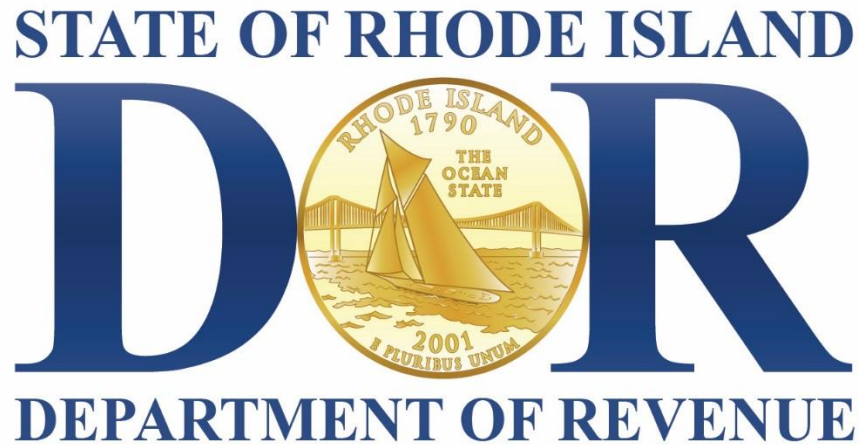


**STATE OF RHODE ISLAND**

**Governor Daniel J. McKee**



# **Economic Development Tax Incentives Evaluation Act:**

*Evaluation of  
“Welfare Bonus Program Tax Credit”*

**(R.I. Gen. Laws § 44-39.1-1)**

*Tax Years 2016 through 2018*

**Office of Revenue Analysis**

**ORA Completion Date: March 16, 2022**

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## **Foreword**

The evaluation of the “Welfare Bonus Program Tax 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**

Any employer participating in the Bonus Program under Rhode Island General Laws Chapter 40-6.3 (“Bonus Program”) is entitled to apply for the credit. The credit is awarded to employers that hire individuals who had previously received Aid to Families with Dependent Children (AFDC) for 30 consecutive months prior to the law’s enactment and employ such individuals for at least 24 consecutive months prior to application for the credit. The credit is equal to \$250 per eligible employee and can be applied against the tax imposed by Rhode Island General Laws Chapters 44-11 (“Business Corporation Tax”), 44-13 (“Public Service Corporation Tax”), 44-14 (“Taxation of Banks”), 44-15 (“Tax on Bank Deposits Generally”), and 44-17 (“Taxation of Insurance Companies”).

The credit cannot be applied until all other credits for which the taxpayer is eligible to use have been applied and it cannot reduce the tax due below \$100 in a given tax year. The credit is not refundable and any unused credit amounts cannot be carried forward to succeeding tax years.

### **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 strongly support initiatives for out-of-work Rhode Islanders to develop new skills and gain meaningful employment, including programs such as RealJobsRI and Back to Work RI. However, the long length of time necessary for individuals or businesses to apply for the Welfare Bonus Tax Credit limits the efficacy of this incentive. The Commerce Corporation believes that the Welfare Bonus Tax Credit should be further reviewed to determine whether it can be made more effective or whether it should be repealed.

### **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.