

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 2019 through 2021

Office of Revenue Analysis

August 29, 2024

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Foreword

The evaluation of the “Welfare Bonus Program Tax Credit,” *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 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

Any employer participating in the Bonus Program under R.I. Gen. Laws Chapter 40-6.3 (“Bonus Program”) is entitled to apply for the credit. The Bonus Program was created in 1985 to provide cash payments to individuals who left the federal Aid to Families with Dependent Children (AFDC) program and found employment. The tax credit is awarded to employers that hire individuals who had previously received 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 R.I. Gen. 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

The amount of credit used under the Welfare Bonus Program Tax Credit program was \$3,186 in tax year 2019. For tax years 2020 and 2021, there was no recipient of this tax credit. ORA assumes no economic impact due to low credit usage.

Part IV: Recommendations

1. ORA Recommendations

The Office of Revenue Analysis recommends that the credit be repealed due to the lack of usage of the credit by taxpayers.