

Evaluation of New Qualified Jobs Incentive Act (NQJ)

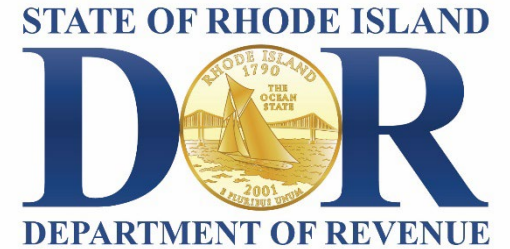
Madiha Zaffou, Ph.D.
Deputy Chief

Anoushka Mohnot
Senior Policy Analyst

Office of Revenue Analysis
Rhode Island Department of Revenue

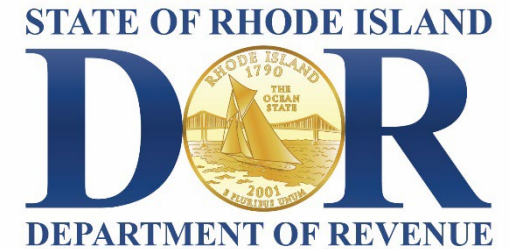
October 19, 2023

Outline



- Introduction
- Description of the tax incentive
- Statutory goals & objectives
- Benchmarking & Background
- Credit usage data
- Breakeven cost-benefit analysis
- Results
- Recommendations

Introduction



- Rhode Island Department of Revenue, Office of Revenue Analysis (ORA) is required evaluate various tax incentives using a cost-benefit analysis.
- These evaluations “[s]hall be completed at least once between July 1, 2014, and June 30, 2017, and no less than once every three (3) years thereafter.” and should provide an estimate of the economic and fiscal impacts of the tax incentives.
- The goal is of these incentive evaluation reports is discuss relevant policy findings and recommendations that could help in the decision process as to whether the tax incentive should be continued, modified, or terminated.

Description of the Tax Incentive

- The “New Qualified Jobs Incentive Act” (NQJ) program provides a qualifying business a tax credit of \$2,500 and up to \$7,500 for each new full-time job created.
- The minimum number of new jobs needed to qualify varies by industry and company size but can be as few as 10.
- NQJ credit amounts can be received over a period of up to 10 years.
- NQJ can be redeemed for cash in whole or in part for 90% of the value of the tax credit.

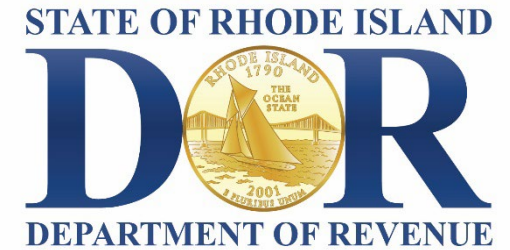
Description of the Tax Incentive

- When applying for the incentive, a business's Chief Executive Officer or an equivalent officer shall attest under oath that:
 - Any projected creation of new full-time jobs would not occur, or would not occur in the State of Rhode Island, but for the provision of tax credits under the program;
 - The business will create new full-time jobs in an amount equal to or greater than what is required;
 - Information submitted to the commerce corporation is accurate and complete.

Description of the Tax Incentive

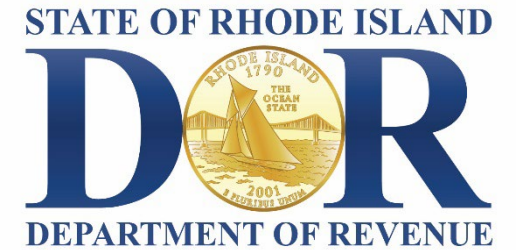
- The act includes “claw back” provisions in case a business fails to live up to its job creation promises.
- In this case CommerceRI can revoke any award of tax credits in their entirety and, under certain circumstances, require the payment to the state of up to 20% of all tax benefits granted calculated from the date of the incentive agreement entered into by the business and CommerceRI.

Statutory goals & objectives



- The stated goals and objectives of the NQJ program are to:
 - Promote the creation of new jobs, attract new business and industry, and stimulate growth in businesses that are prepared to make meaningful investment and foster job creation in Rhode Island.
 - Stimulate business expansion and attraction, create well-paying jobs for Rhode Island's residents, and generate revenues for necessary state and local governmental services.

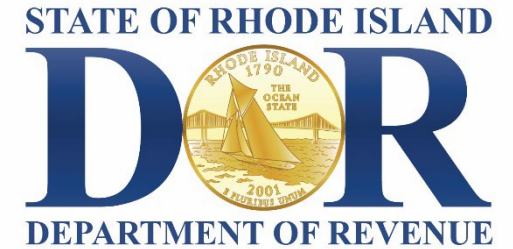
Benchmarking & Background



NOJIA in Rhode Island and Selected Comparison States

	Rhode Island	Connecticut	Maine	Massachusetts	New Hampshire	Vermont
Credit Name	New Qualified Jobs Incentive Act	JobsCT Tax Rebate Program	Maine Employment Tax Increment Financing Act	Economic Development Incentive Program Credit	Coos County Job Creation Tax Credit	Vermont Employment Growth Incentive Program
Statutory Reference	R.I. Gen. Laws Chapter 44-48.3	Conn. Gen. Stat. §32-7t	Me. Rev. Stat. Ann tit. 36, chapter 917	Mass. Gen. Laws ch. 63, § 38N and Mass. Gen Laws ch 23A, § 3C	NH Rev Stat § 77-E:3-c	32 V.S.A. chapter 105 § 3325-3342
Credit Features	Eligible businesses that create new full-time jobs in either a targeted industry or non-targeted industry can claim this credit for an eligibility period not to exceed 10 years.	An eligible taxpayer may be allowed a tax rebate equal to 25% of the withholding taxes from net new employees. Employers located in opportunity zones are potentially eligible for 50%.	Qualified businesses are eligible for a reimbursement equal to a percentage of withholding taxes during the first 5 calendar years with a reassessment in the 6 th year.	Businesses designated as certified job creation projects may receive a credit of up to \$5,000 per job created.	Businesses that locate or expand in Coos County may claim a tax credit for newly created jobs with an hourly wage of at least 150% of the state minimum hourly wage.	This incentive provides cash payments to authorized businesses who meet performance requirement. An economic model calculates the revenue benefits and costs to the state to determine the total amount of incentive potentially earned over a period of 9 years.
Cap	From \$2,500 to \$7,500 annually, but shall not exceed 75% of the reasonable W-2 withholding received by RI for each new full-time job created	Up to \$40 million in credits may be issued in a given fiscal year.	Up to \$20 million adjusted from 1996 dollars by CPI in total employment tax increment financing programs may be issued in a given year.	Up to \$5,000 per job created but the maximum credit allowed in a tax year cannot exceed 50% of the tax liability	\$750 per job, per year for newly created jobs with an hourly wage of at least 150% of the state minimum hourly wage or \$1,000 per job, for jobs with an hourly wage of at least 200% of the state minimum hourly wage	The value of each payment is based on the revenue return generated to the state by prospective qualifying jobs, payroll creation, and capital investments
Carryforward	Up to 4 years	Tax rebate is earned in year 3 through 7. Years 8 and 9 are discretionary.	Up to 10 years.	Up to 10 years, but not more than 5 years after the project's certification ends	Up to 5 years	None

NQJ Credit Usage Data



NQJ Amount by NAICS Industry

(Tax Years 2019 – 2021)

Industry Description (NAICS Code)	Total	Average
Electrical equipment, appliance, and component manufacturing (335)	\$112,286	\$37,429
Food manufacturing (311)	\$57,583	\$19,194
Miscellaneous manufacturing (339)	\$169,135	\$56,378
Professional, scientific, and technical services (54)	\$974,448	\$324,816
Retail trade (44)	\$387,749	\$129,250
Wholesale trade (42)	\$1,145,148	\$381,716
All Industries	\$2,846,351	\$948,784

Source: Taxation

Cost-Benefit Analysis

The Challenges

- The extent to which an incentive actually stimulated new economic activity rather than subsidized economic activity that would have been present in the absence of the incentive.
- Some tax credits have been established for many years; therefore the historical data presumably reflects the longstanding impact of the tax credits.
- The interaction of tax incentives awarded over multiple years and firms receiving multiple tax incentives simultaneously.

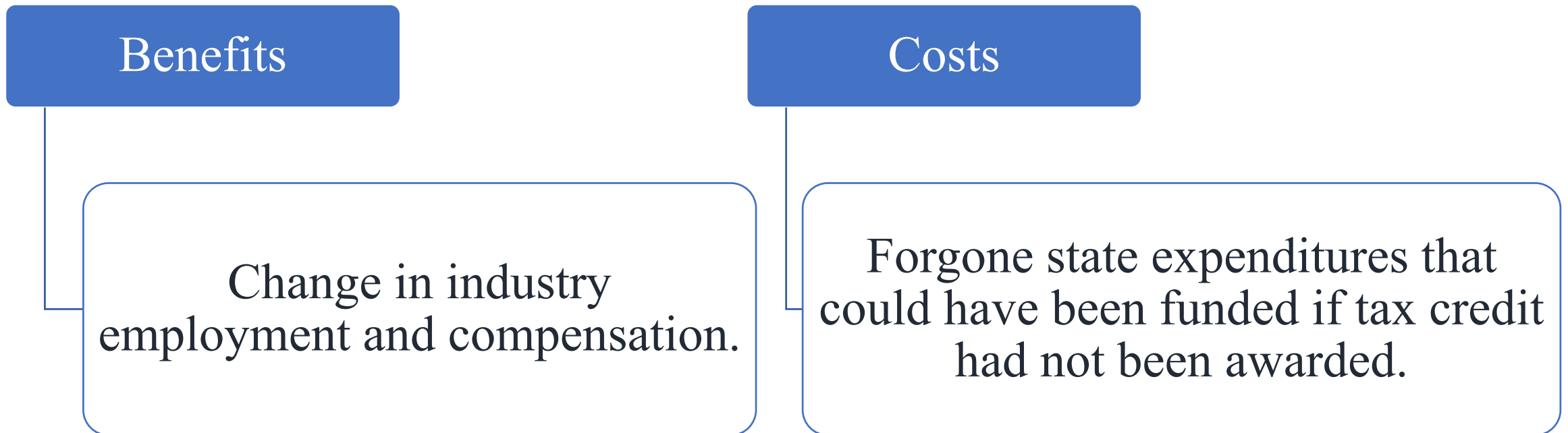
Breakeven Cost-Benefit Analysis

The Approach:

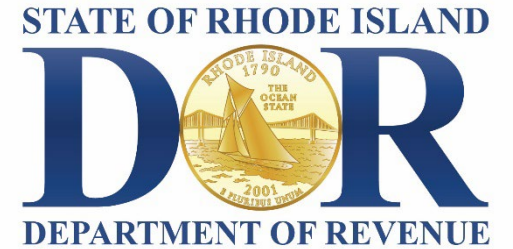
- This analysis allows for the evaluation of an incentive program's performance under a wide range of assumptions regarding the level of economic activity that would have taken place if the program had not been available.
- The breakeven analysis specifies the proportion of economic activity associated with the incentive program recipients that one must assume to have been attributable to the incentive program in order for the total benefits to equal its total costs.

Breakeven Cost-Benefit Analysis

- The analysis uses a breakeven cost-benefit approach to evaluate the net economic and fiscal impacts of the NQJ program.



Breakeven Cost-Benefit Analysis

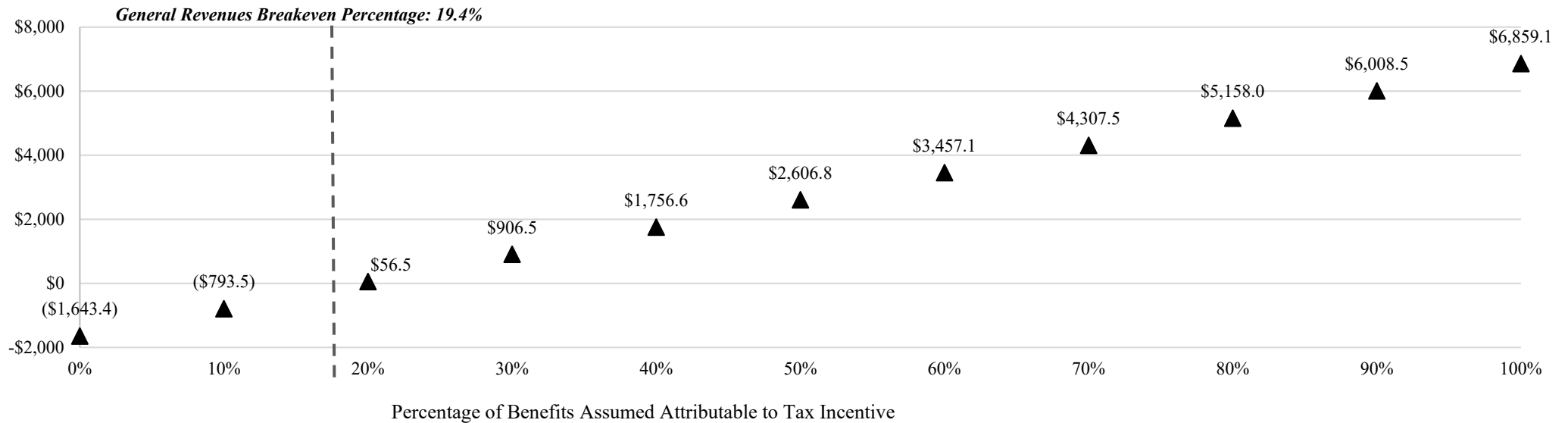


Modeling Costs		<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Projections</i>	<i>Projections</i>	<i>Projections</i>	<i>Projections</i>	<i>Projections</i>	<i>Projections</i>	<i>Projections</i>	<i>Projections</i>	<i>Projections</i>
		CY 2019	CY 2020	CY 2021	CY 2022	CY 2023	CY 2024	CY 2025	CY 2026	CY 2027	CY 2028	CY 2029	CY 2030
Policy Variable	Industry												
State & Local Government Spending	State Government	-\$100,342	-\$1,229,252	-\$1,516,755	-\$2,715,769	-\$2,506,382	-\$1,641,204	-\$1,674,936	-\$1,705,726	-\$1,733,633	-\$1,722,529	-\$1,557,589	-\$1,218,461
Modeling Benefits		<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Projections</i>	<i>Projections</i>	<i>Projections</i>	<i>Projections</i>	<i>Projections</i>	<i>Projections</i>	<i>Projections</i>	<i>Projections</i>	<i>Projections</i>
		CY 2019	CY 2020	CY 2021	CY 2022	CY 2023	CY 2024	CY 2025	CY 2026	CY 2027	CY 2028	CY 2029	CY 2030
Policy Variable	Industry												
Industry Employment (Exogenous Production)	Electrical equipment, appliance, and component manufacturing	20	12	15	0	0	0	0	0	0	0	0	0
Industry Employment (Exogenous Production)	Food manufacturing	0	43	43	55	55	55	55	55	55	55	55	55
Industry Employment (Exogenous Production)	Miscellaneous manufacturing	13	13	13	16	16	16	16	16	16	0	0	0
Industry Employment (Exogenous Production)	Professional, scientific, and technical services	100	175	152	46	46	0	0	0	0	0	0	0
Industry Employment (Exogenous Production)	Retail Trade	0	0	234	577	702	702	702	702	702	702	702	702
Industry Employment (Exogenous Production)	Wholesale trade	228	228	268	198	198	198	198	198	198	198	78	0
Final Compensation Adjustment	Electrical equipment, appliance, and component manufacturing	-\$1,173,628	-\$757,601	-\$932,448	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Final Compensation Adjustment	Food manufacturing	\$0	-\$839,541	-\$786,378	-\$988,405	-\$951,955	-\$989,869	-\$1,037,390	-\$1,076,753	-\$1,101,140	-\$1,117,420	-\$1,130,793	-\$1,148,866
Final Compensation Adjustment	Miscellaneous manufacturing	\$1,090,105	\$571,462	\$785,776	\$1,030,353	\$1,116,432	\$1,134,259	\$1,152,262	\$1,179,324	\$1,220,279	\$0	\$0	\$0
Final Compensation Adjustment	Professional, scientific, and technical services	\$3,906,425	\$2,123,199	\$1,798,326	\$629,315	\$754,204	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Final Compensation Adjustment	Retail Trade	\$0	\$0	-\$1,702,680	-\$3,933,051	-\$4,168,615	-\$4,495,797	-\$4,930,429	-\$5,270,650	-\$5,410,216	-\$5,451,555	-\$5,462,177	-\$5,551,828
Final Compensation Adjustment	Wholesale trade	-\$7,861,551	-\$1,182,478	\$3,823,083	\$2,283,023	-\$6,571,902	\$3,014,568	-\$7,420,030	\$3,018,302	-\$8,159,462	\$3,511,106	-\$1,964,702	\$0

Results: Net General Revenues

NQJ Rhode Island Net General Revenue Breakeven Analysis
 (Average Annual RI Net General Revenue Impact)

Average Annual RI Net General Revenues Impact (Thousands \$)



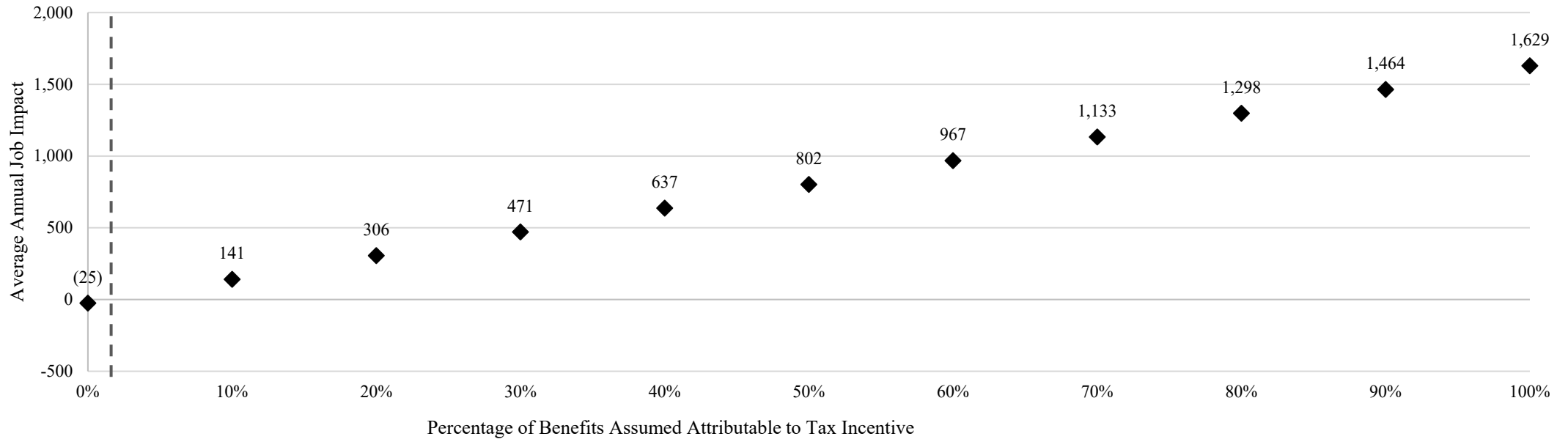
Notes: Label accompanying each ▲ marker refers to net general revenue impact resulting from a cost-benefit analysis assuming the labeled percentage of NQJIA benefits. Net general revenue impact is equal to the revenue impact resulting from the direct, indirect, and induced effects in addition to the cost of paying back the direct cost of the tax credit.

Source: ORA calculations utilizing REMI Tax-PI

Results: Jobs Impact

NQJ Employment Breakeven Analysis
 (Annual Jobs Impact, Average 2019-2030)

Employment Breakeven Percentage: 1.5%



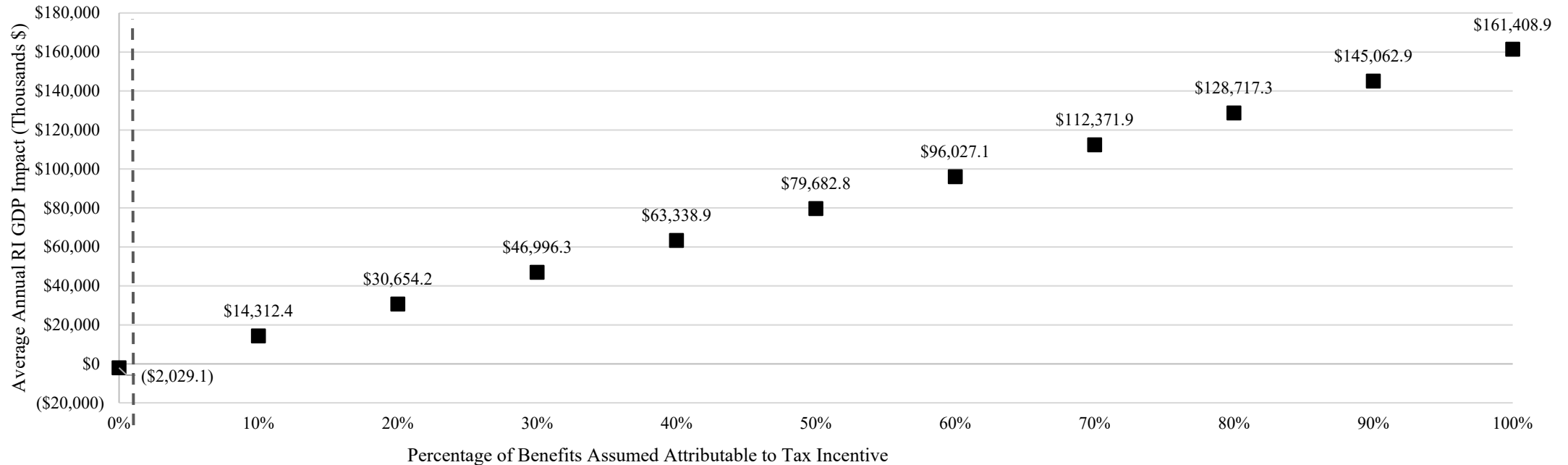
Notes: Label accompanying each **◆** marker refers to net job impact resulting from a cost-benefit analysis assuming the labeled percentage of NQJIA benefits. Employment is equal to the revenue impact resulting from the direct, indirect, and induced effects in addition to the cost of paying back the direct cost of the tax credit.

Source: ORA calculations utilizing REMI Tax-PI

Results: GDP Impact

NQJ Rhode Island GDP Breakeven Analysis
 (Annual RI GDP Impact, Average 2019-2030)

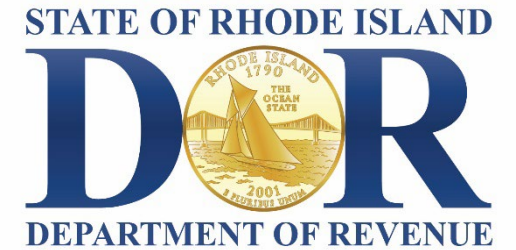
GDP Breakeven Percentage: 1.3%



Notes: Label accompanying each ■ marker refers to net RI GDP impact resulting from a cost-benefit analysis assuming the labeled percentage of NQJIA benefits. RI GDP is equal to the revenue impact resulting from the direct, indirect, and induced effects in addition to the cost of paying back the direct cost of the tax credit.

Source: ORA calculations utilizing REMI Tax-PI

Additional Results



NQJ

Detailed Economic & Revenue Impacts (Average Year 2019-2030)

Policy Variable Percentage Assumed

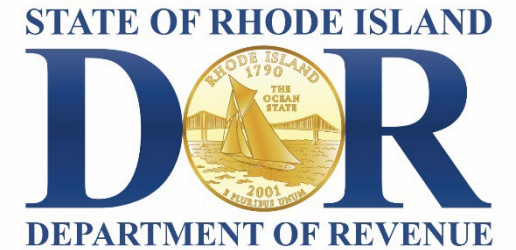
	100%	90%	80%	70%	60%	50%	40%	30%	20%	10%	0%
<i>Economic & Revenue Impacts Calculated</i>											
Total Employment	1,629	1,464	1,298	1,133	967	802	637	471	306	141	(25)
Gov Employment	113	100	87	75	62	49	37	24	12	(1)	(14)
Private Non-Farm Employment	1,516	1,364	1,211	1,058	905	753	600	447	294	142	(11)
Direct Employment	825	742	660	577	495	412	330	247	165	82	-
Indirect Employment	306	275	244	213	182	151	120	89	58	27	(4)
Induced Employment	386	347	307	268	229	189	150	111	71	32	(7)
Total GDP (\$000)	\$161,409	\$145,063	\$128,717	\$112,372	\$96,027	\$79,683	\$63,339	\$46,996	\$30,654	\$14,312	(\$2,029)
Generated Revenues by Component (\$000)											
Personal Income Tax	\$2,764	\$2,483	\$2,202	\$1,921	\$1,640	\$1,359	\$1,078	\$797	\$516	\$236	-\$45
General Business Taxes	\$1,037	\$932	\$827	\$722	\$618	\$513	\$408	\$303	\$199	\$94	-\$11
Sales and Use Taxes	\$2,447	\$2,198	\$1,949	\$1,699	\$1,450	\$1,201	\$952	\$702	\$453	\$204	-\$45
Other Taxes	\$131	\$118	\$104	\$91	\$78	\$64	\$51	\$38	\$24	\$11	-\$2
Total Departmental Receipts	\$1,053	\$945	\$838	\$730	\$623	\$515	\$408	\$301	\$193	\$86	-\$22
Other Sources	\$927	\$832	\$737	\$643	\$548	\$454	\$359	\$265	\$170	\$75	-\$19
Cost of Incentive (\$000)	(\$1,610)	(\$1,610)	(\$1,610)	(\$1,610)	(\$1,610)	(\$1,610)	(\$1,610)	(\$1,610)	(\$1,610)	(\$1,610)	(\$1,610)
Total Net Revenues (\$000)*	\$6,748	\$5,898	\$5,047	\$4,197	\$3,346	\$2,496	\$1,646	\$796	(\$54)	(\$904)	(\$1,754)

Source: ORA calculations based on historical Rhode Island revenue amounts and REMI Tax-PI simulations.

Note: The total net revenues represent the difference between the sum of generated revenues and the cost of the tax incentive.

Recommendations

- ORA recommends adjustments be made in accordance with the following recommendations:
 - Grow the wage benchmarks against which jobs are measured as opposed to comparing jobs created to a static wage from the beginning of the tax credit commitment period.
 - Make the wage requirements for jobs created by the program industry specific to ensure that jobs created are high paying jobs for that industry.
 - Improve reporting by aligning targeted industries with accepted industry classifications.



Thank you!
Questions?

Office of Revenue Analysis
Rhode Island Department of Revenue

<https://dor.ri.gov/revenue-analysis/reports>