Testimony on Budget Article 2: Relating to Economic Development and Tax Credits

House Finance Committee
Submitted by Douglas Hall, Ph.D.
March 16, 2017

We share a desire to see Rhode Island's economy grow, an economy in which all Rhode Islanders can prosper, and one which sustains the vibrant communities and strong families that are the foundation of the Ocean State that we all want to build.

We are however opposed to this budget article for two key reasons:

1. Foregone revenues – The Tax Credit and Incentive Report prepared annually by the Department of Revenue's Division of Taxation tracked $29.4 million in revenues lost to economic development tax incentives in FY 2016. Between FY2008 and FY2016, $271.4 million in revenues were lost to the tax incentives tracked through the Tax Credit and Incentive Report. With deep cuts in federal spending pending that will have a devastating effect on Rhode Island residents, protecting state revenues needs to be a priority.

2. Accountability for tax incentives for economic development – We need to know whether these expenditures are providing the promised jobs and economic activity and at what cost. *The* ***Economic Development Tax Incentives Evaluation Act of 2013*** requires the in-depth analysis of Rhode Island's many economic development tax incentives (including the new tax incentives requested by the Governor and approved by the General Assembly in 2015). Key provisions of the Act require:

- an assessment of the number of jobs created
- an assessment of the revenues generated for the state that resulted from the impact of the tax credit
- a cost-benefit analysis comparing the economic impact of the tax credit in comparison to the impact the foregone revenue would have had if collected and used for other budget purposes.

The Office of Revenue Analysis has indicated we will have the first report by the end of this fiscal year.

We are opposed to further expanding the number and range of tax credits until we can determine whether the existing credits are providing the "bang for the buck" that has been promised. This concern stems in part from our reading of extensive research indicating that economic development tax incentives may not be the most effective way to spur economic development at the state level.

> **"The broad consensus among economists who study [corporate tax breaks] is that they do little to alter the location decisions of companies. In fact, they're often worse than ineffective—they're counter-productive."**
>
> **Richard Florida, 3/7/17**

Richard Florida's recent article in *The Atlantic*, entitled "Handing Out Tax Breaks to Businesses Is Worse Than Useless" summarizes new research from the Upjohn Institute's Tim Bartik, which tracks $45 billion annually in state economic tax credits. Bartik's research shows there is little connection between the level of incentives a state offers and its economic well-being: "Incentives do not have a large correlation with a state's current or past unemployment or income levels or with future economic growth."[1]

With a new report forthcoming that should provide helpful information to assess the effectiveness of Rhode Island's existing economic development tax incentives, we advise against further expanding Rhode Island's suite of tax credits. Retaining a larger share of tax revenues to invest in a healthy and well-educated workforce, transportation, and other critical infrastructure may have a greater impact on Rhode Island's future economic prosperity.

[1] https://www.citylab.com/work/2017/03/business-tax-incentives-waste/518754/.