

# The Providence Journal

## Tax deals saved companies \$54.1 million

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BY NEIL DOWNING

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PROVIDENCE — More than 100 companies doing business in Rhode Island saved themselves \$54 million in state taxes through special tax breaks and incentives for the year ended June 30, a new state report shows.

At the top of the list are the national pharmacy chain CVS Caremark Corp., of Woonsocket, which saved about \$17.2 million in Rhode Island taxes through the breaks, and the mutual fund and financial services giant Fidelity Investments, of Boston, which saved about \$10 million, according to Providence Journal calculations based on data in the state report.

The report, scheduled to be issued today, was prepared by the state Department of Revenue's Division of Taxation.

It is the result of a new state law that calls for greater disclosure and accountability regarding tax breaks that the state makes available to businesses.

The report is scheduled to be posted today on the state tax agency's Web site:

[www.tax.ri.gov](http://www.tax.ri.gov)

The report comes as Rhode Island grapples anew with state budget problems. But for the first time, state leaders will now have data, from the new report and follow-up reports, to scrutinize the various business tax incentives and determine how they should fit into future state budgets. In June, state leaders cut spending in some health and welfare programs and took other steps to close a \$425-million budget deficit for the year that began July 1.

Earlier this week, it emerged that the state ended its most recent fiscal year, on June 30, with a \$33.6-million deficit — which may have to be filled by tapping the state's "rainy day fund."

Rhode Island each year doles out millions of dollars in tax breaks to businesses as a way of encouraging job creation and economic activity.

But until now, neither the identities of those businesses, nor the amount of tax breaks each claimed, was publicly available.

In response to legislation approved by the General Assembly and signed into law by Governor Carcieri on July 2, the state Department of Revenue is publishing the report, showing — by name — which businesses used certain tax breaks for the year ended June 30, and how much each business claimed, said Gary S. Sasse, director of the state Department of Revenue.

“It’s part of a process and an agenda to add greater transparency and accountability to how the state makes tax policy,” Sasse said in an interview at his office in Providence.

Administrators, legislators and others will use the information in this report — and in subsequent, more detailed reports — to help gauge the costs and benefits of tax incentives for business, he said.

Because of the way the new law is written, the first report lists only data, with no analysis or conclusions, and focuses only on six state tax breaks for business, said state Tax Administrator David M. Sullivan.

Of the six, the break that resulted in the greatest tax savings for businesses — and the most in tax revenue passed up by the state — involved the state’s Jobs Development Act.

All told, 12 businesses obtained \$21 million in tax savings through this break, which generally cuts the rate of tax a business pays — by up to 6 percentage points — for new jobs the business creates.

Under another tax break, a business generally doesn’t have to pay the state’s 7 percent sales tax for material used in constructing new buildings. This break resulted in a savings of \$18.2 million for 13 businesses, the report shows.

Yet another break generated tax credits of \$12.8 million for four companies involved in the production of movies and TV shows in Rhode Island.

(The most popular tax break — for businesses that expand in distressed areas, also known as “enterprise zones” — was used by 87 companies, most of them small businesses, generating a total of \$1.8 million in tax savings.)

Overall, of the \$54.1 million in tax breaks for business listed in the report, more than \$44 million went to just seven companies, including the following:

- CVS Caremark, which saw a combined total of about \$17.2 million in tax savings, mainly the result of the jobs development and sales-tax breaks.

(The report shows that PharmaCare Management Services of Woonsocket, which is part of CVS, received tax breaks totaling \$4.7 million. However, those breaks are included in CVS’ overall total of \$17.2 million, Sullivan and CVS spokeswoman Carolyn Castel confirmed late yesterday.)

In July 1998, CVS Caremark had the equivalent of 2,480 full-time employees in Rhode Island. That number grew to the equivalent of 3,475 full-time employees by 2001, Castel said in a statement yesterday.

“We are pleased to say that CVS Caremark has continued to increase its employment in Rhode Island since 2001, without receiving any incremental reductions to the statutory income tax rate over and above those previously earned, and as of July 2008, CVS Caremark had [the equivalent of more than] 4,100 [full-time employees] working in Rhode Island,” she said.

Rhode Island is the home to CVS Caremark’s headquarters, a distribution center and 55 CVS pharmacy stores, she said. In total, CVS Caremark has 5,800 employees in Rhode Island, she said.

- Fidelity Investments, reporting under the name FMR Corp & Subsidiaries, which ended up with more than \$10 million in state tax savings, mainly the result of the sales-tax and job creation breaks.

Fidelity has created more than 2,000 jobs in Rhode Island over the past decade, currently has about 2,200 employees located in the state, and expects that number to grow to about 2,700 by the end of this year, said Fidelity spokesman Vincent Loporchio.

In addition, Fidelity has invested about \$300 million in its Smithfield campus over the past decade and now has three large office buildings there, Loporchio said.

Fidelity also has paid \$1.6 million of its own money to upgrade Route 7 in Smithfield, he said.

- Brotherhood Productions, which wound up with nearly \$5.5 million in state tax credits related to its production of Brotherhood, a TV series on the Showtime network.

Other companies that received more than \$1 million apiece in tax breaks included Bridesmaid Productions, which filmed the movie 27 Dresses; Hachiko Productions, which filmed the movie Hachiko with actor Richard Gere; UTGR, owner of the Twin River slot machine parlor in Lincoln; and Bank of America, the state report shows.

Governor Carcieri, interviewed yesterday at a meeting in Providence of the state’s Economic Policy Council, said he has not had a chance to review the new report.

However, he said he is not surprised that CVS and Fidelity top the list. “They’re two of our largest companies employing a lot of people,” he said.

CVS has its world headquarters in Rhode Island and continues to increase employment in the state, he said. “That’s a real positive, and that’s what we want to see,” he said.

The same general principle applies to Fidelity, which has a growing campus in Smithfield and continues to add jobs there, Carcieri said. “That’s the kind of result” that the state tax credits and other such incentives are intended to generate, he said.

However, he said that the credits for film production are not as effective, citing an analysis which shows that for every \$1 spent on incentives for TV and movie productions, the state gets back only about 28 cents.

He also said that the credits for TV and movie production do not generate the type of long-term employment that tax benefits for companies such as CVS and Fidelity do.

(State officials recently curbed the tax credit program for TV and movie production and another tax credit program for the rehabilitation of historic structures.)

Laurie White, president of the Greater Providence Chamber of Commerce, said yesterday that she supports the state’s effort to detail the various tax incentives provided to business and to determine which of the incentives “drive economic expansion and jobs.”

Companies “have lots of choices of where to invest and where to grow,” she said. By finding out which of the tax incentives works best, the state can better target its efforts to attract and retain business in Rhode Island, she said.

In the case of CVS and Fidelity, the state’s tax incentives are working, she said. The two companies are major employers, and “the major employers in our state [are among the key factors] that drive the economy,” she said.

The report is the first in a series intended to help legislators, administrators and others shape state tax policy and craft future budgets, Sasse and Sullivan said.

The report to be issued today “is a great start,” said Russell Dannecker, fiscal policy analyst at The Poverty Institute, a nonpartisan think tank at the Rhode Island College School of Social Work, which has long called for greater disclosure about state tax breaks for business.

Dannecker, who recently retired as the state Senate’s fiscal adviser, said the report “provides transparency to a portion of our tax expenditures that wasn’t open in the past.”

The Poverty Institute looks forward to future such reports, including one next month, which will provide even more detail, he said.

Overall, Rhode Island provides about \$223.7 million in tax credits, Sasse said in a presentation at the Economic Policy Council yesterday.

Of that total, about \$130 million is in the form of a credit allowed to those who pay taxes to other jurisdictions; about \$62 million in economic development credits; and about \$32

million in “social goods” credits (for local property taxes paid and other items), Sasse said.

Thus, the report to be issued today focuses only on a sliver of the total amount of tax credits and incentives that Rhode Island makes available overall to businesses and individuals.

The state Department of Revenue is in the process of gathering additional information to produce more detailed reports on tax credits and incentives as required by the new state law, Sasse and Sullivan said.

Patricia A. Thompson, former president of the Rhode Island Society of Certified Public Accountants, said she sees no harm in publishing such information.

“I have no problem if the public knows the total credits and incentives used in the state of Rhode Island,” said Thompson, tax partner at Piccerelli Gilstein & Co. LLP, a CPA firm in Providence.

But she said some of her firm’s clients have raised concerns about additional information that the state is in the process of gathering for future reports.

The clients — especially small businesses — do not want detailed payroll and other such information publicly disclosed, she said.

#### TAX SAVINGS

Each company below received more than \$1 million in Rhode Island tax breaks for the year ended June 30.

Name	Amount
CVS	\$17,230,650
Fidelity Investments (FMR Corp.)	\$10,049,844
Brotherhood Productions*	\$5,484,600
Bridesmaid Productions*	\$4,144,901
Hachiko Productions*	\$3,006,463
UTGR (Twin River)	\$2,406,595
Bank of America	\$1,742,621
Total	\$44,065,674

\* Movie/TV production companies

SOURCE: Based on report by R.I. Dept. of Revenue’s Division of Taxation

Tax breaks for business		
The R.I. Dept. of Revenue studied six different types of state tax breaks to see which businesses claim them and how much those businesses receive:		
>	No. of	Dollar
Summary of tax break	recipients	amount
>	>	>
every 50 new employees hired. Tax rate is reduced a certain amount for	12	\$21 million
>	>	
>	>	>
new facilities. Sales tax break for construction of	13	18.2 million
>	>	
>	>	>
TV shows in state. Tax credit for companies that film movies or	4	12.8 million
>	>	
>	>	>
Tax credit for business in distressed area — new employees. "enterprise zone" — that hires	87	1.8 million
>	>	
>	>	
>	>	>
Tax credits as incentives for innovation and technology. and growth generally involving science	4	0.3 million
>	>	
>	>	
>	>	>
<b>TOTAL</b>	<b>120</b>	<b>\$54.1 million</b>
For year ended June 30, 2008	>	
Source: R.I. Dept. of Revenue's Division of Taxation		

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