

Business

Tax credits for investing in local start-ups now getting a second look

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PROVIDENCE — Investors in six start-ups are getting a lucrative reward for betting on local entrepreneurs, part of a new and costly state effort to grow local companies.

Last night, the state Economic Development Corporation approved the first applications for the Innovation Tax Credit. The companies may now offer investors a credit of up to \$100,000 off their individual state income-tax bill in return for their investments.

The recipients include Bionica Corp., Lighthouse Security Group, Ocean State Solutions, Providence Health Solutions, Public Display and Tizra.

“It makes it very attractive for a potential investor,” Kenneth C. Kirsch, director of finance for Ocean State Solutions, in North Kingstown, said yesterday. “I think it will be very helpful.”

The Rhode Island Science and Technology Advisory Council first proposed the program, and the General Assembly approved it last year after it won backing from Governor Carcieri and key lawmakers.

But it is being unveiled at a time of alarming fiscal challenges for the state, as the legislature struggles to close a projected \$450-million budget deficit.

Those strains have prompted cuts in public spending, including the recent layoff of more than 100 state workers and sharp reductions in support for social-service agencies.

The imbalance has provoked demands from advocates for the poor that many state tax credits, such as those given to the film industry and developers renovating historic buildings, be scaled back or eliminated.

Ellen Frank, senior economic analyst at the Poverty Institute at Rhode Island College, said the Innovation Tax Credit should also be subject to intense scrutiny to judge if it truly generates jobs and increases tax receipts.

“Like with all tax credits, we are concerned that there’s a lack of accountability,” Frank said.

In response to the criticism and the fiscal problems, Gary S. Sasse, director of the state Department of Revenue, and Saul Kaplan, Carcieri's top economic development adviser, have promised to review all state tax credits to determine their usefulness and identify possible savings.

"Many of our incentive programs are outdated," Kaplan said in a statement.

But in an interview yesterday, he argued that the deficit has made economic development initiatives — including tax credits — particularly vital.

"This is exactly the time we should be putting together a bold agenda for our economy," Kaplan said. "We have to reposition our economy."

He said the tax credits will pay off over time, as small companies increase their staffs and profits, producing higher tax receipts for the state.

To be eligible, businesses must be in high-wage industries, such as biotechnology, information technology, financial services or marine and defense manufacturing. Applicants must have revenue of less than \$1 million.

"We're trying to raise the average wage in the state," Kaplan said. "Our strategy is focused on how to grow these sectors.

"We need to create a more entrepreneurial culture here in Rhode Island," he said.

The program does not come cheap to taxpayers, who could be asked to compensate for the lost revenue.

Participating companies can receive a maximum of \$100,000 in tax credits to bestow on investors, distribute to employees or hand over to a new executive as a signing bonus. (The credits can be shared by up to 10 individuals. Unlike other state programs, they cannot be sold.)

The program offers investors a 50-percent credit on their investment. For example, an investor who puts \$100,000 into one of the companies could end up paying \$50,000 less on his state income tax bill.

The six applicants approved last night received \$100,000 apiece in credits. Under the 2006 law, the EDC can dole out \$2 million every two years, leaving another \$1.4 million available this period. The legislation expires in 2016.

Kaplan said the program's success will be easy to measure because tax credits will be awarded only if the companies bring in new investments. In their applications, the first participants said they planned to hire a total of 300 employees in the next five years.

But the companies are not required to speed up their hiring, and there is nothing that will anchor them to Rhode Island once they begin spending their new capital.

A separate taxpayer-backed initiative, the Slater Technology Fund, provides direct investments in local start-ups that are designed to strengthen a company's appeal to venture capitalists. Bionica, Tizra and Public Display have received Slater money.

But Slater gives out only \$3 million annually, leaving many small firms struggling to generate seed capital, according to Kirsch, the Ocean State Solutions executive.

"There are a lot of good ideas out there and a lot of interesting start-ups," said Kirsch, whose company sells technology that allows customers to make payments using cellular phones. "Convincing someone to invest in your idea or your company is always a very competitive process."

Innovation Tax Credits

Six companies have applied to be eligible for a new state, tax credit program:

Bionica Corp., Industrial and Consumer Product Manufacturing and Design

Lighthouse Security Group, Communications and Information Technology

Ocean State Solutions LLC d/b/a mPay USA, Financial Services

Providence Health Solutions, Life Science Technology

Public Display, Inc., Communications and Information Technology

Tizra, Inc., Communications and Information Technology

Source: RI Economic Development Corporation