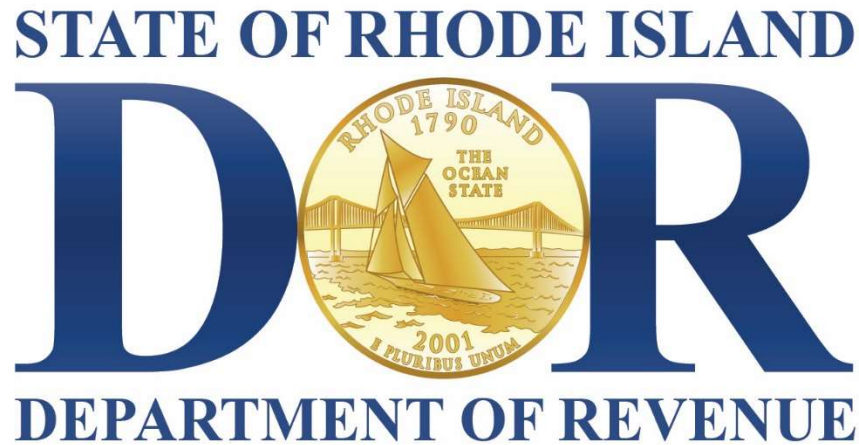


STATE OF RHODE ISLAND

Governor Daniel J. McKee



Economic Development Tax Incentives Evaluation Act:

Evaluation of

“Jobs Growth Act”

(R.I. Gen. Laws § 42-64.11-4)

Tax Years 2019 through 2021

Office of Revenue Analysis

August 16, 2024

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Foreword

The evaluation of the “Jobs Growth Act,” *Tax Years 2019 through 2021* was prepared at the request of Matthew McCabe, Chief of the Rhode Island Department of Revenue, Office of Revenue Analysis in accordance with R.I. Gen. Laws § 44-48.2-4. Anoushka Mohnot, Senior Economic & Policy Analyst in the Office of Revenue Analysis, was the project leader for the production and writing of this report, under the guidance of Madiha Zaffou, Ph.D., Deputy Chief in the Office of Revenue Analysis.

Part I: Introduction

Pursuant to Rhode Island General Laws (R.I. Gen. 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 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.¹

¹ Public Law 2023 Chapter 294 § 7 and Chapter 295 § 7 removed the requirement for a statement from the CEO of the Commerce Corporation. ORA intends to voluntarily include these statements in this round of analysis and exclude them going forward.

- 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

An eligible employee, as defined in R.I. Gen. Laws § 42-64.11-2(j), of an eligible company, as defined in R.I. Gen. Laws §42-64.11-2(i), shall be allowed a modification decreasing adjusted gross income and alternative minimum income of 50.0 percent of the performance-based income realized by the eligible employee during any calendar year for which an eligible company has been certified under R.I. Gen. Laws §42-64.11-3, prior to computing the tax imposed by R.I. Gen. Laws §44-30 (“Personal Income Tax”).

In any taxable year for which an eligible company has been certified under R.I. Gen. Laws §42-64.11-3, said eligible company or its affiliates shall pay a tax equal to 5.0 percent of the aggregate performance-based compensation paid to its eligible employees.

Part III: Tax Incentive Amount

For tax years 2019 through 2021 there was an average of less than ten recipients of this tax incentive claiming an average of \$81,418 per year. ORA is unable to release further information on the credit usage due to tax confidentiality concerns. ORA assumes negligible economic impact due to the insignificant amount of incentive claimed.

Part IV: Recommendations

1. ORA Recommendations

The Office of Revenue Analysis recommends repeal of the incentive given the insignificant usage of the incentive by taxpayers. The initial impetus for this tax incentive was the Rhode Island personal income tax system that was in place prior to January 1, 2011. Under that personal income tax system, the top marginal income tax rate was 9.9 percent. This high marginal tax rate provided a disincentive to highly compensated employees to accept employment in Rhode Island vis-à-vis

Massachusetts where the top marginal income tax rate was 5.3 percent. The personal income tax reform that passed in June 2010 and was effective for tax years beginning on or after January 1, 2011 reduced the top marginal income tax rate to 5.99 percent and made the effective personal income tax rate comparable to that of Massachusetts, thereby obviating the need for the incentive.