

**2010 TAX INCENTIVE DISCLOSURE AND ACCOUNTABILITY REPORTING***Disclosure is First Step, but Analysis Still Needed*

Legislation was enacted in 2008 to require greater disclosure and accountability of six tax credits available to corporations. The legislation required that information be published documenting the companies using the credits, the value of the credits received, the jobs created or retained, as well as the wages and benefits offered. This information was to be presented in the Governor's proposed state budget so that these tax expenditures could be considered as part of the budget deliberations.

Since these requirements went into effect, however, only the most basic information about which companies received the credits and the amount of credits received has been reported. Critical information about jobs, wages, and benefits has not been reported, leaving policymakers unable to evaluate whether these tax credits are cost effective tools for economic development.

**The legislation required that information about six tax credits be released in three parts:**

**Part One**, just released for the third year in a row by the Rhode Island Department of Revenue, lists the names and addresses of the recipients and the amount of the tax credits received during the previous fiscal year.

**Part Two**, was to report comprehensive information about the degree to which job creation and retention, wage and benefit goal requirements have been met, and is required to be released annually on or before October 15th. The first such report was due in October of 2008, but still has not been issued close to two years later. Without this information, it is not possible to judge the usefulness of the credits as a job development strategy.

**Part Three** requires the tax credit information to be presented in the State Budget so that these tax expenditures can be considered as part of the budget discussions. The Director of the Department of Revenue is required to provide to the General Assembly (as part of the annual State budget) and the public (via the internet) a comprehensive presentation on the total and individual costs of the tax credits, including the cost to the state during the preceding fiscal year, an estimate of anticipated costs for the current fiscal year and the fiscal year of the requested budget. The budget is also supposed to contain the total cost to the state for employees of the credit recipients who have been enrolled in Rite Care or Rite Share Health Insurance. Phase Three has yet to be implemented, as well.

**HIGHLIGHTS FROM THE 2010 TAX INCENTIVE DISCLOSURE AND ACCOUNTABILITY REPORTING PART ONE**

**These are the highlights from this year's Part One report showing how much the state is forgoing in revenue to provide the tax credits and incentives, and which companies are benefitting from them.**

**➤ The six tax credits that were analyzed for this report:**

- Rhode Island Economic Development Corporation Project Status
- Incentive for Innovation and Growth
- Jobs Development Act
- Distressed Areas Economic Revitalization Act – Enterprise Zones
- Mill Building and Economic Revitalization Act
- Motion Picture Production Tax Credit

- **Loss of revenue in FY2010:** In Fiscal Year 2010, tax credits reduced state revenues by \$39.7 million. This was an increase of more than \$6.5 million (or 20 percent) from FY2009. The increase was due primarily to increases in the amount of credits claimed through the RIEDC Project Status/Sales Tax Exemption and through the Jobs Development Act.
- **The largest loss of revenue (\$21.3 million in FY2010) resulted from the Job Development Credit.** This is an increase of almost 50% over the prior year. It is worth noting that the General Assembly approved legislation in 2009 that tightened the job creation standards (such as minimum hours worked, benefits and wages) for companies to qualify for the credit for any new or “replacement” employees hired after July 1, 2009.
- **The second largest loss of revenue (\$9.4 million in FY2010) resulted from the Project Status/Sales Tax Exemption.** While the number of taxpayers dropped from seven to four, the total amount of credits increased by 28 percent. The requirement that the General Assembly approve these credits prior to the issuance was repealed in 2009 and the RI Economic Development Corporation regained the authority to issue these credits upon review of the project.
- **The third largest loss in revenue (\$8.1 million in FY2010) resulted from the Motion Picture Credit.** This credit has not reached its cap of \$15.0 million for the third year in a row. Five recipients took advantage of these credits in FY2010, ranging from a credit of \$98,271 claimed by Mulberry Tree LLC, to a credit of \$5,069,323, claimed by Brotherhood Productions, Inc. for the series Brotherhood, a show that has since been cancelled.
- **The Enterprise Zone credits** (\$715,187 in FY2010) have declined in both number and value. The total value of credits declined by over \$350,000 which is one third of the prior year value.
- **Loss of revenue for Fiscal Year 2008 through Fiscal Year 2010:** Rhode Island General Fund revenues were reduced by \$122.0 million over the past three years as a result of the six tax credits included in the report.
- **Over the past three years, 91 percent of all the credits (\$122 million) went to only 10 taxpayers.** The largest three recipient of credits were:
  - **CVS Pharmacy:** 43 percent (\$52.2 million) of the credits reported.
  - **FMR Corporation (Fidelity Investments):** 15 percent (\$18.6 million) of the credits reported.
  - **Brotherhood Productions:** 13 percent (\$15.6 million) of the credits reported.

- **The six tax credits that were analyzed for this report:**
  - **Rhode Island Economic Development Corporation Project Status:** Provides for a sales and use tax exemption for the cost of construction materials and furnishings related to Economic Development projects.
  - **Incentive for Innovation and Growth:** A credit equal to 50 percent of any investment made in the company, but in no case shall the amount exceed \$100,000.
  - **Jobs Development Act:** For Non-Telecommunications Companies, the credit, based on the number of new employees, can reduce the normal 9 percent tax rate down to 3 percent. For Telecommunications Companies, the credit, which reduces the tax rate, is based on the number of new employees.
  - **Distressed Areas Economic Revitalization Act – Enterprise Zones:** A credit equal to 50 percent of the total amount of wages paid to new enterprise job employees, or 75 percent of the total amount of wages paid to new enterprise job employees who live in the enterprise zone.
  - **Mill Building and Economic Revitalization Act:** was repealed as of August 8, 2009, therefore no additional credits will be granted.
  - **Motion Picture Production Tax Credit:** allows for a credit equivalent to 25 percent of qualified production costs attributable to production expenditures made within the state.

<b>Summary of FY2008, FY2009 &amp; FY2010 Tax Credit Incentive Reports</b>			
	FY2008	FY2009	FY2010
<b>Rhode Island Economic Development Corporation Project Status</b>			
Total Taxpayers	13	7	6
Total Amount of Credits	\$ 18,253,364	\$ 7,349,337	\$ 9,398,554
Average Per Taxpayer	\$ 1,404,105	\$ 1,049,905	\$ 1,566,426
<b>Incentive for Innovation and Growth</b>			
Total Taxpayers	4	5	2
Total Amount of Credits	\$ 305,000	\$ 450,000	\$ 200,000
Average Per Taxpayer	\$ 76,250	\$ 90,000	\$ 100,000
<b>Jobs Development Act</b>			
Total Taxpayers	11	10	14
Total Amount of Credits	\$ 16,248,317	\$ 14,197,311	\$ 21,256,182
Average Per Taxpayer	\$ 1,477,120	\$ 1,419,731	\$ 1,518,299
<b>Distressed Areas Economic Revitalization Act – Enterprise Zones</b>			
Total Taxpayers	88	58	40
Total Amount of Credits	\$ 1,549,149	\$ 1,066,997	\$ 715,187
Average Per Taxpayer	\$ 17,604	\$ 18,396	\$ 17,880
<b>Mill Building and Economic Revitalization Act</b>			
Total Taxpayers	0	0	0
Total Amount of Credits	\$ -	\$ -	\$ -
Average Per Taxpayer	\$ -	\$ -	\$ -
<b>Motion Picture Production Tax Credit</b>			
Total Taxpayers	4	8	5
Total Amount of Credits	\$ 12,788,434	\$ 10,052,553	\$ 8,112,990
Average Per Taxpayer	\$ 3,197,109	\$ 1,256,569	\$ 1,622,598
<b>Total Taxpayers</b>			
	120	88	67
<b>Taxpayers Receiving Multiple Credits</b>			
	2	1	2
<b>Net Number of Taxpayers</b>			
	118	87	65
<b>Total Amount of Credits</b>			
	\$ 49,144,264	\$ 33,116,198	\$ 39,682,913
<b>Three Year Total</b>			
			\$ 121,943,375