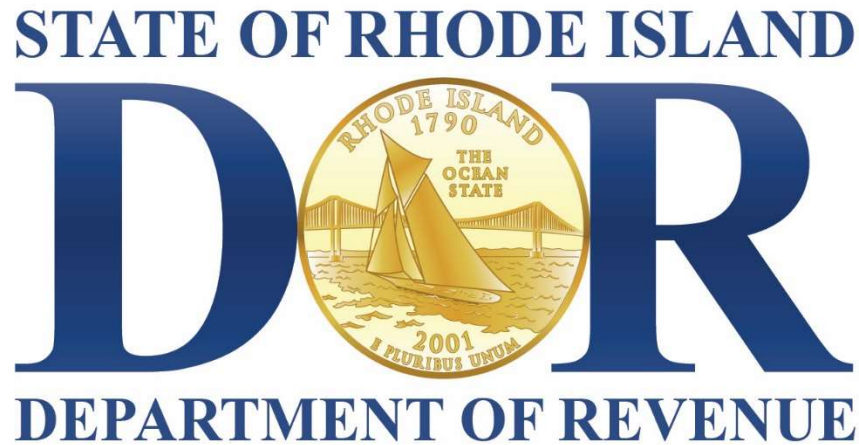


STATE OF RHODE ISLAND

Governor Daniel J. McKee



Economic Development Tax Incentives Evaluation Act:

Evaluation of

“Distressed Areas Economic Revitalization Act”

(including “Enterprise Zone Wage Tax Credit” and

“Enterprise Zone Resident Business Owner Tax Modification”)

(R.I. Gen. Laws §§ 42-64.3-6 & 42-64.3-7)

Tax Years 2019 through 2021

Office of Revenue Analysis

August 29, 2024

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Foreword

The evaluation of the “Distressed Areas Economic Revitalization 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. Madiha Zaffou, Ph.D., Deputy Chief in the Office of Revenue Analysis, was the project leader for the production and writing of this report, with the assistance of Anoushka Mohnot, Senior Economic & Policy Analyst in the Office of Revenue Analysis.

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 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
- 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

- *R.I. Gen. Laws § 42-64.3-6: Distressed Areas Economic Revitalization Act-Business Tax Credits*

Titled *Business Tax Credits*, R.I. Gen. Laws § 42-64.3-6 is commonly referred to as the Enterprise Zone Wage Tax Credit. This program provides for a tax credit against the business corporation tax (R.I. Gen. Laws Chapter 44-11), the public service corporation tax (R.I. Gen. Laws Chapter 44-13 except for § 44-13-13), the taxation of banks (R.I. Gen. Laws Chapter 44-14), the taxation of insurance companies (R.I. Gen. Laws Chapter 44-17), or the personal income tax (R.I. Gen. Laws Chapter 44-30).² Only companies located in a designated enterprise zone, as determined by the Rhode Island Enterprise Zone Council (RIEZC), are eligible for the credit.³ No new Enterprise Zone Wage Tax Credits will be issued on or after July 1, 2015 unless the business has received certification prior to this date.

The allowable tax credit is equal to 50 percent of the wages paid to a newly hired employee, up to a maximum of \$2,500, if the employee does not reside in a designated enterprise zone, or 75

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.

² The Enterprise Zone Wage Tax Credit was allowed against the personal income tax for tax years ending on or before December 31, 2010.

³ According to R.I. Gen. Laws § 42-64.3-3(2), defines an Enterprise Zone as “an economically distressed United States Bureau of the Census division or delineation in need of expansion of business and industry, and the creation of jobs, which is designated to be eligible for the benefits of this chapter.” R.I. Gen. Laws § 42-64.3-5 lists the criteria for Enterprise Zone designation.

percent of wages paid, up to a maximum of \$5,000, if the employee is domiciled in a designated enterprise zone. In order to qualify for the credit, the qualifying company must increase total employment by at least five percent from the previous calendar year and have its total Rhode Island payroll exceed the prior year's total Rhode Island payroll. There are no benefit criteria that must be met to receive this tax credit. Unused amounts of the tax credit can be carried forward for up to three years provided that when the carryforward amount is used, the tax credit recipient has not lowered its employment below the levels that were required for the recipient to earn the tax credit in the first place.

- *R.I. Gen. Laws § 42-64.3-7: Distressed Areas Economic Revitalization Act- Resident Business Owner Tax Modification*

Titled *Resident Business Owner Tax Modification*, R.I. Gen. Laws § 42-64.3-7 provides that a domiciliary of an enterprise zone who owns and operates a qualified business facility in that zone and which business is not required to file under R.I. Gen. Laws Chapters 44-11, 44-13, 44-14, or 44-17 may, when “computing his or her annual tax liability pursuant to the provisions of chapter 11 or 30 of title 44,” take as a modification decreasing federal adjusted gross income an amount of \$50,000 during the first three years after certification and operations in the zone and may deduct \$25,000 in the fourth and fifth year. In the case of multiple owners of the qualified business, the modification shall be apportioned according to the ownership interests of each business owner.

1. Statutory and Programmatic Goals and Intent of the Tax Incentive

Based on Rhode Island Gen. Laws § 42-64.3-2, the legislative findings with respect to the Enterprise Zone tax incentives are stated verbatim as follows:

- (1) That there are certain distressed areas in this state which are characterized by substantial and persistent levels of unemployment; blighted areas; obsolete, dilapidated, and abandoned industrial and commercial structures; and, as a consequence, continually shrinking tax bases which threaten their very existence;
- (2) That the numerous programs undertaken by the federal government and the state...to stop the deterioration and stimulate economic activity in these urban areas have, in large part, failed;
- (3) That it is the public policy of this state to undertake an experimental program to stimulate economic revitalization, promote employment opportunities, and encourage business development and expansion in distressed areas.

Part III: Report Data Description

For tax years 2019 through 2021 there were an average of 110 recipients of the Distressed Areas Economic Revitalization Act - Resident Business Owner Tax Modification, with an average revenue forgone of \$48,577 per year. ORA assumes negligible economic impact due to the insignificant amount of incentive claimed.

Part IV: Recommendations

1. ORA Recommendations

Pursuant to R.I. Gen. Laws § 42-64.3-6(7), the Enterprise Zone Wage Tax Credit was repealed and no new credits shall be issued on or after July 1, 2015. Therefore, ORA is not providing any recommendations related to this tax credit.

The Office of Revenue Analysis recommends a reconsideration of the Enterprise Zone Resident Business Owner Tax Modification. Although the utilization of this incentive is more widespread than that of the Enterprise Zone Wage Tax Credit with an average of 110 users per year over the calendar year 2019-2021 period versus zero users of the Enterprise Zone Wage Tax Credit, the amount of revenue forgone from the use of the modification is very modest at an average of \$48,577 per year. It is unlikely that at such low levels of usage would generate a meaningful employment or GDP impact. Thus, the reconsideration of the incentive should consider the repeal of the incentive as a potential outcome.

Appendices

Appendix A: Rhode Island Form ZN02A

Form ZN02A Annual Report

State of Rhode Island
Division of Taxation
Distressed Areas Economic Revitalization Act - Enterprise Zones - Annual Employee Report
Due September 1, 2021

NAME OF ENTITY
ADDRESS
CITY STATE
FEDERAL IDENTIFICATION NUMBER

TOTAL NUMBER OF EMPLOYEES
TOTAL PAYROLL - JULY 1, 2020 - JUNE 30, 2021

*** ALL INFORMATION IS REQUIRED FOR ALL EMPLOYEES ***

Indicate Employee Type: Full time, Part time or Seasonal Employee	Employee Name	Social Security Number	Date of Hire	Hourly Wage as of 7/1/2021	Hours Worked Per Week Within Rhode Island	City/Town of Employee's Residence	City/Town of Employee's Workplace	Health Insurance Y/N	Pension Benefits Y/N

If additional space is needed, please attach a separate sheet(s) with the additional information.

Under penalties of perjury, I declare that I have examined this return, and to the best of my knowledge and belief, it is true, correct and complete.

Signature of authorized officer	Date	Signature of preparer	Date
Title	MAY THE DIVISION CONTACT YOUR PREPARER ABOUT THIS RETURN? YES <input type="checkbox"/> NO <input type="checkbox"/>		Telephone number

07/2021 MAILING ADDRESS: DONNA DUBE, RHODE ISLAND DIVISION OF TAXATION, FORMS, CREDITS & INCENTIVES SECTION, ONE CAPITOL HILL, PROVIDENCE, RI 02908

Instructions for Form ZN02A
Distressed Areas Economic Revitalization Act - Enterprise Zones
Annual Employee Report

Due September 1, 2021

Complete all informational lines at the top of the form, including name, address, city, state and ZIP code, and federal identification number.

In addition, please provide your total number of employees and your total payroll for the period of July 1, 2020 through June 30, 2021.

In the first column, please indicate if the employee is a full time employee, a part time employee or a seasonal employee.

In the space provided, or on a separate sheet(s), provide the following information for each employee: name, **full social security number**, date of hire, hourly wage as of July 1, 2021, the number of hours worked per week within the State of Rhode Island by the employee, city/town of employee's residence and the city/town where the employee works.

In the last two columns, please indicate with either a yes or no, whether or not health insurance benefits and/or pension benefits are offered to the employee.

All information is required for all company employees, not just those new employees used to qualify for the enterprise zone credit.

This form must be filed by September 1, annually.

This Annual Report is being sent as a guide. A fillable version can be found online. You may either complete the fillable version on-line, print it out and send it in; send the report as an Excel spreadsheet or a txt (csv) file (be sure to send in the file format) via CD-ROM or DVD; or you may send the file via secure ftp. In order to file via secure ftp, send an email to Tax.Credits@tax.ri.gov. You will then be sent an email containing the secure link.

Regardless of format, the report must contain all required information as shown on the Annual Report form.

A fillable version of this form is available online at: www.tax.ri.gov/taxforms/misc.php#reporting.

All Annual Reports, regardless of format, shall be submitted to Donna Dube by either

mail: Rhode Island Division of Taxation
Forms, Credits & Incentives Section
One Capitol Hill
Providence, RI 02908
Attn: Donna Dube

or email: Tax.Credits@tax.ri.gov

Pursuant to RIGL 42-64.3-6.1, all companies receiving credit under § 42-64.3 - Distressed Areas Economic Revitalization Act - Enterprise Zones shall file an annual report with the tax administrator containing information on each employee as deemed necessary by the tax administrator.

Important Definitions:

"Health Insurance Benefits" means any health insurance plan offered by the eligible company to its employees regardless of whether or not the employee takes advantage of the plan.

"Retirement Benefits" means any retirement plan offered by the eligible company to its employees regardless of whether or not the employee takes advantage of the plan. This could be in the form of a SEP, a SIMPLE, a 401K plan, a profit sharing plan, a defined benefit plan, a deferred compensation plan or any qualified employer plan.

NOTE: An employee who is required to complete a reasonable probationary period to be eligible for healthcare or retirement benefits is deemed to have "earned" those benefits from day one of their employment.