STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Governor Gina M. Raimondo

Economic Development Tax Incentives Evaluation Act:

Evaluation of
Jobs Development Act

(R.I. Gen. Laws Chapter 42-64.5)
Tax Years 2013 Through 2015

Office of Revenue Analysis

May 14, 2018

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Foreword

The *Economic Development Tax Incentives Evaluation Act: Jobs Development Act Tax Years 2013 through 2015* was prepared at the request of Paul L. Dion, Ph.D., Chief of the Office of Revenue Analysis in accordance with Rhode Island General Laws § 44-48.2-4. This report was prepared by the Office of Revenue Analysis team which includes Bethany Scanlon, Senior Economic and Policy Analyst, Joseph Codega Jr., Data Analyst III, and Madiha Zaffou, Principal Economic and Policy Analyst under the direction of Mr. Dion.

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, in consultation with the Director of the Economic Development Corporation, the Director of the Office of Management and Budget, and the Director of the Department of Labor and Training, 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;
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.

The current report is one part of a series of reports for each one of the tax incentives to be analyzed according to R.I. Gen. Laws § 44-48.2-3(1). This report concerns R.I. Gen. Laws § 42-64.5-3 entitled "Jobs Development Act: Tax rate reduction" (JDA) and measures the economic impact associated with this tax benefit during tax years 2013 through 2015. This analysis is performed at the micro level using employment and wages information provided by Division of Taxation. The report is divided into five sections. Section I provides a detailed description of the tax incentive and its statutory programmatic goals and intent. Section II provides a description of the data provided and used in the analysis by ORA. Section III assesses the economic impact generated under the JDA using a "breakeven" cost-benefit analysis. Section IV discusses relevant policy recommendations that could help in the decision process as to whether the rate reduction should be continued, modified, or terminated.

1. Description of the Incentive

The *Jobs Development Act (JDA)* provides for a reduction in the taxes paid by a business under Chapters 44-11 (entitled "Business Corporation Tax"), 44-14 ("Taxation of Banks") and 44-17 ("Taxation of Insurance Companies"), or on its gross earnings pursuant to Chapter 44-13 ("Public Service Corporation Tax"). The tax benefit is equal to a tax rate reduction for each new unit of employment that is added to a company's previously established base employment.[1] A unit of employment consists of 10 new full-time equivalent employees for companies with base employment levels of 100 or fewer full-time employees or 50 new full-time equivalent employees for companies with base employment of more than 100 full-time employees. For each unit of employment added the qualifying company received a 0.25 percent reduction in the business corporation tax rate up to a maximum reduction of six percent for all companies other than telecommunications companies which receive a maximum reduction of one percent – under the original terms of the Jobs Development Act. However, following the reduction of the business corporation tax rate from nine to seven percent effective January 1, 2015, the amount of the JDA rate reduction was adjusted from 0.25 to 0.20 percent per unit of employment and the maximum reduction adjusted from six to four percent.

Prior to July 1, 2009, a full-time equivalent active employee was any employee who worked at least 30 hours per week or two or more part-time employees whose combined weekly hours totaled at least 30 hours per week. In addition to hiring new employees, companies that qualified for the rate reduction prior to July 1, 2009 had to pay each new employee 150 percent of the Rhode Island hourly minimum wage at the time the employee was first treated as a full-time equivalent active

[1] Refer to Appendix Exhibit A for detailed description and illustrative example of the process by which a firm qualifies for the Jobs Development Act rate reduction.

employee. For companies that qualified for the rate reduction prior to July 1, 2009, there were no requirements as to the provision of health and retirement benefits.

For companies that qualify for the JDA rate reduction on or after July 1, 2009, new full-time equivalent active employees are employees that work at least 30 hours per week and are paid 250 percent of the hourly minimum wage as prescribed by Rhode Island law at the time the employee was first treated as a full-time equivalent active employee. Companies that qualify for the rate reduction on or after July 1, 2009 must also provide to each full-time equivalent active employee "healthcare insurance benefits and retirement benefits."

For a company that qualified for the JDA rate reduction prior to July 1, 2009, employees hired prior to July 1, 2009 may continue to be counted as full-time equivalent active employees using the definition that existed prior to July 1, 2009, however, any replacement employees hired after July 1, 2009 have to meet all newly-defined employment criteria.

The Jobs Development Act was closed to new participants effective July 1, 2015 with the passage of the "Rhode Island New Qualified Jobs Incentive Act of 2015." Per R.I. Gen. Laws § 44-48.3-12, "any company that has qualified for a rate reduction prior to July 1, 2015 shall be entitled to maintain the rate reduction in effect as of June 30, 2015, and no additional rate reduction shall be permitted. All obligations of the company required under R.I. Gen. Laws Chapter 42-64.5, such as maintaining sufficient employment levels, shall remain in full force and effect."

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

This information is unavailable. Statutory and programmatic goals and the intent of the tax incentive are not defined in the enabling statute.

Part II: Report Data Description

The analysis of the Jobs Development Act in this report required an analysis of micro-level taxpayer data. ORA encountered some challenges related to data access. In order to gain sufficient access to data while respecting confidentiality concerns, ORA entered into Memoranda of Understanding (MOU) with the Rhode Island Department of Revenue, Division of Taxation (Taxation), Rhode Island Department of Labor and Training (DLT), and Rhode Island Commerce Corporation (Commerce). These MOUs sought to preserve the confidentiality of individually identifiable taxpayers consistent with the statutory mandates regarding secrecy and confidentiality of taxpayer information. In this context, ORA relied on data provided by credit recipients to Taxation for tax years 2013, 2014, and 2015, to the extent such information were provided, as required by Rhode Island General Law § 44-48.2-5(b). The data provided by Taxation to ORA consist of the following:

- Self-reported firm data as submitted by firms within 9261A forms and provided by Taxation's Forms, Credits and Incentives Section;
- ORA Personal Income Tax Simulation Model (ORA PIT Model). The ORA PIT Model is constructed using the most recent data made available by Taxation. At the time of analysis, the most recent personal income tax data made available to ORA related to tax year 2015.
- Cost of administration of the tax incentive.

This report makes extensive reference to data contained in the publicly available *Tax Credits & Incentives Reports* published by Taxation. This annual publication reports on tax credit and incentive usage by *fiscal year* based on firm self-disclosure to Taxation. For simplicity of presentation, ORA assumes that credit and incentive usage reported in each fiscal year is made in relation to the prior tax year (e.g., fiscal year 2017 usage is made in relation to tax year 2016).

ORA made no attempt to verify the accuracy of the data provided and made minimal corrections to the data in order to be able to execute specific calculations for the report. The data included in this report are unaudited and reported as compiled.

The focus of this report is on the period encompassing tax years 2013 through 2015. Due to the constraints of certain data sources, some data is presented in terms of fiscal years. Some tables include additional data outside this period when additional years of data were available and where ORA determined these additional data to be informative, timely, and reliable.

1. JDA Background and Historical Usage

ORA began the analysis of the Jobs Development Act rate reduction by compiling as much data as possible regarding Jobs Development Act program usage since it was enacted in 1994. The following table provides the JDA amounts received by each beneficiary firm for the period of tax year 2010 through 2016:

<u>Jobs Development Act Rate Reduction Amounts by Beneficiary Firm by Tax Year</u>

(Thousands of Dollars, Tax Years 2011 - 2017)

Beneficiary Firm	2010	2011	2012	2013	2014	2015	2016	Avg.	Total
Inquest Technologies, Inc.	$0.3							$0.3	$0.3
Cadence, Inc.	$12.3							$28.7	$57.4
AAA Southern New Eng. & Subs.	$91.9	$108	$24.5	$69.5				$106	$740
CVS Pharmacy, Inc.	$13,439	$15,447	$14,450	$6,532	$19,056	$10,489	$1,846	$12,331	$123,307
Electric Boat Corporation	$207	$602	$583	$624	$679	$966	$3.1	$440	$4,398
Rite-Solutions, Inc.	$5.4	$8.4	$9.9	$8.0	$1.8	*	$10.1	$6.1	$54.8
Citizens Bank & Subsidiaries	$260	$120	$85	$120	$3,372	$11,941	$7,074	$2,587	$23,281
United Natural Foods, Inc.	$62.6	$109	$131	$167	$238	$136	$20.2	$123	$864
Count of Beneficiary Firms	**8**	**6**	**6**	**6**	**5**	**4**	**5**	**6**	**10**
Total JDA Rate Reduction	**$14,078**	**$16,395**	**$15,284**	**$7,520**	**$23,347**	**$23,533**	**$8,954**	**$16,081**	**$160,811**

Notes:

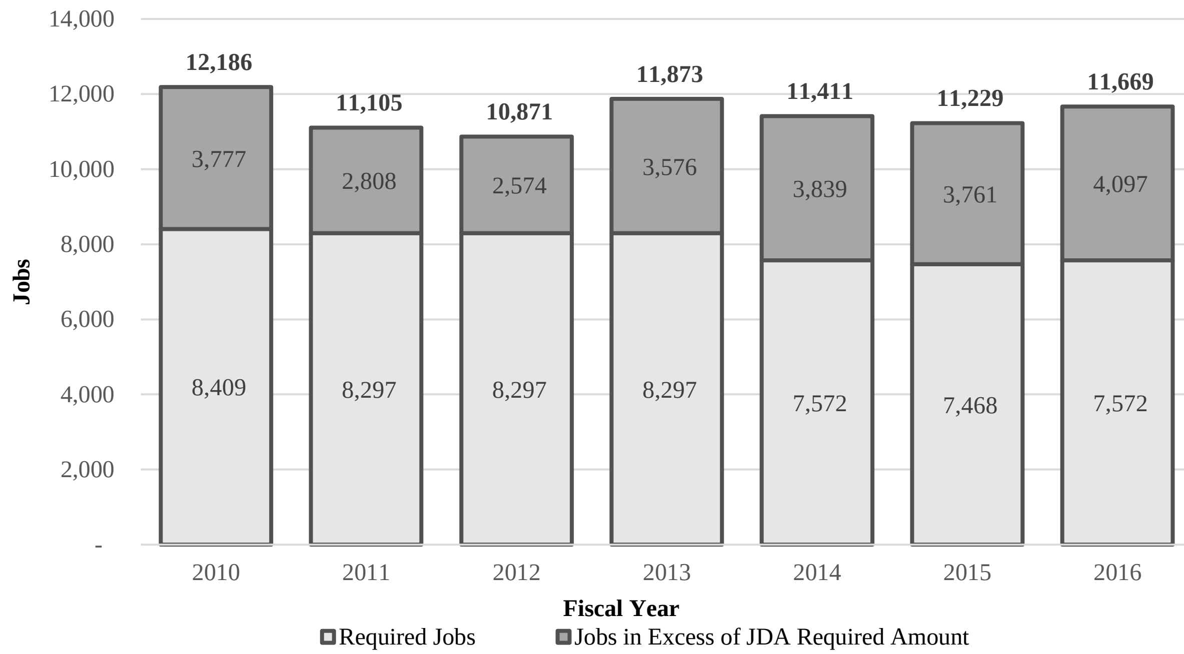
- Shading scale highlights indicate relative value of rate reduction claimed by firm by year. Darker regions indicate higher value of rate reduction claimed.
- Asterisk (*) indicates fiscal year with no reported JDA usage, with usage reported in the following year.

Source: Division of Taxation *Tax Credits & Incentives Reports* assigned to tax year according to ORA assumptions.

The table above illustrates significant heterogeneity with respect to the total value of the rate reduction utilized by each JDA beneficiary. A single outlier, CVS Pharmacy, Inc., claimed an average of $12.3 million per year, totaling $123.3 million over this ten-year period. This firm is responsible for multiple times the usage of the next highest beneficiary both in terms of average annual amount and total lifetime usage. It should be noted, that while CVS does report the highest rate reduction usage, the corporation also reports the highest level of JDA-qualifying Rhode Island employment. Other firms claiming significant JDA rate reductions are Bank of America & Subsidiaries as well as Citizens Bank & Subsidiaries, both claiming an average annual rate reduction in excess of $2.5 million during the years in which they participated in the program. The remaining seven beneficiary firms claimed average annual amounts under $1.0 million per year. It should also be noted that annual rate reductions changed dramatically over time. Trends over time are discussed below in relation to the table labeled “JDA Rate Reduction per Required Employee by Beneficiary Firm”

Average annual employment by JDA beneficiary firms frequently exceeds 11,000 full-time equivalent active employees as shown in the following chart. Using the employment data provided on the 9261A forms submitted by beneficiary firms to Taxation, ORA is able to differentiate between the minimum required employment level necessary for the JDA firm to qualify for the program and the total reported employment level. The "required employment" count is the number of jobs necessary to maintain the rate reduction after the conclusion of the expansion period. Many firms continue to grow following the conclusion of their expansion period, and report "excess employment" above the minimum required employment level. The following chart distinguishes between these two components of JDA employment over many fiscal years[2].

JDA Required, Excess, and Total Reported Employment
(Tax Years 2010 - 2016)



Note: Jobs defined according to Jobs Development Act "full-time equivalent active employee" counting methodology as specifed in R.I. Gen. Laws §42-64.5-2(7). The figues provided above each bar represent the total jobs (equal to the sum of required jobs and excess jobs) among firms for each fiscal year.

Source: Rhode Island Form 9261A as reported in annual *Unified Economic Development Reports* published by the Rhode Island Department of Revenue.

Note that the number of employees at each JDA-beneficiary firm varies significantly. The following table provides additional detail, showing the three-year average count of required, excess, and total jobs per beneficiary firm for the time period of tax years 2013 through 2015.

[2] A more detailed discussion and explanation of the JDA employment breakdown is provided in the Appendix, Exhibit B.

Average Annual Employment Reported by JDA Beneficiary Firm

(Three-year Average, Tax Years 2013 - 2015)

Beneficiary Name	Required	Excess	Total
AAA Southern New Eng. & Subs.	725	*	*
CVS Pharmacy, Inc.	3,430	1,792	5,222
Electric Boat Corporation	1,501	926	2,427
Rite-Solutions, Inc.†	104	(36)	69
Citizens Bank & Subsidiaries	2,337	968	3,305
United Natural Foods, Inc.	200	163	363
Total	**8,055**	**3,330**	**11,385**

Notes:

* Division of Taxation did not provide ORA with Rhode Island Form 9261A for AAA Southern New Eng. & Subs. for tax year 2013, despite the fact that Taxation's *Tax Credits & Incentives Report* lists JDA rate reduction usage by this firm for fiscal year 2014, which is assumed to correspond with tax year 2013. ORA is therefore unable to report on excess and total employment levels for this firm. Further analysis assumes that the firm met required employment levels to maintain rate reduction in tax year 2013.

† Utilizing Rhode Island Form 9261A, and as reported annually in the Unified Economic Development Report published by the Department of Revenue, ORA determined that Rite-Solutions, Inc. reported less than required employment amount in tax years 2013 through 2015 despite the fact that the firm utilized the rate reduction in all three years. ORA is unable to provide any further explanation.

Source: Rhode Island Form 9261A as reported in annual *Unified Economic Development Reports* published by the Rhode Island Department of Revenue.

To provide insight into the JDA cost per job, ORA calculated the JDA rate reduction per required employee for each JDA beneficiary firm by dividing the total JDA dollar amount received by the number of required employees for each firm in each tax year. Note that the count of employees used in this calculation is the count of *required* employees. This count of required employees consists of a portion of employees that existed prior to the award of the JDA, the employment of which it could be argued are not attributable to the availability of JDA. Excluding the "base" employment and dividing the JDA rate reduction by the count of "new" employees would result in a significantly higher cost per employee.[3] Additionally, this calculation excludes "excess" employment above the required level. Including these employees would have resulted in a lower cost per employee than is shown in the table. Furthermore, ORA was unable to determine whether the excess employment was an exhaustive count of JDA-qualifying employees at each firm. For example, it is possible that firms with employment well in excess of the required level only report sufficient employment on the Rhode Island Form 9261A in order merely to demonstrate compliance with JDA requirements rather than to document their *entire* workforce. The following table provides the results of dividing the annual JDA rate reduction amount by the count of required jobs:

[3] Further discussion regarding the differentiation between "base" and "new" employment can be found in Appendix Exhibit B.

<u>JDA Rate Reduction per Required Employee by Beneficiary Firm</u>

(Dollars, Tax Years 2011 – 2017)

Recipient Name	2011	2012	2013	2014	2015	2016	2017	Avg.
Inquest Technologies, Inc.	$13							$13
Cadence, Inc.	$137							$137
AAA Southern New Eng. & Subs.	$127	$149	$34	$96				$101
CVS Pharmacy, Inc.	$3,918	$4,503	$4,213	$1,904	$5,556	$3,058	$538	$3,384
Electric Boat Corporation	$138	$401	$388	$416	$452	$643	$2	$349
Rite-Solutions, Inc.	$52	$81	$95	$76	$17		$97	$70
Citizens Bank & Subsidiaries	$111	$52	$37	$51	$1,443	$5,110	$3,027	$1,404
United Natural Foods, Inc.	$313	$545	$657	$833	$1,192	$682	$101	$617
Average	**$1,674**	**$1,976**	**$1,842**	**$906**	**$3,083**	**$3,151**	**$1,182**	**$759**

Note: Shading scale highlights indicate relative cost of JDA rate reduction per required employee for each beneficiary firm by year. Darker regions indicate higher value of rate reduction claimed.

Source: ORA calculations utilizing Rhode Island Department of Revenue *Unified Economic Development Reports* and Division of Taxation *Tax Credits & Incentives Reports* assigned to tax year according to ORA assumptions.

The table above highlights the disparity in JDA rate reduction cost per employee among beneficiary firms. The cost per required employee is measured in the thousands of dollars per employee for two firms – CVS Pharmacy, Inc. and Citizens Bank & Subsidiaries – while it is measured in the hundreds or tens of dollars per employee for the remaining six firms. For example, the value of the rate reduction ranges from *de minimis* levels (*e.g.*, $2 per required employee for Electric Boat Corporation in FY 2017) to significant levels (*e.g.*, $5,556 per required employee for CVS in FY 2015).

Furthermore, this table highlights the variability and change in the cost of the rate reduction per required employee over time. The value of the rate reduction per required employee decreased dramatically from $3,058 to $538 between fiscal years 2016 and 2017 for CVS Pharmacy while the value of the rate reduction grew dramatically from $51 per required employee in FY 2014 to a peak of $5,110 in FY 2016 for Citizens Bank.

Because the count of required employees remains constant for each firm over time, it can be assumed that fluctuations in rate reduction per employee are generally correlated with a firm's taxable income. However, a detailed analysis of this relationship is not possible due to the fact that the tax liability of a firm or small group of firms is considered confidential information.

While the JDA rate reduction may have had an instrumental role in a firm's hiring and location decisions at the time it was first awarded, it is far more difficult to evaluate whether such preferential tax treatment remains justified years later. There has been no determination made that jobs at a high-cost of rate reduction firm (such as CVS Pharmacy or Citizens Bank) are economically more beneficial to the state than jobs at a low-cost of rate reduction firm (such as Inquest Technologies or Rite-Solutions). Logically, it would follow that a tax benefit intended to incentivize employment should reduce the marginal cost of employment. While this may have indirectly been the case during the firm's initial expansion period, years later the rate reduction has no impact on a firm's marginal cost of labor relative to other inputs.

The footprint of the Jobs Development Act occupies a sizable chunk of the state's workforce and economy. While many of the early participants in the Jobs Development Act program have since dropped out, the firms that remain are among the state's longest standing, highest paying, and largest employers – some of which have national headquarters located in Rhode Island. The following table describes the economic footprint of Jobs Development Act beneficiary firms in terms of wages, workforce, and personal income:

Economic Footprint of JDA Beneficiary Firms
(Three-year Average, Tax Years 2013 - 2015)

	JDA Beneficiaries [1]	**Statewide [2]**
Average Hourly Wage	$40.88	$23.83
Annual Wages	$84,715	$47,323
Size of Workforce	More than 11,700 direct employees (2.9% of total RI labor force)	404,278 RI labor force
Personal Income	More than $956 million average annual direct wages (5.7% of total RI personal income)	$16.9 billion average annual personal income
Size of Employer	➢ CVS reports 5,222 direct jobs ➢ Citizens reports 3,305 direct jobs ➢ EB reports 2,427 direct jobs ➢ UNFI reports 363 direct jobs ➢ Rite-Solutions reports 69 direct jobs	➢ 0.05% of total employers in RI employ greater than 1,000 employees ➢ 0.36% of total employers in RI employ 250 employees or more ➢ 2.55% of total employers in RI employ 50 employees or more

Sources:
[1] ORA calculations utilizing Rhode Island Form 9261A, average tax years 2013 through 2015.
[2] Bureau of Labor Statistics, average calendar years 2013 through 2015.
[3] Bureau of Economic Analysis, average calendar years 2013 through 2015.

The loss of one of the larger JDA firms, particularly a major Rhode Island-headquartered firm, would have a major negative impact on the Rhode Island economy. The data in the table above indicate that 2.9 percent of the labor force and 5.7 percent of Rhode Island personal income are associated with full-time equivalent jobs at JDA-beneficiary employers. If it is true that the JDA had a deciding impact on these firms' choice to locate or remain located in Rhode Island, then the leveraged positive impact of the Jobs Development Act is potentially as high as several percent of the state's economy. However, the hypothetical question of whether a firm would have chosen to remain headquartered in Rhode Island is not neatly answered by economic analysis, especially considering the passage of many years since the JDA was first implemented and the lack of any goal or purpose in the enabling statute. Even if a firm were to relocate its national headquarters to an out-of-state location, it is possible that not all jobs would be lost and some employment and operations may remain in the state.

2. Number of Taxpayers Granted Tax Incentive

According to Taxation, six companies received a rate reduction under the Jobs Development Act in tax year 2013, five companies received it in tax year 2014, and four companies received rate reduction in tax year 2015 with a total value of $54,399,922 and an average value of $18,133,307 during the three tax years[4]. The following table provides a description of the number of recipients of the JDA rate reduction and the corresponding tax benefit amounts received in each tax year:

Jobs Development Act Incentive Recipients
(Tax Years 2013 – 2015)

Tax Year	Number of Recipients	Total Benefit Received
2013	6	$7,520,261
2014	5	$23,346,768
2015	4	$23,532,893
Total	**6**	**$54,399,922**
Average	**5**	**$18,133,307**

Source: Compilation of Division of Taxation *Tax Credit & Incentive Reports*.

Note: The total number of recipients represents the sum of distinct companies receiving the credit in tax years 2013 through 2015 as the same companies appear to take the JDA credit every year.

3. Value of Tax Incentive Granted by NAICS Code

During tax years 2013 through 2015, the total amount of the JDA tax incentive was $54,399,922. ORA matched each recipient firm to its corresponding industry code according to the North American Industry Classification System (NAICS). The following table depicts the amount of the JDA tax incentive received by firms in each industry during tax years 2013 through 2015:

[4] It should be noted that subsidiaries of parent companies that qualified for a tax credit/tax benefit are reported with the parent company and count as one recipient.

Jobs Development Act Incentive Amount by NAICS Industry
(Tax Years 2013 – 2015)

Industry Description (NAICS Code)	Three-Year Total	Three-Year Average
Management of companies and enterprises (55)	$36,618,818	$12,206,273
Membership associations and organization (813)	$52,344	$17,448
Miscellaneous manufacturing (339)	$2,268,480	$756,160
Professional, scientific, and technical services (54)	$9,744	$3,248
Securities, commodity contracts, investments (523)	$120,203	$40,068
Monetary authorities - central bank; Credit intermediation and related activities; Funds, trusts, & other financial vehicles (521-522-525)	$15,313,141	$5,104,380
All Industries	**$54,399,922**	**$18,133,307**

Source: Assignment of beneficiary firms into NAICS classifications based on ORA assumptions. Rate reduction amounts based on compilation of Division of Taxation *Tax Credit & Incentive Reports.*

4. Cost of Administration

ORA surveyed the Division of Taxation to ascertain the cost for the administration of the JDA rate reduction. The table below provides information on the direct cost incurred by the Division of Taxation during tax years 2013 through 2015 to administer this tax credit.

Jobs Development Act Cost of Administration
(Tax Years 2013 – 2015)

Cost-Incurring Entity	TY13	TY14	TY15	Total	Average
Division of Taxation	$8,918	$6,333	$6,340	**$21,591**	**$7,197**

Source: Division of Taxation

5. Number of Aggregate Jobs

Based on wages and employment data submitted by the Jobs Development Act recipients to the Division of Taxation, ORA was able to compile the total number of employees for each recipient firm.

The following table provides description of employment under the Jobs Development Act in tax years 2013 through 2015. Required jobs denote the number of full-time equivalent active jobs as defined in R. I. Gen. Laws § 42-64.5-2(7) created or retained that a recipient of the Jobs Development Act rate reduction must achieve in order to receive the tax benefit. Reported jobs represent the number of full-time equivalent active jobs as submitted by each JDA recipient.

Jobs Development Act Employee Count
(Tax Years 2013 – 2015)

Recipient Name	TY 2013 Required	TY 2013 Reported	TY 2014 Required	TY 2014 Reported	TY 2015 Required	TY 2015 Reported
AAA Southern New Eng. & Subs.	725	*	†	†	†	†
CVS Pharmacy, Inc.	3,430	5,326	3,430	5,511	3,430	5,504
Electric Boat Corporation	1,501	2,485	1,501	2,446	1,501	2,404
Rite-Solutions, Inc.	104	68	104	63		
Citizens Bank & Subsidiaries	2,337	3,619	2,337	2,999	2,337	2,882
United Natural Foods, Inc.	200	375	200	392	200	439
Total	**8,297**	**11,873**	**7,572**	**11,411**	**7,468**	**11,229**

Source: ORA Calculations based on Rhode Island Form 9261A.

Notes: Employee count uses "full-time equivalent active employee" Act "full-time equivalent active employee" counting methodology as specified in R.I. Gen. Laws §42-64.5-2(7).

***** AAA Southern New England & Subsidiaries did not respond to notification from the Division of Taxation and thus did not provide the information required by R. I. Gen. Laws § 42-64.5-8.

† Firm did not utilize rate reduction in designated tax year.

6. Direct Taxes Paid by Recipients

Due to statutory confidentiality mandates under R.I. Gen. Laws §§ 44-1-14, 44-19-30, 44-11-21, 44-14-23 and 44-30-95(c) and the risk of disclosure of taxpayer information, the Division of Taxation is unable to approve disclosure of information by ORA as required by R.I. Gen. Laws § 44-48.2-5(a)(1) as it pertains to the "the aggregate annual revenue that such taxpayers generate for the state through the direct taxes applied to them."

7. Direct Taxes Paid by Recipients' Employees

Employees of JDA-Beneficiary Firms:
Identified Tax Filings by Resident and Non-Resident Status
(Tax Years 2013 – 2015)

	TY 2013	TY 2014	TY 2015
Total Employees Reported	**12,156**	**12,470**	**11,651**
Count of Employees Identified by Taxation	9,487 of 12,156	10,101 of 12,470	11,404 of 11,651
Count of Employees Identified by ORA	6,814 of 9,487	6,126 of 10,101	6,377 of 11,404
Identified	***6,814***	***6,126***	***6,377***
Resident	5,152	4,842	5,054
Non-Resident	1,662	1,284	1,323
Not Identified	***5,342***	***6,344***	***5,274***
Resident	unknown	unknown	unknown
Non-Resident	unknown	unknown	unknown

Source: Division of Taxation, Office of Revenue Analysis personal income tax model

Employees of JDA-Beneficiary Firms:
Personal Income Taxes Paid by Identified Taxpayers
(Tax Years 2013 – 2015)

	TY 2013	TY 2014	TY 2015
Total RI Personal Income Taxes Paid†	***$14,558,353***	***$16,309,688***	***$16,731,577***
Resident	$10,007,884	$12,000,000	$12,349,711
Non-Resident	$4,550,469	$4,309,688	$4,381,866
Taxes paid per Identified Job	***$2,137***	***$2,662***	***$2,624***
Resident	$1,943	$2,478	$2,444
Non-Resident	$2,738	$3,356	$3,312

Source: Division of Taxation

† Taxes paid reflects only the amounts paid by employees for which the Division of Taxation and ORA were able to identify a tax filing. Also, taxes paid reflects apportioned taxes by amount of reported wages attributable to employment with JDA-beneficiary firms. The above taxes paid do not reflect total taxes paid by identified taxpayers.

8. Additional Data Analysis

Additionally, using data provided by Taxation through the annual *Tax Credit & Incentive Report*, ORA identified the following firms to be recipients of multiple incentive programs:

Other Tax Credits Received by JDA Recipient Firms
(Tax Years 2013 – 2015)

Year	Company Name	Project Status	Investment Tax Credit	Jobs Training Credit	R&D	Total Other Credits
2013	CVS	$3,412,606	$4,938,976	$139,704	-	**$8,491,286**
2013	Electric Boat	$846,579	$840,365	$923,509	-	**$2,610,453**
2014	CVS	-	$3,530,954	$468,222	$414,470	**$4,413,646**
2014	Electric Boat	-	$1,065,721	$1,532,858	-	**$2,598,579**
2015	CVS	-	$9,523,127	$621,343	$572,164	**$10,716,634**
2015	Electric Boat	-	$1,463,695	$2,541,907	-	**$4,005,602**

Source: Division of Taxation, *Tax Credits & Incentives Reports*

Note: As noted in "Data Description" above, ORA assumes that credit usage reported in each fiscal year edition of Taxation's *Tax Credits & Incentives Report* corresponds with the prior tax year. However, in FY 2016 CVS disclosed usage of $9,523,127 in Investment Tax Credit, while Taxation testified to only $2.57M in TY 2015 Investment Tax Credit usage at the November 2017 Revenue Estimating Conference. ORA is unable to resolve the discrepancy between these data sources, nor identify which tax year generated the $9,523,127 in credit usage reported in the FY 2016 *Tax Credits & Incentives Report*, nor confirm whether the claimed tax credit amount was reported in error.

These data show that on average, beneficiaries of the Jobs Development Act receive $10,945,400 in state incentives and credits each year *in addition* to the value of the JDA rate reduction. The fact that these firms received these additional tax benefits makes it inappropriate to attribute one hundred percent of the economic benefits associated with their presence in the state solely to the JDA because this would imply that these additional credits had zero economic impact.

Part III: Evaluation of the Economic Impact of the Tax Credit

This section of the report addresses two major objectives defined in R.I. Gen. Laws § 44-48.2-5: first, to provide a projection of the potential impact of the Jobs Development Act on state revenues from projected future use and carryforward; and, second, to produce a breakeven cost-benefit analysis that can determine the net impact on state revenues resulting from the JDA.

1. Assessment and Five-Year Projection of Revenue

ORA assumes that the issuance of the Jobs Development Act corporate income tax rate reduction under current law will follow historical issuance patterns. Therefore, ORA assumed a three year moving average in the total amount of the tax incentive that would be assigned in future calendar years. The following table provides the distribution of the anticipated amount of the Jobs Development Act corporate income tax rate reduction to be issued in each tax year.

Jobs Development Act: Revenue Projection

Fiscal Year	Projections
2018	$18,611,090
2019	$17,032,531
2020	$14,865,744
2021	$16,836,455
2022	$16,244,910

Notes: Projection is constructed as a three-year moving average. Most recent three years of historical data included in moving average are fiscal years 2015 through 2017. This three-year average includes years prior to and following reforms to the Rhode Island corporate tax code in tax year 2015 described elsewhere in this report. These revenue projections may be overstated to the extent that these tax reforms reduce the value of the rate reduction on a going forward basis Projection reflects uncertainty regarding in which tax year in which rate reduction amounts presented in each fiscal year's *Tax Credit & Incentive Report*.

Source: ORA calculations based on Division of Taxation, *Tax Credits & Incentives Reports*

2. "Breakeven" Cost-Benefit Analysis

- *Introduction to "Breakeven" Cost-Benefit Analysis Methodology*

Pursuant to R.I. Gen. Laws § 44-48.2-5(6), ORA conducted a "breakeven" cost-benefit analysis to measure the net impact on state revenues resulting from the JDA program under a variety of assumptions regarding what would have happened in the Rhode Island economy if the credit had not been available. To provide additional insight, ORA also produced breakeven analyses with respect to employment and Rhode Island gross domestic product (RI GDP).

To execute these cost-benefit analyses, ORA utilized Regional Economic Models, Incorporated's (REMI) 70-sector model of the Rhode Island economy via the REMI PI+ software platform to produce estimates of the total economic effects of the tax credits issued in tax years 2013 through

2015.[5] The dynamic capabilities of the REMI PI+ model allows one to estimate the impacts of exogenous shocks to the state's economy, including changes to public policy, shifts in consumer behavior and demand, and developments in industry.

The analysis is based on self-reported firm-level data on employment and wages provided by the Division of Taxation and publicly available historical data on the regional and national economies. Direct benefits are entered into the REMI model as policy variables simulating changes in industry sales, exogenous final demand, employment, and compensation or wages. ORA assigned these benefits to a profile of sectors among the 70 sectors available in the REMI PI+ model in proportion with the amount of the three-year average JDA tax incentive amount.

The "breakeven" approach developed for this report allows a reader to assume that the JDA leveraged various levels of economic activity required of recipient firms to receive a rate reduction. This assumption means that some varying portion of the economic activity required of recipient firms to receive a rate reduction would not have occurred in the absence of the rate reduction. Under this assumption, firms made some portion of their long-term production decisions based on the availability of an incentive over a period of time, and removal of that tax benefit in a given year would undo all such decisions.

- *Modeling Costs*

ORA assumes that the tax incentive is funded by an equivalent reduction in state government spending – that is, when the state government forgoes revenue by allowing a rate reduction, there are fewer funds available for other spending priorities. ORA modeled these adjustments based on a comprehensive historical analysis of Rhode Island general fund expenditures for each tax year within the scope of this analysis. This analysis compiled all state general fund expenditures and assumed that the level of these expenditures could be adjusted to maintain a balanced general fund budget. The breakdown of general fund expenditures by category is shown in the following table:

[5] The REMI model consists of four economic impact methodologies: input-output analysis, computable general equilibrium dynamics, econometric estimation techniques, and economic geography and migration flows. Detailed documentation on the REMI PI+ v2.0.6 model employed in this analysis is available at: http://www.remi.com/resources/documentation

Three Year Average of Rhode Island General Fund Expenditures

(Calendar Years 2013 - 2015)

Industry Description	NAICS Code	Percent of Total
Ambulatory Healthcare Services [6]	621	33.8%
Educational Services	61	31.7%
State Wages, Salary, and other Compensation	n/a (entered as “state/local govt. compensation” and “employment”)	23.3%
Social Assistance	624	3.4%
Local Government Spending	n/a (entered as “local government spending”)	2.3%
Professional, Scientific, and Technical Services	54	1.2%
Administrative and Support Services	561	1.0%
Wholesale Trade	42	0.96%
Remaining/Other	19 additional industries, and also non-residential capital investment	2.3%
	Total:	**100.0%**

Source: ORA analysis of Rhode Island general fund expenditure data.

- *Modeling Benefits*

The Jobs Development Act (JDA) provides for a reduction in the business corporation tax rate for each new unit of employment that is added within an initial three-year measurement period to a company’s previously established base employment. The cost-benefit methodology employed by this report modeled the $18,110,129[7] reduction in tax liability for the recipients of the JDA business corporation tax rate reduction as a commensurate adjustment to industry-specific production costs.

Additionally, ORA was limited by taxpayer confidentiality concerns. Past editions of the Rhode Island Department of Revenue, Unified Economic Development Report have only reported the required and total employment amounts. These reports served as the primary data source for this report. While the required employment amount consists of both the base period employment and

[7] This figure excludes the $69,536 rate reduction that AAA Southern New England received in tax year 2013 because the company failed to provide the required data under R.I. Gen. Laws § 42-64.5-8.

the expansion period employment, revealing the breakdown between the two might allow a reader to calculate the number of new units of employment earned by the firm and accompanying rate reduction earned. From this information, it may be possible to infer the tax liability of the company, which would violate taxpayer confidentiality.[8]

ORA therefore determined that the only available reasonable approach was to count all required employment as a benefit of the JDA program. The expansion period occurred many years ago. It would be unreasonable to use it as the basis for evaluation indefinitely. The actual marginal decision facing JDA-beneficiary firm managers on an annual basis is whether to maintain Rhode Island employment at or above the required employment level. Failure to do so results in potentially significant tax consequences for the firm. Excess jobs should not be counted because they result in no marginal tax benefits for the firm.

- *The "Breakeven" Approach*

A fundamental challenge in evaluating economic development incentives is determining the extent to which an incentive actually stimulated or attracted new economic activity rather than subsidized economic activity that would have been largely present even in the absence of the incentive. On one hand, the availability of a tax incentive might have a decisive influence on a firm's production decision. In this case it might be appropriate for an evaluator to attribute all of the firm's economic activity to the incentive. On the other hand, an incentive program may simply reward or subsidize behavior that likely would have occurred anyway. In this case the tax credit might have an impact on a firm's marginal productivity, but it would be inappropriate to attribute the full economic activity of the firm solely to the availability of the tax incentive. Real world conditions often make it difficult or impossible for an evaluator to assess where on this continuum the impact of any given tax incentive falls.

In this context, ORA conducted a breakeven analysis. This analysis allows for the evaluation of an incentive program's performance under a wide range of assumptions regarding the level of economic activity that would have taken place if the program had not been available. Furthermore, the breakeven analysis specifies the proportion of economic activity associated with the incentive program recipient that one must assume to have been attributable to the incentive program in order for the total benefits to equal its total costs, where benefits and costs are measured as the impact on state general revenues (i.e., the condition that must be satisfied for the incentive program to "pay for itself").

The breakeven percentage should be interpreted as follows: if the reader believes the assumption to be plausible, that at least the amount of economic activity implied by the breakeven percentage can be attributed to the availability of the tax incentive, then one can infer that the incentive has a net positive impact on state general revenues. In the opposite case, if the reader believes that the amount of economic activity attributable to the tax incentive was less than the level implied by the breakeven percentage, then one can infer that the incentive had a net negative impact on state general revenues. Holding other factors equal, a lower breakeven percentage is more desirable than

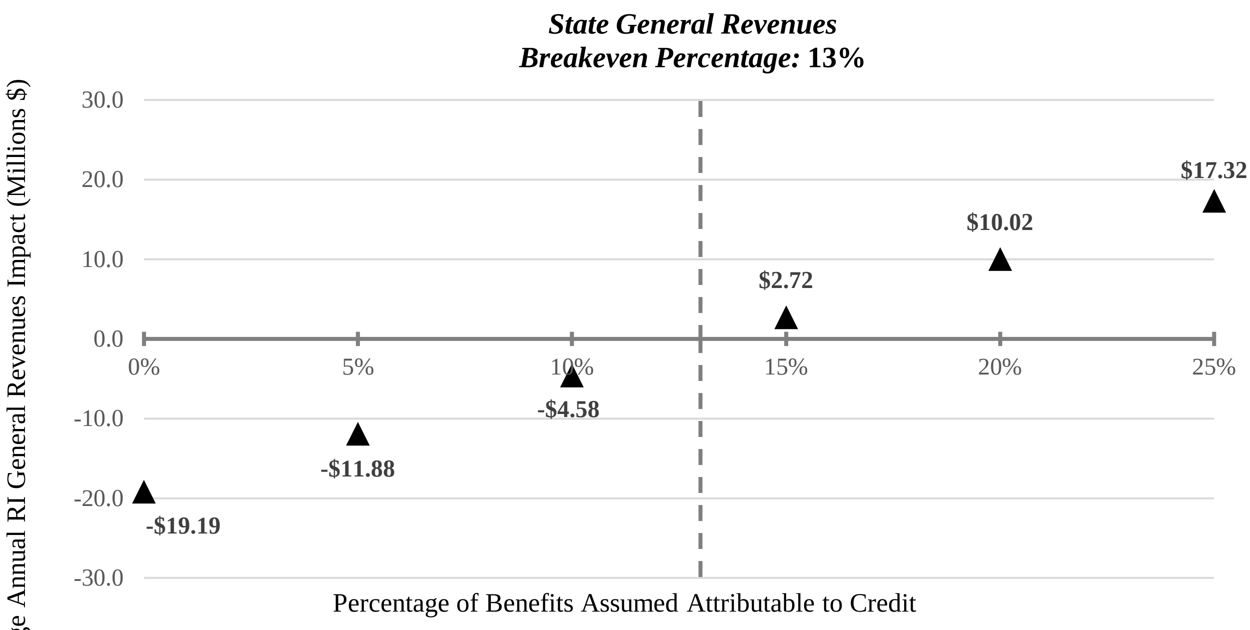
[8] See Appendix, Exhibit B for additional discussion related to modeling Jobs Development Act benefits.

a higher breakeven percentage if the goal of an incentive program is to cost the state as little revenue as possible.

A tax incentive program fails to breakeven, under any counterfactual assumption, when the breakeven percentage is greater than 100 percent. This implies that even if 100 percent of the economic activity associated with the incentive recipient was assumed to have taken place strictly because of the incentive's availability, a net negative impact on state general revenues would have resulted.

The following chart provides results of the breakeven analysis with respect to Rhode Island general revenues:

<u>Jobs Development Act:</u>
<u>Rhode Island General Revenue Breakeven Analysis</u>
(Average Annual RI General Revenue Impact, Calendar Years 2013-2015)



Notes: Label accompanying each ▲ marker refers to net Rhode Island general revenue impact resulting from a cost-benefit analysis assuming the labeled percentage of JDA benefits. General revenue impact is equal to the net revenue impact resulting from the direct, indirect, and induced effects in addition to the cost of paying back the cost of the tax credit. Note that the breakeven percentage is defined as the percent of benefits included in a cost-benefit analysis resulting in a net zero state Rhode Island general revenues impact.

Source: ORA calculations utilizing REMI PI+

A breakeven percentage of 13 percent can be interpreted to mean that if one assumes that 13 percent or more of the employment associated with JDA firms would not have been located in the state if not for the availability of the JDA rate reduction, then the rate reduction "pays for itself" in terms of state general revenues. The breakeven percentage can also be considered in terms of jobs. If at least 980 full-time equivalent active employees of JDA-beneficiary firms, or 13 percent of the three-year average reported employment of 7,537[9], can be attributed solely to the availability of the rate reduction, then this cost-benefit analysis suggests that the credit "pays for itself" in terms of state general revenues.

The following table provides more detailed information regarding the state general revenue impact. This table assumes that 25 percent of the required jobs associated with JDA beneficiaries were "caused" by the credit. This is equivalent to assuming that 1,884 out of 7,537 average annual required jobs are located in the state strictly due to the availability of the JDA rate reduction:

Rhode Island Jobs Development Act:
Detailed Revenue Impacts
(Average Annual RI General Revenue Impact, Calendar Years 2013-2015)

Item Description	Amount
General Revenue Generated by Incentive by Component	
Personal Income Tax	$11,716,932
Sales and Use Taxes	$11,469,931
Other Taxes	$524,126
Total Departmental Receipts	$3,615,506
Other Sources	$3,990,293
Total General Revenue Generated by Incentive	**$35,434,469**
Forgone Revenue Due to Incentive	**$(18,110,129)**
Net Change in General Revenue, After Paying for Incentive	**$17,324,341**
New Revenues Generated for Every Dollar of Incentive	**$1.96**

Note: Revenue impacts assume that 25% of economic activity associated with the JDA program is attributable to the availability of the JDA.

Source: ORA calculations based on historical Rhode Island revenue amounts and REMI PI+ simulations.

This table shows the detailed revenue impact under the ORA assumption that 25 percent of the employment associated with the JDA program was "caused" by the tax incentive. This shows that the activity associated with the JDA program generated a total $35.4 million of state general revenues – however, this figure does not include the $18.1 million cost of the tax incentive itself. Therefore, in an average year during the period of calendar years 2013 through 2015 Rhode Island gives up $18.1 million in revenue on the JDA program and receives $35.4 million of new revenues in return, equal to an average annual net gain of $17.3 million in net general revenue. Expressed another way, for every dollar spent on the JDA program the state generates $1.96 of new revenue. This payback ratio shows that new revenues generated from the JDA-incentivized activity exceed the total costs of the JDA and add a new net positive revenue amount to the state under the assumption that 25 percent of the employment at JDA beneficiary firms would not exist in Rhode Island if not for the availability of the rate reduction.

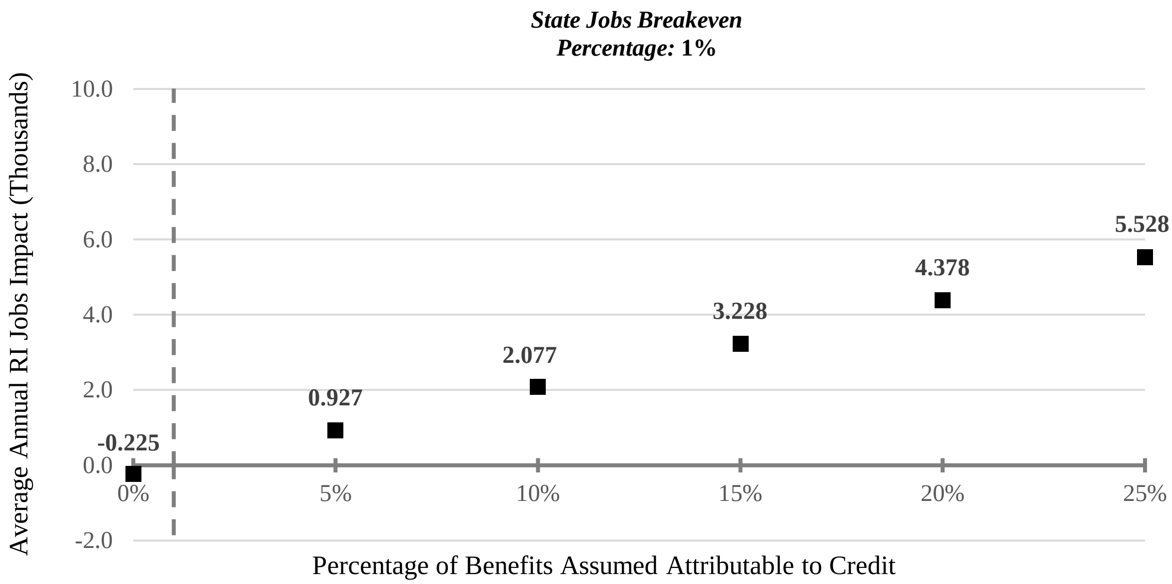
The breakeven framework can also be extended to employment and Rhode Island GDP. In these contexts, the breakeven percentage can be interpreted as the percentage of economic activity associated with JDA-recipient firms assumed to be attributable to the availability of the tax

[9] This figure does not include AAA Southern New England employment because the company failed to provide the Division of Taxation with the required data.

incentive necessary for the increase in employment or GDP resulting from new economic activity to outweigh the employment or GDP losses resulting in the reduction in government spending necessary to fund the credit.

The following chart shows the results of a breakeven analysis with respect to employment.

Jobs Development Act:
Rhode Island Jobs Breakeven Analysis
(Average Annual Rhode Island Jobs Impact, Calendar Years 2013-2015)



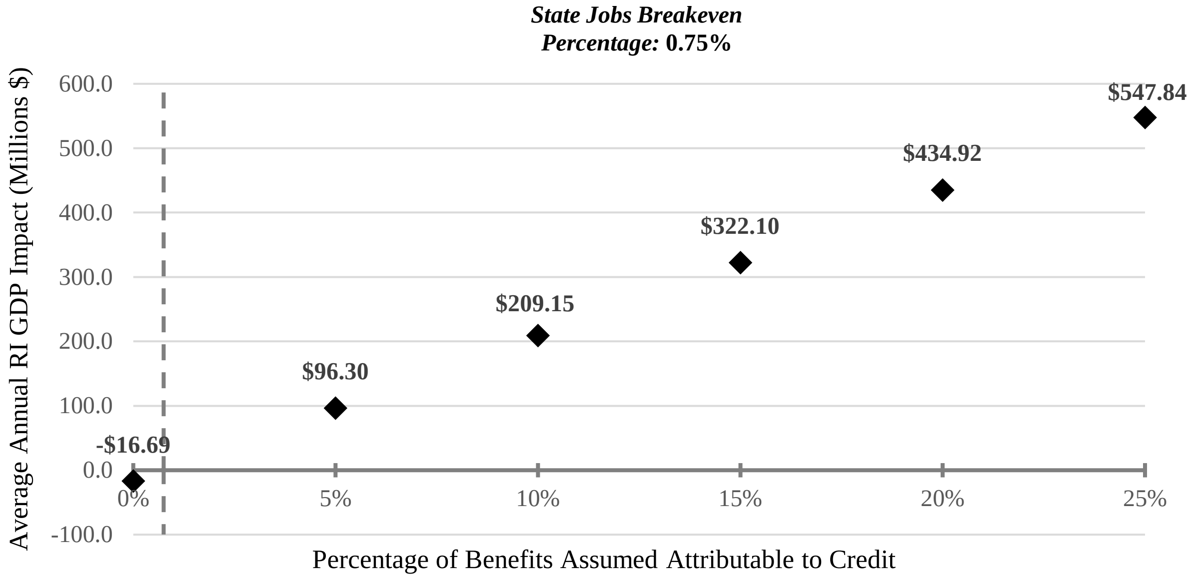
Notes: Label accompanying each ■ marker refers to Rhode Island jobs impact resulting from a cost-benefit analysis assuming the labeled percentage of JDA benefits. Note that the breakeven percentage is defined as the percent of benefits included in a cost-benefit analysis resulting in a zero state Rhode Island jobs impact.

Source: ORA calculations utilizing REMI PI+

The employment breakeven percentage of 1.00 percent implies that the JDA has a net positive impact on Rhode Island employment if at least 1.00 percent of economic activity associated with the JDA-recipient firms would not have occurred but for the availability of the tax incentive.

The following chart shows the results of a breakeven analysis with respect to Rhode Island gross domestic product (RI GDP).

Jobs Development Act:
Rhode Island GDP Breakeven Analysis
(Average Annual RI GDP Impact, Calendar Years 2013-2015)



Notes: Label accompanying each ◆ marker refers to RI GDP impact resulting from a cost-benefit analysis assuming the labeled percentage of JDA benefits. Note that the breakeven percentage is defined as the percent of benefits included in a cost-benefit analysis resulting in a zero state RI GDP impact.

Source: ORA calculations utilizing REMI PI+

The RI GDP breakeven percentage of 0.75 percent implies that the JDA program has a net positive impact on RI GDP as long as at least 0.75 percent of economic activity associated with the JDA-recipient companies would not have occurred but for the availability of the tax incentive.

Part IV: Discussion and Recommendations

1. Statement by the CEO of the Commerce Corporation

The Secretary of Commerce, who serves as Chief Executive Officer of the Rhode Island Commerce Corporation pursuant to R.I. Gen. Laws 42-64-1.1(b), provided the following statement pursuant to R.I. Gen. Laws § 44-48.2-5(a)(6)(iii):

Statement from the CEO of the Commerce Corporation:

"In 2015, The Jobs Development Act was closed to new applicants via legislation as proposed by Governor Raimondo and adopted by the General Assembly. The Commerce Corporation stands by that decision.

The Commerce Corporation believes that the next generation of investment tools – including the Qualified Jobs incentive – better serve the purpose of promoting economic development in a more effective and sensible manner. Strong, new safeguards for taxpayers were incorporated into the Qualified Jobs incentive (such as requirements that credits would be derived from newly generated tax revenue directly tied to jobs created and would only pay once those jobs are proven to have been created and contributing taxes to the state treasury).

The Commerce Corporation encourages a further analysis of the JDA in its current, limited form (with only pre-existing recipients eligible for benefits) provided that suitable data can be collected for such analysis. Such an analysis should take into account the positive economic activity this report highlights and the implications any changes to the program would have on the Rhode Island economy."

2. Discussion of Data Concerns

- *Inconsistency in Data Reporting*

While the Jobs Development Act rate reduction is one of the tax incentives where the level of data reporting compliance is relatively good, there are still significant data quality issues. The lack of clear guidance and definitions on the Form 9261A makes the data insufficient for purposes of tax incentive evaluation. Further discussion of data reporting concerns is provided in the recommendations section under "Finding #5".

- *Difficulty Accessing Taxation Data*

It is essential that all data necessary for the evaluation of Rhode Island tax incentive programs such as the JDA program are captured by Rhode Island tax forms. Beneficiaries of tax incentive programs must specifically consent to sharing these data with any state agencies tasked with evaluation as a condition of receiving the tax benefit. Such data must be reviewed for completeness and accuracy prior to award of any tax credit.

In creating this and other reports, it typically takes a significant period of time following the close of a tax year for the Division of Taxation to provide ORA with all necessary data to complete its required evaluation. For example, ORA relies on the Division of Taxation to construct a personal income tax simulation model to estimate the total taxes paid by credit recipients. The data necessary to construct this model typically is not available until 15 or more months following the close of the tax year. This is due in part to the fact that personal income tax returns are filed throughout the calendar year immediately following the close of the tax year and it is not until the end of the calendar year that the overwhelming majority of personal income tax returns have been filed and processed. For many other ad hoc data requests, federal privacy laws and regulations make it difficult or impossible to utilize administrative taxpayer data for tax incentive evaluation. For ORA to conduct evaluations, better access to data under Division of Taxation control, an agency whose primary mission is processing tax returns fairly and efficiently for taxpayers and ensuring compliance with the state's tax code, or improving data collection tools so that tax incentive recipient firms themselves submit required data in a manner suitable for evaluation is necessary.

3. ORA Recommendations

Finding #1: The statutory goals of the JDA program are NOT defined in R. I. Gen. Laws Chapter 42-64.5. Therefore, it is not possible to measure performance against statutory objectives.

Related Recommendations:

- Policymakers should determine goals and objective of the tax incentive program in order to provide guidance to evaluators.

Discussion Supporting Finding #1:

R.I. Gen. Laws § 44-48.2-5(a)(10) requires the Office of Revenue Analysis to offer recommendations "as to 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." Such analysis is not possible with respect to the Jobs Development Act because no statutory goals exist.

The success of a tax incentive program is usually related to how much of its goals and objectives was achieved. In this context, the lack of statutory goals makes it very difficult to evaluate the Jobs Development Act given that the behavior the program is trying to incentivize is not defined under the program's governing statute.

A major ambiguity regarding the goals of the Jobs Development Act is the extent to which the rate reduction is intended to encourage firms to make marginal increases in the level of Rhode Island employment or to influence firms' location decisions of major business divisions or headquarters. If it is true that a JDA-beneficiary firm would not have remained headquartered in the state but for the availability of the rate reduction, then it may be appropriate to attribute a relatively large percentage of the firm's economic activity to the availability of the rate reduction. If it is true that a JDA-beneficiary firm only made marginal increases to Rhode Island employment as a result of the rate reduction, then it may be appropriate to attribute a relatively small percentage of the firm's economic activity to the availability of the rate reduction. However, the absence of statutory goals complicates this assumption.

Confidentiality concerns prevented the disclosure of certain metrics required by R.I. Gen. Laws § 44-48.2. Defining statutory goals could also inform what if any statutory data reporting requirements for rate reduction beneficiaries could be implemented to improve transparency and accountability.

Finding #2: While the design of the Jobs Development Act is inconsistent with current generally accepted best practices regarding the design of economic development tax incentives, the beneficiaries of the Jobs Development Act are among the state's largest, longest-established, and highest paying employers.

Related Recommendations:

- Policymakers should consider the efficacy of the Jobs Development Act and ensure that the Rhode Island economic and tax policy landscape remains competitive and attractive for current Jobs Development Act beneficiaries and all firms.

Discussion Supporting Finding #2:

Jobs Development Act beneficiary firms are among the largest and highest-paying employers in the state. The 11,700 JDA-beneficiary reported employees comprise 2.9 percent of the state labor force and provide 5.7 percent of Rhode Island's total personal income. The hourly wage paid to reported employees by JDA firms of $40.88 is nearly twice the Rhode Island average wage of $23.83 for the tax year 2013 through 2015 period covered by this report. Any action taken with respect to the Jobs Development Act should be made with thoughtful and deliberate concern over the fact that the economic activity related to JDA-beneficiary firms forms a substantial portion of the Rhode Island economy.

Despite the broad footprint of JDA-beneficiary firms, it is not likely that all of this economic activity would immediately disappear if the program were to be modified or even ended. Analysis of the credit amount per required employee is less than $1,000 for three out of the five firms claiming a rate reduction for the three-year period of fiscal years 2013 through 2015 covered by this analysis. More recently, the value of the rate reduction per employee was less than $1,000 for four out of five firms in FY 2017. For some firms, the Jobs Development Act rate reduction provides only a token amount of tax benefit, which may not be sufficient to change the behavior of a firm.

Furthermore, some JDA beneficiaries make extensive use of other Rhode Island tax credits and incentives. On average, JDA beneficiaries annually claim $10,945,400 in additional credits and incentives based on data from tax years 2013 through 2015. JDA beneficiary firms are able to utilize other Rhode Island economic development tax incentive programs if eligible. Furthermore, the alternative uses of the resources dedicated to the Jobs Development Act should be considered. Revenue currently forgone via the JDA could become available for other state government expenditure priorities including investments in education, workforce development, and broad-based tax reductions – all of which would make Rhode Island economic environment more competitive for all businesses.

One option that could be considered is to allow continued use of the Jobs Development Act only for companies that have a corporate headquarters in Rhode Island. From the state's perspective, there is considerably more leverage associated with each dollar of rate reduction if the availability of rate reduction has a deciding influence on a firm's decision to locate its corporate headquarters in Rhode Island. A headquarters represents a capital-intensive investment in the state that brings with it hundreds or thousands of highly paid, permanent jobs. It is far more likely that the Jobs Development Act breaks even with respect to state general revenues under the assumption that firms would choose to relocate headquarters locations outside of Rhode Island if not for the availability of the rate reduction.

Finding #3: Single sales factor apportionment of income subject to the Rhode Island business corporation tax for C-corporations has the potential to dramatically change the impact of the JDA rate reduction for certain types of firms.

Related Recommendations:

- Policymakers should discuss whether the JDA rate reduction remains justified as a result of this significant change in the Rhode Island tax environment.

Discussion Supporting Finding #3:

When the JDA was adopted, Rhode Island General Laws specified a three-factor formula for apportioning income earned by a C-corporation operating in multiple states with nexus in Rhode Island based on property, sales, and payroll for purposes of assessing the business corporation tax under R.I. Gen. Laws § 44-11-2. The proportion of a C-corporation's United States income that was subject to tax was equal to the average of the proportions of a company's property, sales, and payroll that was located/took place in Rhode Island. Under this tax regime, an increase in a company's Rhode Island payroll, holding other factors equal, would result in an increase in Rhode Island taxable income. A tax scheme whereby firms with higher payroll are subject to higher taxable income has the potential to disincentive Rhode Island employment. Providing a reward, in the form of a business corporation tax rate reduction, for firms with increased payroll could potentially mitigate this disincentive. It is unknown if this was the deliberate intent of the Jobs Development Act because the Jobs Development Act has no statutory purpose.

For tax years beginning on or after January 1, 2015, Rhode Island adopted a single sales factor apportionment formula for determining Rhode Island taxable income for C-corporations subject to the business corporation tax. Under this apportionment formula, the proportion of a C-corporation's United States income that is subject to tax is equal to the portion of the firm's total sales that took place in Rhode Island. This formula eliminated the potential negative consequence of the three-factor apportionment formula to discourage a multi-state firm from making property and payroll investments in Rhode Island. To the extent that the Jobs Development Act was justified on the assumption that three-factor apportionment discouraged multi-state firms from making payroll investments in Rhode Island, the adoption of a single sales factor apportionment has made this purpose unnecessary.

The adoption of single sales factor apportionment has had a significant impact on the Rhode Island corporate tax environment for multistate firms to such an extent that the Jobs Development Act rate reduction may no longer serve as a meaningful employment incentive for some or all firms. An example of the type of firm that is likely to benefit from the shift to single sales factor apportionment is a Rhode Island-headquartered corporation with a physical presence in many states. A large percentage of such a firm's payroll spending and property investment may take place at its Rhode Island corporate headquarters, but a relatively slim percentage of its national sales are made to Rhode Island customers. In general, it is expected that such a firm would pay significantly less business corporation tax under single sales factor apportionment than had been previously paid under three-factor apportionment. While a JDA rate reduction would have had a substantial dollar value for such a firm under three-factor apportionment, it is possible that the JDA rate reduction would be far less valuable under single sales factor apportionment because the single sales factor apportionment formula has significantly reduced such a firm’s Rhode Island apportioned taxable income.

Finding #4: A rate reduction is an *unconventional* and *unwieldy* approach to incentivizing employment in which:

- The tax benefit awarded to JDA beneficiaries (value of the rate reduction) is not aligned with the incentivized behavior (employment).
- Because the tax rate is an integral part of a firm’s tax liability calculation, it is difficult to provide transparency and oversight with respect to Jobs Development Act beneficiaries without compromising taxpayer confidentiality.

Related Recommendations:

- Policymakers should discuss whether the JDA rate reduction remains relevant in response to the substantive change in the state’s corporate tax environment.
- Consider whether the Jobs Development Act as designed fulfills the undefined purpose for which it was implemented. Ensure that any changes to the JDA meet the defined purpose for which it is being redesigned.

Discussion Supporting Finding #4:

For a Jobs Development Act beneficiary that has passed the expansion period, there is no direct relationship between the value of the incentive (the dollar value or percentage amount of the rate reduction) and the assumed to be desired behavior (employment). Under the former three-factor apportionment formula, such a relationship did exist, though it is unknown if this relationship was a consideration in the design of the JDA. Under the current single sales-factor apportionment formula, there is no longer any direct relationship between the value of the rate reduction and the count of jobs (other than, quite indirectly, the assumption that firms with higher taxable income have higher employment). The tax rate reduction lowers the overall production cost for a firm, but it does not lower the marginal cost of employment relative to other inputs. In other words, while a tax rate reduction reduces the cost of doing business for a firm, there is no guarantee that the firm use this cost savings to maintain or increase Rhode Island employment. Firm managers are free to use this tax benefit to increase employment elsewhere, reduce prices to its customers, or increase capital expenditures – to list just a few examples. It is logical to consider that an employment-focused tax incentive should provide a tax benefit that is proportional with the encouraged outcome (employment). This ensures that as much as possible of the tax benefit goes towards funding the desired outcome.

Structuring the Jobs Development Act as a rate reduction is possibly a well-intentioned attempt at ensuring that firms receive a benefit that is proportional to their total taxes paid. Furthermore, the rate reduction cap is seemingly intended to limit the benefit to only a portion of a firm's tax liability. However, confidentiality concerns and the fact that firms receive multiple credits simultaneously make it impossible to determine whether recipient firms have a net positive or negative Rhode Island tax liability. There are more straightforward ways of ensuring that a tax incentive program's benefits do not exceed a recipient firm's tax liability than a rate reduction. Because a tax rate is an integral figure in a firm's tax calculation. It is difficult to reveal the value of rate reduction and definitively state whether or not the value of the tax benefit exceeds the taxes paid by the rate reduction beneficiary without also revealing other confidential taxpayer characteristics.

Finding #5: It is a positive finding that some annual reporting is required of JDA rate reduction beneficiaries; however, while data reporting forms and instructions may be sufficient for verifying statutory compliance, they are not well-suited to economic analysis.

Related Recommendations:

- Division of Taxation should revise annual reporting forms and instructions to improve consistency of data and to include key data points necessary for economic analysis.
- Legal authorities should be consulted to determine what if any legislative changes are necessary to overcome taxpayer confidentiality concerns.
- Publicly available reports such as the Division of Taxation's *Tax Credits & Incentives Report* should be revised to be more precise with respect to the tax year of credit usage, backwards revision of historical data, and confirming whether or not firms have satisfied all JDA rate reduction eligibility requirements.

Discussion Supporting Finding #5:

R.I. Gen. Laws § 44-48.2-5(a)(9) requires the Office of Revenue Analysis to offer recommendations "[i]n 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." Discussion related to this topic is as follows:

The forms and accompanying instructions required of JDA-beneficiary firms by the Rhode Island Division of Taxation are sufficient to demonstrate compliance with rate reduction eligibility criteria, but are not well-suited to economic analysis.

RI Form 9261A requires that JDA-beneficiary firms report annual employment for each fiscal year with identifying information such as name and social security number as well as start date and terminations date if applicable, hourly wage, and hours worked per week as a condition of continued use of the rate reduction. From this documentation, it is clear that most/all firms report employee-level documentation to prove at least the minimum required amount of employment.[10] Furthermore, many firms report significant excess employment above the minimum required amount. It is unclear whether the employment provided in RI Form 9261A represents an exhaustive accounting of all of a firm's employees or only some portion. For example, it would be logical that a firm whose total employment well exceeds the required employment amount would only report enough jobs to qualify for continued use of the rate reduction, and omit a portion of their workforce if it were an administrative burden to construct an exhaustive list. There are a variety of acceptable options as to how the instructions could be modified to clarify this inconsistency – the central recommendation with respect to data integrity is that the instructions should be clarified so that all firms report comparable groups of employees.

Additionally, Rhode Island Form 9261A does includes hours worked per week and hourly wage of individual employees but does not include total wages paid. While total wages paid can be calculated using hours per week and hourly wage, it requires making certain assumptions about work schedules and time off policies. A simple modification to Rhode Island Form 9261A is the addition of a total wages paid individual employee field.

Compliance with data reporting requirements is generally acceptable with respect to Jobs Development Act beneficiaries, but there are opportunities to improve the manner in which data are shared and published. When discrepancies or seemingly missing data are found, it is unclear whether this was the result of a failure of the beneficiary firm to comply with data reporting requirements or simply due to ambiguous reporting. For example, the Division of Taxation's *Tax Credits & Incentives Report* is the definitive data source used by ORA in compiling the value of the rate reductions used by firm and by year in this report. The recipients of most tax credits and incentives occur by tax year even though the report is published by fiscal year. While it is generally the case, as ORA assumes in this report, that the amounts reported in each fiscal year correspond with the previous tax year (*e.g.*., fiscal year 2017 corresponds with tax year 2016), there are likely exceptions to this rule. This uncertainty makes it difficult or impossible to conduct precise analysis. In the case when misleading incentive usage is reported for a major user of a credit, it has the potential to dramatically impact the usage level in a particular year. While there are examples in which ORA has identified firms that appear to be out of compliance with JDA rate reduction eligibility requirements, it is possible that these firms are in fact in compliance with JDA requirements but that rate reduction benefit amounts listed are not actually associated with the assumed tax year. It is impossible to discern between the two because of ambiguous "fiscal year"

[10] As reported in many Unified Economic and Development Reports, one firm, Rite Solutions failed to meet the minimum required job amount for several years while they continued to use the JDA rate reduction as reported on in the Annual Credits and Incentives Report. To the knowledge of ORA, this has been publicly reported since FY 2012 but not addressed.

rather than “tax year” reporting. ORA recommends that future editions of the Division of Taxation’s *Tax Credits & Incentives Report* specify tax credit or incentive amount by tax year/s.

Furthermore, there is no publicly available data source, including the *Tax Credits & Incentives Report* or the semi-annual testimony by the Division of Taxation at the Revenue Estimating Conference in which data are backwardly revised. Data is updated for the most recent year, but it is unknown if any changes to prior years have transpired since the last data update resulting from tax filings on extension, amended filings, audit findings, etc. Discrepancies between these two sources suggest that some amount of adjustment to prior year credit and incentive usage may occur, but it is not possible to confirm this. ORA recommends that the Division of Taxation maintain at least one publicly available data source in which historical tax credit and incentive usage is backwardly revised from time to time as new data become available.

ORA recommends that the annual *Tax Credit & Incentive Report* list whether or not the firm complied with all requirements necessary to receive the credit for the tax year in which they claimed the credit. It is assumed that firms are unable to make use of the JDA rate reduction unless they meet all eligibility requirements, but available data suggest that this may not always be the case. As discussed above, ORA has been reporting on instances in which firms appear to be out of compliance with JDA employment requirements for several editions of the annual *Unified Economic Development Report.*

Finding #6: A best practice of tax incentive design is the inclusion of a sunset provision. While the Jobs Development Act is closed to new participants, existing firms may continue to utilize the rate reduction indefinitely as long as they continue to fulfill participation requirements. The Jobs Development Act does not contain a sunset provision for these firms.

Related Recommendations:

- Add a sunset provision or limit the length of time that an individual firm may claim the rate reduction.

Discussion Supporting Finding #6:

It is generally advisable to determine a specific timeline for the tax incentive program as a part of the original legislation. This will minimize the potential revenue losses suffered by the state that may occur in case the program fails to accomplish its targeted objectives and goals. A sunset provision provides a date certain at which lawmakers must reconsider whether the tax benefit program continues to meet statutory goals. It should be noted that while companies that have earned a rate reduction prior to July 1, 2015 are entitled to maintain their rate reduction as long as minimum employment requirements are maintained, no new companies shall qualify for a rate reduction on or after July 1, 2015 per R.I. Gen. Laws § 44-48.3-12.

4. ORA Conclusion and Overall Recommendation

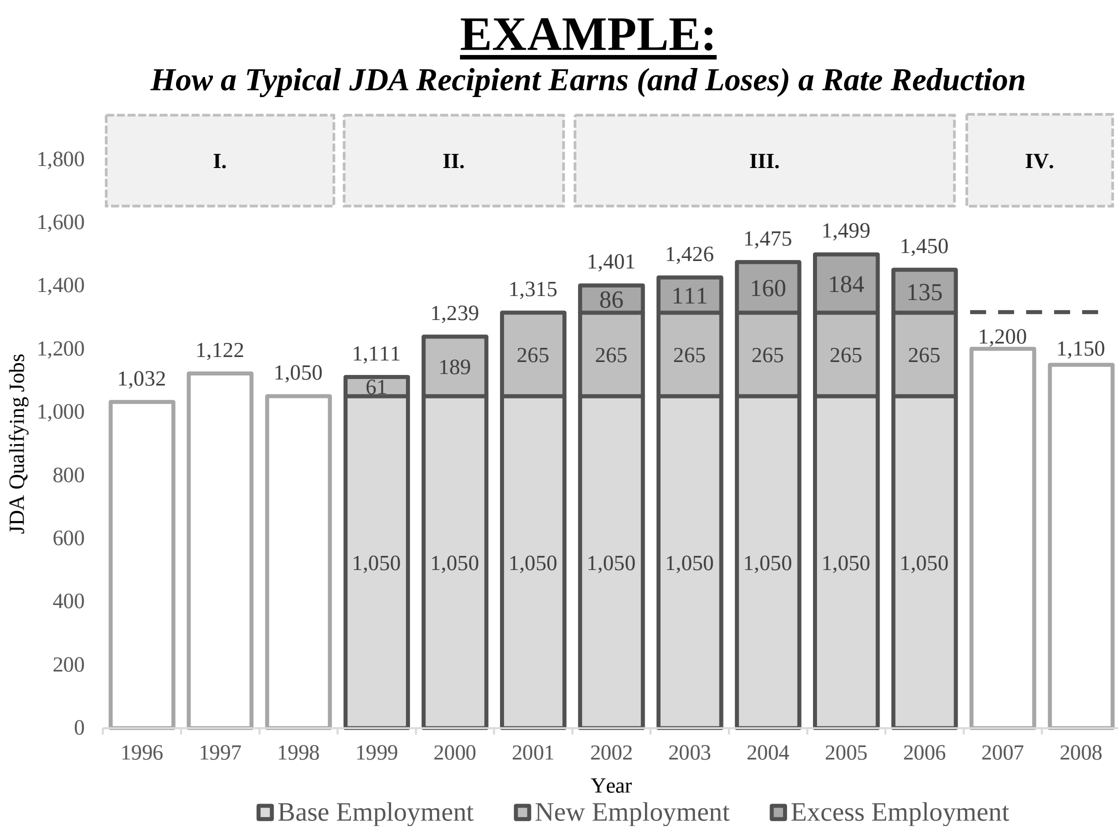
R.I. Gen. Laws § 44-48.2-5(a) (11) requires the Office of Revenue analysis to make a recommendation “as to whether the tax incentive should be continued, modified, or terminated.”

The Office of Revenue Analysis recommends that the Jobs Development Act be reconsidered according to the recommendations described in the previous section.

Appendix

EXHIBIT A: Detailed Explanation of JDA Beneficiary Firms Employment

The chart below describes the employment levels of a typical JDA-beneficiary firm over many years. This is a fictitious example meant to illustrate the mechanics of how a typical firm gains and loses a JDA rate reduction. All employment levels are completely fabricated. A fictional example is necessary because complete employment data of individual JDA-beneficiary firms is either unavailable or unable to be shared due to taxpayer confidentiality limitations.



Notes:

I. Pre 1999: Firm not yet participating in JDA.

II. 1999 - 2001: "Expansion Period" - Firm earns rate-reducing new employment units for any new qualifying employees.

III. 2002 - 2006: Firm continues to utilize rate reduction as long as employment remains at or above required level of 1,315; while the firm may report employment in excess of required amount, no additional employment units can be earned.

IV. Post 2006: Rate reduction permanently expires as a result of employment falling below required level of 1,315 in 2007

Source: ORA-constructed hypothetical example

Prior to participation in the JDA program in the years 1996 through 1998, this hypothetical firm maintained employment levels between 1,032 and 1,112 (labeled “I.”). In period I. the firm pays the statutory rate of tax on its taxable income. In 1999 the firm enrolled in the Jobs Development Act program. Their application established a “base period” of 1998 and "base period employment" of 1,050, which is equal to the level of JDA-qualifying employment measured as of December 31 in the year prior to their application. As a participant in the JDA program, the firm was then able to earn a business corporation tax rate reduction by increasing employment over the course of the three-year “expansion period” from 1999 through 2001 (labeled “II.”). In period II. the firm pays a decreasing rate of tax associated with its addition of units of employment on its taxable income. During this time, new employment is measured in terms of "units of new employment." Units of new employment can only be earned for new employment occurring during the expansion period. The rate reduction is capped in the third year following the base period, but the firm may continue to use the rate reduction in subsequent years as long as it maintains qualifying employment levels equal to or greater than that of the final year of the expansion period. The firm may report employment in excess of the required amount, but it may not earn any further rate reduction from additional units of new employment. This example firm maintained sufficient employment to retain its rate reduction from 2002 through 2006 (labeled “III.”). In period III. The firm pays the tax rate achieved at the end of period II. on its taxable income. This firm’s rate reduction permanently ended when the qualifying employment fell below the required level of 1,315 in 2007 (labeled “IV.”). Thus, in period IV. the hypothetical firm once again pays the statutory rate of tax on its taxable income. The horizontal dashed line in the figure above represents the required employment level of 1,315.

During the expansion period, the number of new jobs necessary to earn an additional unit of new employment is calculated according to the following rules:

Firm Type	**Definition**	**Employment Formula**
Small Business Concerns	Eligible business with less than 100 qualifying Rhode Island employees at time of base period election.	One unit awarded for every ten additional qualifying employees for the first 100 additional employees. One unit awarded for every fifty additional qualifying employees in excess of 100.
All Other Businesses	Eligible business with 100 or more qualifying Rhode Island employees at time of base period election.	One unit awarded for every 50 additional qualifying employees

The percentage rate reduction earned by each unit of new employment has changed throughout the history of the JDA program. When the JDA program was first established, the Rhode Island business corporation tax rate was 9.0 percent and each unit of new employment earned a 0.25 percentage point rate reduction. Effective for tax year 2015, the business corporation tax rate was reduced to 7.0 percent and the rate reduction earned by each unit of new employment was adjusted to 0.20 percentage points. To calculate the rate reduction in 1999, the first year of this firm’s expansion period, consider the following. In 1999 the firm employed 1,111 qualifying workers, equal to 61 new jobs (i.e. 1,111 - 1,050) or one employment unit (i.e. 61 rounded down to nearest multiple of fifty, or 50; 50 ÷ 50 = 1). This unit of new employment was equal to a 0.25 percentage point rate reduction, bringing the firm's 1999 business corporation tax rate to 8.75 percent (i.e. 9.0% - 0.25%). The following table describes the units of new employment and rate reduction in the first several years of participation in the JDA program for the hypothetical firm featured in the previous chart.

Year	Base Employment	Total Reported Employment	New Employment	Employment Units Earned	Rate Reduction
1999	1,050	1,111	61	1	0.25 pts.
2000	1,050	1,239	189	3	0.75 pts.
2001	1,050	1,315	265	5	1.50 pts.

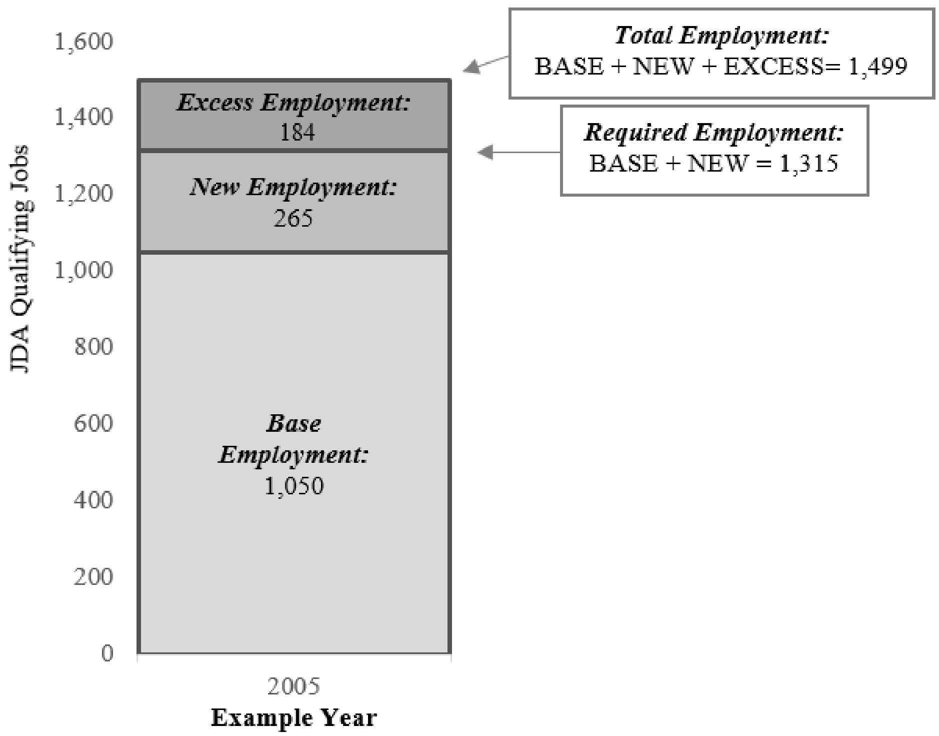
It should be noted that the rate reduction in any given year is always applied against the statutory tax rate in place for that year rather than the reduced rate that might have been awarded in the previous year. Thus, in 2000, this hypothetical firm would have a business corporation tax rate of 8.25 percent (i.e. 9.0% - 0.75%) not 8.0 percent (i.e. 8.75% - 0.75%).

The expansion period ends in 2001, the third year following the base period employment measurement. At this point, the firm is no longer eligible to earn any additional units of new employment, but may continue to utilize the 1.50 percentage point rate reduction earned during the expansion period. Furthermore, in order to maintain eligibility for future rate reductions, the firm must maintain continued employment at or above the level reported at the end of the expansion period (*i.e.*, in the third year following the base period). In the event that employment falls below this level in any year following the end of the expansion period, the rate reduction will permanently end. The firm may add jobs above the total in place at the end of the expansion period in future years, but this higher level of employment will not result in any additional rate reduction nor will it allow the firm to re-attain the rate reduction it had in place prior to its annual employment falling below the sum of its base and new employment.

EXHIBIT B: Discussion of JDA-Beneficiary Employment and Assignment of Benefits

In defining the benefits of the JDA program for purposes of a cost-benefit analysis, it is necessary to determine the scope of which jobs to count as a benefit. When deciding the number of jobs attributable to the rate reduction, it is helpful to consider that in any given year, a firm's employment consists of base employment, new employment, and excess employment. Consider the employment reported by a hypothetical firm in 2005 as described below:

EXAMPLE:
Determining employment attributable to rate reduction



The base employment is the number of jobs established upon initial enrollment in the JDA program, representing the firm's "base period" employment level prior to receiving the benefit of the rate reduction. The expansion employment amount represents the count of jobs added during the expansion period. The "required employment" count is the number of jobs necessary to maintain the rate reduction after the conclusion of the expansion period. It is equal to the sum of the base employment and the new employment added during the expansion period. Many firms continue to grow following the conclusion of their expansion period, and report "excess employment" above the minimum required employment level.

There are several options as to which portion of employment should be considered attributable to the credit.

Assumed Portion of Employment Attributable to JDA	**Description**	**Underlying Assumption**
New Employment Only	This is the portion of employment that was added during the expansion period.	Excludes base employment under the assumption that because it existed prior to JDA participation, it was not "caused" by the rate reduction.
Required Employment = Base Employment + New Employment	The number of jobs statutorily required for the firm to continue utilizing the rate reduction after the conclusion of the expansion period.	The rate reduction may provide firms with a strong incentive to maintain minimum employment levels. If employment falls below this level in even a single year, the firm permanently loses the rate reduction. However, this approach excludes any excess employment because it does not earn any additional rate reduction amount.
Total Employment	Includes all jobs associated with the JDA-beneficiary firm.	Assumes that the firm would have ceased operations or left Rhode Island without the benefit of the rate reduction, therefore *all* employment can be attributed to the JDA.

There may additional approaches to measuring the benefits of the JDA program – all or most of which are not possible due to data constraints. For example, JDA-beneficiaries could be compared, before and after receiving JDA benefits, with non JDA-beneficiary comparison firms using a difference-in-differences approach. Another approach is to consider the rate reduction as a marginal reduction in productivity costs and allow the REMI model to calculate indirect and induced economic impacts (as was done in the "marginal approach" for the annual Unified Economic Development Report); however, this approach would completely ignore any impact that the JDA program had on firms' production or location decisions. Furthermore, this would define the benefits of the JDA program as a reduction in marginal productivity cost rather than an increase in employment. Because the assumed intent of the *Jobs* Development Act is to increase employment, ORA thought it was more faithful to the intent of the program to define the benefits of the JDA in terms of jobs rather than reduction in marginal productivity cost.

EXHIBIT C: Rhode Island Form 9261A Annual Report

Form 9261A

Annual Report

State of Rhode Island and Providence Plantations
Division of Taxation
Jobs Development Act Rate Reduction - Annual Report
Due September 1, 2017

NAME OF ELIGIBLE COMPANY

ADDRESS

CITY STATE ZIP CODE

FEDERAL IDENTIFICATION NUMBER

BASE EMPLOYMENT LEVEL	NUMBER OF FULL TIME EQUIVALENT ACTIVE EMPLOYEES
BASE EMPLOYMENT DATE	QUALIFYING DATE
TOTAL PAYROLL - JULY 1, 2016 - JUNE 30, 2017	

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

New Full Time Equivalent Active Employee (Y)	Employee Name	Social Security Number	Date of Hire	Termination Date (if applicable)	Hourly Wage as of 7/1/2017	Hours Worked Per Week Within Rhode Island	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 NO Telephone Number

07/2017 **MAILING ADDRESS: DONNA DUBE, RHODE ISLAND DIVISION OF TAXATION, FORMS, CREDITS & INCENTIVES SECTION, ONE CAPITOL HILL, PROVIDENCE, RI 02908**

Instructions for Form 9261A - Jobs Development Act Rate Reduction Annual Report

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 base employment level and base employment date, your active employment level and qualifying date, and your total payroll for the period of July 1, 2016 through June 30, 2017.

In the first column, please indicate with a yes if this is the first year the employee qualifies as a new full time equivalent active employee.

In the space provided, or on a separate sheet(s), provide the following information for each full-time equivalent active employee: name, **full social security number**, date of hire, termination date (if employee no longer works for the company, enter date the employee left), hourly wage as of July 1, 2017, and the number of hours worked per week within the State of Rhode Island by the employee.

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 employees.

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 Donna.Dube@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: Donna.Dube@tax.ri.gov

Pursuant to RIGL 42-64.5-8, all eligible companies qualifying for a rate reduction pursuant to § 42-64.5-3 shall file an annual report with the tax administrator containing each full-time equivalent active employee's information as , deemed necessary by the tax administrator.

Important Definitions:

"Base employment" means, except as otherwise provided in § 42-64.5-7, the aggregate number of full-time equivalent active employees employed within the State by an eligible company and its eligible subsidiaries on July 1, 1994, or at the election of the eligible company, on an alternative date as provided by § 42-64.5-5. In the case of a manufacturing company which is ruined by disaster, the aggregate number of full-time equivalent active employees employed at the destroyed facility would be zero, under which circumstance the base employment date shall be July 1 of the calendar year in which the disaster occurred. Only one base employment period can be elected for purposes of a rate reduction by an eligible company.

"Full-time Equivalent Active Employee - Eligible Company Qualifying for the Jobs Development Act Rate Reduction on or after July 1, 2009" means any employee of an eligible company who:
1) Works a minimum of thirty (30) hours per week within the state;
2) Earns healthcare insurance benefits
3) Earns retirement benefits
4) Earns no less than two hundred fifty percent (250%) of the hourly minimum wage prescribed by Rhode Island law at the later of:
   a: The time the employee was first treated as a full-time equivalent active employee during a tax year that the eligible company qualified for a rate reduction pursuant to section 42-64.5-3; or
   b: The time the employee first earned at least two hundred fifty percent (250%) of the hourly minimum wage prescribed by Rhode Island law as an employee of the eligible company.

"Full-time Equivalent Active Employee - Existing Eligible Company Qualifying for the Jobs Development Act Rate Reduction prior to July 1, 2009" means any **new** employee who replaces an existing "full-time equivalent active employee" of an eligible company and who:
1) Works a minimum of thirty (30) hours per week within the state;
2) Earns healthcare insurance benefits
3) Earns retirement benefits
4) Earns no less than two hundred fifty percent (250%) of the hourly minimum wage prescribed by Rhode Island law at the later of:
   a: The time the employee was first treated as a full-time equivalent active employee during a tax year that the eligible company qualified for a rate reduction pursuant to RIGL § 42-64.5-3; or
   b: The time the employee first earned at least two hundred fifty percent (250%) of the hourly minimum wage prescribed by Rhode Island law as an employee of the eligible company.

"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.

"Qualifying Date" means the date the eligible company qualified for the Jobs Development Act Rate Reduction under RIGL § 42-64.5.

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.