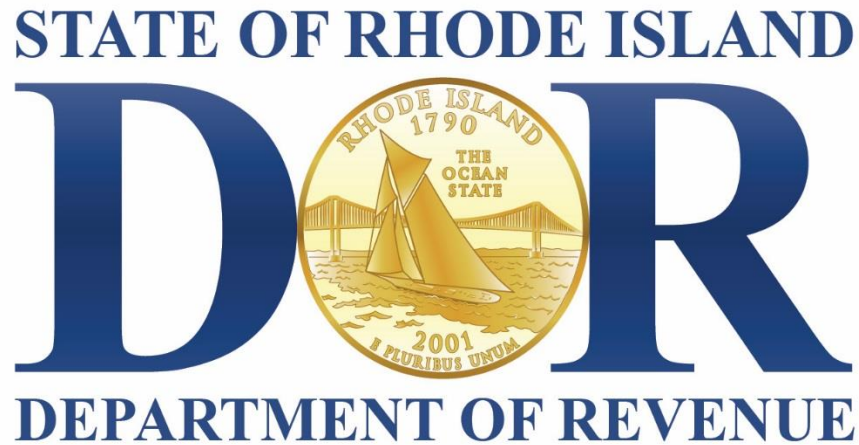


STATE OF RHODE ISLAND

Governor Daniel J. McKee



Economic Development Tax Incentives Evaluation Act:

*Evaluation of
“Small Business Capital Investment Wage
Credit”*

(R.I. Gen. Laws § 44-43-3)

Tax Years 2016 through 2018

Office of Revenue Analysis

ORA Completion Date: March 16, 2022

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Foreword

The evaluation of the “Small Business Capital Investment Wage Credit”, *Tax Years 2016 through 2018* was prepared at the request of Madiha Zaffou, Ph.D., Acting Chief of the Office of Revenue Analysis in accordance with Rhode Island General Laws § 44-48.2-4. Emily Fazio, Senior Economic and Policy Analyst in the Office of Revenue Analysis was project leader for the production and writing of this report, under the guidance of Ms. Zaffou.

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

There shall be allocated among the entrepreneurs of a qualifying business entity (based on the ratio of each entrepreneur's interest in the entity to the total interest held by all entrepreneurs) with respect to each entity on an annual basis commencing with the calendar year in which the entity first qualified as a qualifying business entity, as defined in R.I. Gen. Laws § 44-43-1, a credit against the tax imposed by Rhode Island General Laws Chapter 44-30 ("Personal Income Tax"). The credit shall be equal to three percent (3%) of the wages (as defined in 26 U.S.C. § 3121(a)) in excess of fifty thousand dollars (\$50,000) paid during each calendar year to employees of the entity; provided, that there shall be excluded from the amount on which the credit is based any wages:

- (1) Paid to any owner of the entity;
- (2) Paid more than five (5) years after the entity commenced business or five (5) years after the purchase of the business entity by new owners, whichever occurs later; or
- (3) Paid to employees who are not principally employed in Rhode Island and whose wages are not subject to withholding pursuant to R.I. Gen. Laws Chapter 44-30.

The credit shall end in the taxable year after the taxable year in which the average annual gross revenue of the business entity equals or exceeds one million five hundred thousand dollars (\$1,500,000).

Part III: Tax Incentive Amount

For tax years 2016 through 2018 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 McKee Administration and the Commerce Corporation have prioritized support for small businesses in Rhode Island. The Administration and the Corporation have developed several significant programs and initiatives to support small businesses in recent years, including direct financial assistance, technical assistance, and regulatory reform. The Corporation will continue efforts to support Rhode Island's small businesses through initiatives to increase access to capital, expand workforce development, improve the tax code, and more. However, the Corporation agrees with the ORA recommendation to sunset this particular program.

2. ORA Recommendations

The Office of Revenue Analysis recommends that the credit be repealed due to the lack of usage of the credit by taxpayers.