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R.I. companies held accountable for tax breaks

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By Neil Downing

PROVIDENCE -- The Rhode Island Department of Revenue is getting ready to name names.

The state each year doles out tens of millions of dollars in tax breaks to businesses to encourage them to expand and create jobs.

Who receives the breaks? How much do they receive? And do the businesses follow through when it comes to promised job creation and economic development?

Taxpayers will soon get to see for themselves.

Legislation approved by the General Assembly and signed into law by Governor Carcieri last month will, for the first time, require businesses to fess up -- publicly.

Among other things, the little-publicized but far-reaching law will require businesses to list the type, description and amount of each tax credit or other such incentive that they receive in connection with a state-authorized job-creation or economic development effort.

The information will be posted on the state Division of Taxation's Web site, and incorporated into the state's annual budget-making process, said Gary S. Sasse, director of the state Department of Revenue.

State officials will use the information to determine, for example, how many jobs -- if any -- each such business created in connection with the incentive.

Thus, taxpayers will get to see, by name, which businesses receive which incentives, how much they receive, and the degree to which each business has met its goal for job retention and job creation and economic development, Sasse said.

"The bottom line [is], it significantly changes the tax reporting in this state, and will have a significant impact on how . . . budgets are made," Sasse said.

"We're going to be able to say how much the state is spending for different tax credits . . . [and] what it costs, in terms of tax expenditure, to create a job," Sasse said in an interview at his office.

Twenty-three other states have similar laws on the books, requiring at least some type of disclosure and accountability when it comes to state tax incentives for economic development, Sasse said.

Senate Majority Leader M. Teresa Paiva Weed, D-Newport, the primary sponsor of the legislation, said, "We need to be able to analyze and evaluate our incentives. We need to ensure accountability."

Many of the state's incentive programs have been successful, she said. However, "Whenever we do provide these types of incentives, we need to ensure that they provide the kind of economic benefits that were intended."

Kate Brewster, executive director of The Poverty Institute, a nonpartisan think tank at the Rhode Island College School of Social Work, called the new law "a tremendous victory for state taxpayers."

The law "will shine a bright light on several economic development incentive programs that, until now, have been notoriously opaque and unaccountable," Brewster said in a statement.

"Companies claiming credits for economic development activities must now provide detailed reports on jobs, wages and benefits. This "prove it or lose it" test will allow lawmakers, at long last, to evaluate economic development incentives and eliminate those that are ineffective," she said.

The Rhode Island Public Expenditure Council, a business-backed public policy group which monitors state finances, also supports the new law, said John C. Simmons, the group's executive director.

It will let policymakers, taxpayers and others know "who's benefiting from [the incentives], and how does that benefit meet the public policy [goals] for the state," Simmons said. "Those were questions that were hard to answer under the [rules] that had been in place," he said.

The legislation emerged during the General Assembly session earlier this year as the economy slid deeper into recession and state leaders took steps to close a \$425-million budget deficit for the year that began July 1.

Faced with making steep cuts on spending in certain human services and other programs, legislators and others wanted to know whether the tax breaks and other incentives being provided to businesses were justified.

The legislation was "certainly brought about by the difficult economic times that we are in," Paiva Weed said.

Each year, businesses and individuals take advantage of more than \$100 million in tax

breaks through more than 50 state programs -- including tax credits intended to achieve social goals, and tax credits geared toward economic development, Sasse said. (The state collects about \$2.6 billion in tax revenue a year.)

A tax credit is valuable because it reduces, dollar for dollar, a business' or individual's Rhode Island tax liability. For example, in general, if a business claims a \$10,000 state tax credit involving job creation or business expansion, the business saves \$10,000 in Rhode Island income taxes.

Because the accountability law is so new, it does not require detailed reporting on all the credits.

Instead, as a kind of first step, it requires reporting on a half-dozen popular business-related credits and related incentives, including the following:

*A credit intended to encourage the filming of movies and TV shows in Rhode Island.

*A state economic development program that generally lets certain construction projects escape the state's 7-percent sales tax on construction materials for new buildings involving business location or expansion.

*A break that generally lets a business pay corporate income tax at a lower-than-usual rate, depending on how many jobs it creates.

As a first step in the process, the state Division of Taxation over the last two weeks mailed formal notices to about 1,200 businesses -- in Rhode Island and other states -- letting them know about the provisions of the new law, said state Tax Administrator David M. Sullivan.

In general, the notice says that if a business received any state tax credits, bonds, grants, loans, loan guarantees or matching funds for the year ended June 30, 2008, it must disclose the information to the state tax agency.

Each recipient must report the information on a new form -- the "Tax Credits and Incentives Disclosure Form" -- and file it with the agency by Aug. 15. (The information should be made available to the public, on the agency's Web site, a number of weeks afterward, Sullivan said.)

On the form, a business or individual must list the source, description and amount of each such credit or incentive, and attest to the accuracy of the information under penalty of perjury.

State officials will use other data to certify how many full-time jobs were created as a result of the incentive.

The information will help legislators and policy makers "monitor, evaluate, and -- if

necessary -- modify and possibly repeal" various incentives, depending on the results, Paiva Weed said. "We need to do it based on facts and not just on anecdotal information," she said.

The new law requires disclosure in other areas, too. For example, before signing off on a new economic development project that includes state tax incentives, a state agency will have to prepare and make public a report detailing the project's financial impact, including the wages and employee benefits for the jobs to be created.

The point of these and other required disclosures "is to create more accountability and transparency for these credits and other tax benefits" that are claimed by some businesses, Sullivan said.

It is not clear whether the increased disclosure required of businesses will result in fewer applicants for incentive programs in the future, Simmons said. "I think time will tell on that," he said.

The law, approved with bipartisan support, emerged through two separate but identical bills -- S 2661A in the Senate, and H 7953A, sponsored mainly by state Rep. Peter L. Lewiss, D-Westerly.

Governor Carcieri signed them both on July 2.

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