Programs:

Total Training Costs: $ _______________

Total Wage Costs*: $ _______________

(*Only $1,000.00 per employee can be claimed for the credit)

Total Cost of Proposed Training Programs: $ _______________

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Budget Description – Please include one completed copy of this page for each training program.

Training Program Name:

Name of Training Company/Firm:
Please attach trainer/company program summary and cost estimates for each program.

Documentation for Internal Trainers:

Internal Trainer Name	Wage Per Hour	# of Hours Training	Total Trainer Cost
1.			
2.			
3.			

Documentation for Participants in the Training:

Employee Name	SS#	Wage Per Hour	# of Hours Trained	Total Wage Cost
1.				
2.				
3.				

For new employees who have not yet been hired, you must supply the HRIC with a list of the employees prior to starting training, or request that the reporting requirements be applied retroactively.

Budget Summary for this Training Program:

Training Costs: $ _____________

Wage Costs*: $ _____________
(*Only $1,000.00 per employee can be claimed for the credit)

Total Cost of Proposed Training Program: $ _____________

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<u>RI Jobs Training Tax Credit Act - Application for Election</u>

<u>Signatory Page:</u>

I understand that training conducted prior to the filing and approval of an election (application) with the HRIC is not eligible for the tax credit. If there are multiple training programs in one application, each proposed program must be listed individually and include the entire requirements listed on the budget description page. The application <u>must</u> include a Letter of Good Standing from the Division of Taxation. In addition, changes to the proposed training program that will affect the amount of the tax credit taken must be approved by the HRIC prior to implementing.

The Human Resource Investment Council may require additional information on the training program after an application has been filed. If requested, the company will supply HRIC staff with additional information related to the training program and the necessary financial information to document the economic benefits of the Job Training Tax Credit and will allow HRIC staff to review records and files relating to training with reasonable prior notice.

This is to verify that each of the employees trained will receive 150% of the Rhode Island minimum wage ($12.00 per hour) by the end of the training and will be retained at that rate or a higher rate for eighteen months after the completion of training.

I certify that my company is an eligible employer, and only the qualifying training expenses for eligible employees will be taken as the tax credit and further that none of the employees to be trained meet the definition of "highly compensated employee" as set forth in 26 USCS § 414 (q).

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 application *in duplicate* with a Letter of Good Standing to:
RI Jobs Training Tax Credit
Governor's Workforce Board RI
1511 Pontiac Avenue
Building 72
Cranston, RI 02920

Employers are advised to retain supporting documentation for their records.
For additional information regarding the RI Jobs Training Tax Credit please call (401) 462-8823.
For information concerning the Letter of Good Standing contact the RI Division of Taxation at (401) 574-8941.