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Rhode Island can't see if its tax breaks are doing their job

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PROVIDENCE — The state has given more than \$87 million in tax breaks to businesses over the past two years but has not been able to determine whether the businesses have achieved the goals for which the breaks were intended.

Rhode Island distributes millions of dollars to businesses each year — in the form of tax credits and other such incentives — mainly to encourage job creation, business expansion and other efforts involving economic development.

But the state, so far, has not verified whether the businesses are living up to their end of the bargain — even though independent verification is required by law.

At issue is legislation that was approved by the [General Assembly](#) and signed into law by [Governor Carcieri](#) in July 2008.

In general, the law requires the state Department of Revenue to publish a “transparency” report each year showing — by name — which businesses used certain tax breaks for the previous year and how much each business claimed.

The law also requires the agency to publish a follow-up report each year, essentially an accountability report. It is generally intended to show whether the businesses that claimed the breaks followed through on the objectives associated with the tax incentives, such as creating or maintaining a certain number of jobs.

When the law was enacted, some of its chief sponsors said they supported tax credits and other such incentives for businesses — as long as the related job-creation and other claims could be substantiated.

Senate President M. Teresa Paiva Weed, D-Newport, said at the time, “We must ... be cautious and ensure that the benefit of the tax incentives we use to attract businesses outweighs the cost to the state, particularly in these difficult economic times.”

Since the law was enacted, the Department of Revenue has published two annual transparency reports.

They show that, for the two years ended June 30, 2009, about 188 businesses saved themselves a combined total of \$87.2 million in state taxes by using six key state tax breaks — including a tax credit for job development and a sales-tax break generally aimed at business expansion. (Some of the businesses claimed the breaks in both years.)

The figures represent what amounts to an \$87-million loss in revenue to the state, said former Rhode Island Senate Fiscal Advisor Russell Dannecker.

The problem is, “I don’t know what we’re getting in return,” said Dannecker, now fiscal policy analyst for the Poverty Institute at the Rhode Island College School of Social Work, which analyzes tax and budget policies on behalf of low-income people. “We’d like to know that [the tax credits and other incentives] are working and can be verified,” he said.

Kate Brewster, the institute’s executive director, said that the accountability report is especially important now, as the state struggles with another budget deficit.

“Reviewing [tax credits and other such incentives] is just as important as reviewing direct spending, and this is a vital piece of the state budget puzzle,” she said. “Without information about job retention or creation, it is impossible to know whether the state is getting a good return on its investment,” Brewster said.

The information in such a report would allow legislators to evaluate the tax credits and other such incentives “to determine whether they should be maintained, reformed or eliminated,” she said.

The state Department of Revenue has not published an accountability report for either 2008 or 2009, even though the agency was required by law to have posted both by now.

Gary S. Sasse, the agency’s director, said the reason is “a lack of accurate and reliable data.”

Aside from some practical concerns, the most compelling problem generally involves verifying that a business has paid enough in wages and benefits to some of its workers — and maintained a certain level of employment — to qualify for a certain tax break.

Among other things, the procedure would require the agency to examine the wage records of certain employees — information that is held by the state Department of Labor and Training, said Paul L. Dion, chief of the state Office of Revenue Analysis.

But the state Department of Labor and Training believes the information to be protected from disclosure by federal confidentiality laws and regulations, Sasse said.

The Department of Revenue could produce a report based on incomplete information, one which could not be certified as accurate, he said. But such a report would be worthless, and “We haven’t got the time to be issuing worthless reports,” Sasse said. “It [is] important to do it right.”

Nearly every state offers some type of tax incentives, said Mark Higgins, dean of the University of Rhode Island's College of Business Administration. "The justification is to attract business and create jobs," he said.

But states must follow up to ensure that businesses receiving the tax breaks are meeting the intended objectives, Higgins said. "You have to make sure the benefits exceed the costs" of the tax breaks, he said.

Sasse said that the problems involving the accountability report are not insurmountable, "but the legislation needs to be re-thought."

Dion has been working with General Assembly staff members to identify specific problems with the legislation and discuss solutions, Sasse said.

Sasse also said he would support changes to the law in ways that do not increase the regulatory burden on businesses.

State Rep. Steven M. Costantino, D-Providence, chairman of the House Finance Committee, said he would be concerned if the state were to disclose information that is confidential. Nevertheless, he said that the accountability report is "critical." Legislators "probably have to come up with [legislation] that doesn't violate those types of issues, but gives us a pathway [to determine] whether these tax credits are working or not," Costantino said.

Brewster said, "We're hopeful that the state will be able to overcome whatever barriers are obstructing completion of this report."

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