

Are Economic Development Tax Incentives Reports Facilitating Transparency and Accountability?

EXECUTIVE SUMMARY

Like most states, Rhode Island offers numerous tax incentives seeking to generate economic activity and create jobs. These Economic Development Incentives aim to leverage state revenues to encourage new business start-ups, facilitate the expansion of existing businesses, and attract new businesses to the state. The incentives take many forms, including those of tax credits, tax exemptions, tax deductions, and preferential tax rates.

Although not funded through direct allocations, these programs have costs — totaling in the hundreds of millions of dollars — so it is important to figure out if the incentives work and if the returns on these investments surpass the investments themselves. Does the existing set of economic development incentive program reports provide legislators and the public with the information and analyses necessary to answer such essential questions?

State agencies currently produce a number of sometimes overlapping reports providing some basic data about incentive programs and companies receiving incentives, as well as some in-depth analysis and recommendations.

To promote transparency and accountability regarding tax expenditures for economic development, we propose the following strategies:

1. Streamline reporting on Economic Development Incentive Programs by restructuring the five different, existing reports. Basic Information Reports: An annual report produced by the Division of Taxation that provides data and other details about the use of tax incentive programs, including amount claimed, number and location of recipients, and other information pertinent to understanding how the tax credits are being used; and quarterly reports produced by the Commerce Corporation, as required by state law, regarding various tax credits and incentives it has granted. Analysis Reports: An analysis every three years of the cost-benefit of each tax credit and incentive, by the Office of Revenue Analysis, as required under current state law.
2. Keep better track of and reporting about tax credits and other incentives promised though not yet paid out, by improving the Basic Information Reports in order to understand how these outstanding obligations might affect future state revenues and spending.
3. Establish a schedule of public hearings to follow the publication of the Analysis Reports, so the information and evaluations are more accessible to the public and they have an opportunity to weigh in on Rhode Island's economic development strategy.

These changes will help policy makers and the public measure the effectiveness of allocating, through tax incentives, hundreds of millions of public dollars towards generating jobs and economic activity in Rhode Island.

To read the full report, visit: www.economicprogressri.org/taxandbudget