The Poverty Institute

TAX FACTS

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STATE RELEASES TAX CREDIT AND INCENTIVE REPORT

Long-awaited data on jobs and wages expected soon

This coming January taxpayers will finally have a better understanding of what they are getting in return for several tax incentive programs that reduced the taxes of corporations by more than $22 million last year, according to a report recently released by the Rhode Island Division of Taxation. Since 2008, the tax credits and incentives have reduced state revenues by close to $145 million.

For the fourth year in a row, the state reported the amount of five tax credits taken by close to sixty corporations, including the motion picture and jobs development tax credits. This reporting requirement stems from legislation enacted in 2008 that was intended to determine whether these credits are a cost-effective way to create jobs in the Ocean State.

Until now, 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 published due to federal privacy laws that prevented the Department of Labor and Training from reporting this information. This roadblock has left policymakers unable to evaluate whether these tax credits are cost effective tools for economic development.

This year, Representative Donna Walsh introduced legislation that was enacted through the state budget that will require tax credit recipients to report the job and wage data directly to the Rhode Island Division of Taxation. The first "Annual Unified Economic Development Report" is scheduled to be issued by the Division on January 15th and each year after. The report will provide information about the number of full-time and part-time jobs created or retained by the corporations receiving credits, information about employee benefits offered, and the extent to which any employees receive RIte Care or RIte Share health insurance.

As the state struggles to close budget gaps year after year, it is imperative that we get the biggest bang for our buck. The information anticipated in January will help policymakers and taxpayers gain a better understanding of whether these tax credits and incentives have in fact been cost effective tools for creating or retaining jobs.

Highlights from the 2011 Tax Incentive Disclosure and Accountability Report

These are the highlights from this year's 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 FY2011:** In Fiscal Year 2011, tax credits reduced state revenues by $22.7 million. This was a decrease of more than $17.0 million (or 43 percent) from FY2010. The decrease was due primarily to decreases in the amount of credits claimed through the RIEDC Project Status/Sales Tax Exemption, the Jobs Development Act, and through the Motion Picture Credit.

- **The largest loss of revenue ($14.1 million in FY2011) resulted from the Job Development Credit**. This is a decrease of almost 34% over the prior year. Bank of America no longer claimed the credit and CVS reduced its credit resulting in this loss. It is worth noting that the General Assembly approved legislation in 2009 that tightened the job creation standards (such as minimum hours worked and wages paid) for companies to qualify for the credit for any new or "replacement" employees hired after July 1, 2009.

- **The second largest loss of revenue ($5.2 million in FY2011) resulted from the Project Status/Sales Tax Exemption**. The number of taxpayers dropped from four to three, and the total amount of credits decreased by 45 percent. It should be noted that the General Assembly approved legislation prospectively by eliminating these credits. A project must have received approval prior to July 1, 2011.

- **The third largest loss in revenue ($2.4 million in FY2011) resulted from the Motion Picture Credit.** This credit has not reached its cap of $15 million for the fourth year in a row. The number of recipients has remained at five, the amount of credits decreased by 71% reflecting the cancellation of the series Brotherhood.

- **Over the past four years, 90 percent of all the credits ($145 million) went to only 10 taxpayers**. The largest three recipients of credits were: *CVS Pharmacy* with 48 percent ($70.0 million) of the credits reported; *FMR Corporation (Fidelity Investments)* with 13 percent ($18.9 million) of the credits reported; and *Brotherhood Productions* with 11 percent ($15.6 million) of the credits reported.