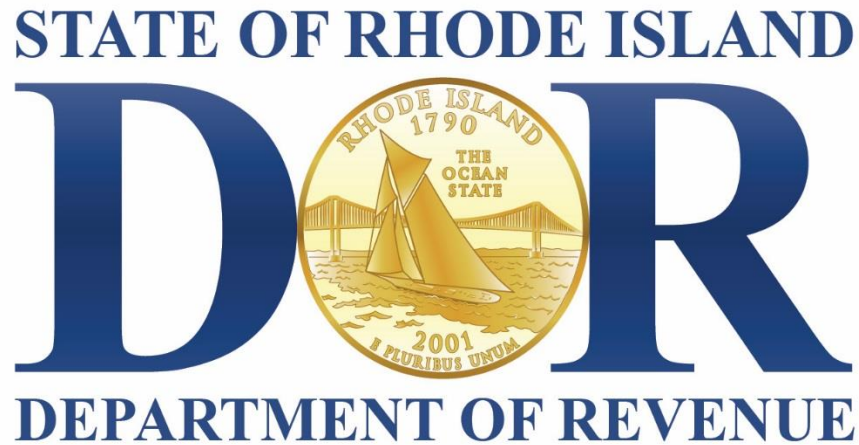


**STATE OF RHODE ISLAND**

**Governor Daniel J. McKee**



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

*Evaluation of  
“Small Business Capital Investment  
Modification/Deduction”*

**(R.I. Gen. Laws § 44-43-2)**

*Tax Years 2019 through 2021*

**Office of Revenue Analysis**

**August 16, 2024**

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## **Foreword**

The evaluation of the “Small Business Capital Investment Modification/Deduction,” *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.<sup>1</sup>
- 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;

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<sup>1</sup> 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.

- 10) Whether the effectiveness of the tax incentive could be determined more definitively if the General Assembly were to clarify or modify the tax incentive's goals and intended purpose;
- 11) A recommendation as to whether the tax incentive should be continued, modified, or terminated; the basis for such recommendation; and the expected impact of such recommendation on the state's economy;
- 12) The methodology and assumptions used in carrying out the assessments, projections and analyses required pursuant to subdivisions (1) through (8) of this section.

## **Part II: Description of the Tax Incentive**

A deduction reducing net income or net worth, gross earnings, or gross premiums for making a qualifying investment in a certified venture capital partnership shall be allowed for the amount of the qualifying investment in the year in which the taxpayer first makes such an investment prior to computing the tax owed under R.I. Gen. Laws Chapters 44-11 (“Business Corporation Tax”), 44-13 (“Public Service Corporation Tax”), 44-14 (“Taxation of Banks”) or 44-17 (“Taxation of Insurance Companies”). A modification reducing federal adjusted gross income is allowed prior to computing the tax owed under R.I. Gen. Laws Chapter 44-30 (“Personal Income Tax”).

### **Part III: Tax Incentive Amount**

For tax years 2019 through 2021, the average modification amount was \$94,691 and the average deduction amount was \$13,011,750. However, because this incentive is not refundable taxpayers cannot claim a modification or deduction that exceeds their taxable income. When adjusting for the level of recipients' taxable income, the average state general revenue foregone from allowing the capital investment modification was \$4,852 and the average revenue foregone from allowing the capital investment deduction was \$13,350.

Based on data from Taxation, the capital investment deduction amount was unusually high in TY 2020, with the deduction amount jumping from \$399,387 in TY 2019 to \$38,506,441 in TY 2020. However, revenue forgone from the deduction in TY 2020 was slightly lower than in TY 2019 despite the hundredfold increase in the deduction amount (due to the level of taxable income against which to claim the deduction). The unusually high level of deductions in TY 2020 was the result of a limited number of taxpayers and occurred during the first year of the pandemic. For these reasons, and because total deductions returned to a more typical level of \$129,422 in TY 2021, ORA believes TY 2020 was an outlier. ORA is unable to release further information on the tax incentive due to tax confidentiality concerns. ORA assumes negligible economic impact due to the insignificant amount of tax 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.