



OFFICE OF MANAGEMENT & BUDGET

State Budget Office

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State Fiscal Note for Bill Number:

2025-H 5531

Date of State Budget Office Approval: Thursday, April 3, 2025

Date Requested: Monday, March 31, 2025

Date Due: Thursday, April 10, 2025

<i>Impact on Expenditures</i>		<i>Impact on Revenues</i>	
FY 2025	\$0	FY 2025	\$0
FY 2026	\$0	FY 2026	\$2,872,332
FY 2027	\$0	FY 2027	\$2,915,423

Explanation by State Budget Office:

This bill would amend Rhode Island General Laws (R.I. Gen Laws) Chapter 44-48.3 titled "Rhode Island New Qualified Jobs Incentive Act 2015" by adding to R.I. Gen Laws § 44-48.3-12(a) titled "Discontinuance of further rate reductions and future beneficiaries under the jobs development act" a provision that discontinues no later than July 1, 2025 the use of the rate reductions granted under R.I. Gen. Laws Chapter 42-64.5 entitled "Jobs Development Act" by companies that qualified for such rate reductions prior to July 1, 2015. In addition, the bill adds to R.I. Gen Laws Chapter 42-64.5 a new section, R.I. Gen Laws § 42-64.5-9, which imposes a sunset date of June 30, 2025 on the Jobs Development Act (JDA).

Under current law, R.I. Gen Laws § 44-48.3-12 eliminated the provisions of JDA on a going forward basis effective July 1, 2015. R.I. Gen Laws § 44-48.3-12 did, however, allow any company that had qualified for the JDA's tax rate reduction before July 1, 2015 to retain the rate reduction as determined by R.I. Gen Laws § 42-64.5-3 titled "Tax rate reduction" and R.I. Gen Laws § 42-64.5-4 titled "Rate reduction schedule."

Summary of Facts and Assumptions:

The effective date of the bill is upon passage, but the implementation date is July 1, 2025.

The Division of Taxation recommends mirroring the proposed language for R.I. Gen Laws § 44-48.3-12(a) in the JDA statute, R.I. Gen Laws Chapter 42-64.5, to remove any ambiguity regarding the JDA program in the JDA statute. In addition, the Division of Taxation recommends that the discontinuance of the tax benefit under the JDA be tied to a future tax year to allow recipients of the JDA tax benefit to plan accordingly for its elimination. Specifically, the bill's language should be modified to include the phrase "for tax years beginning on or after 2026" after the July 1, 2025 date and that the allowance of the JDA tax benefit be ended effective July 1, 2025 rather than June 30, 2025. The Division of Taxation intends to send a letter detailing these and other issues.

Pursuant to R.I. Gen Laws § 42-64.5-3, the JDA program provides for a reduction in the tax rate paid by a business under R.I. Gen Laws Chapters 44-11 ("Business Corporation Tax"), 44-14 ("Taxation of Banks") and 44-17 ("Taxation of Insurance Companies"), or Chapter 44-13 ("Public Service Corporation Tax"). The tax rate reduction is based on each new unit of employment that is added to a



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company's previously established base employment. Under the original terms of JDA, each unit of employment added entitled the qualifying company to receive a 0.25 percentage point reduction in the relevant tax rate up to a maximum reduction of six percentage points for all companies other than telecommunications companies which receive a maximum reduction of one percentage point. After passage of the combined reporting statute, following the reduction of the business corporation tax rate from nine to seven percent effective January 1, 2015, the amount of the JDA rate reduction was adjusted from 0.25 to 0.20 percentage points per unit of employment and the maximum reduction adjusted from six to four percentage points.

The JDA program was closed to new participants effective July 1, 2015 with the passage of the "Rhode Island New Qualified Jobs Incentive Act of 2015." While companies that had earned a rate reduction prior to July 1, 2015 are entitled to maintain their rate reduction provided minimum employment requirements are maintained, no new companies can qualify for a rate reduction on or after July 1, 2015. Therefore, the proposed bill would impact the current JDA recipients by ending their use of the tax benefit as of July 1, 2025.

According to Taxation testimony at the November 2024 Revenue Estimating Conference (REC), the tax expenditure from the JDA tax rate reduction attributable to business corporation tax revenues were \$1,342,530 in FY 2022, \$3,121,983 in FY 2023, and \$3,828,136 in FY 2024. ORA calculated a three-year average of revenue impact averaging FY 2022, FY 2023, and FY 2024 to project FY 2025 revenue impact for this tax stream. This yields a business corporation tax revenue gain of \$2,764,216 in FY 2025 if the JDA program was ended. The Office of Management and Budget's (OMB) projected an increase of 3.9% in business corporation tax revenues for FY 2026 and an increase of 1.5% in FY 2027. ORA applied these percentages to the FY 2025 estimate discussed above to yield an estimated \$2,872,332 in business corporation tax revenue gain in FY 2026 and an estimated \$2,915,423 tax revenue gain in FY 2027 if this bill goes into effect.

Using information from the same testimony, the tax expenditure from the JDA tax rate reduction attributable to financial institutions tax revenues were \$38,315,462 in FY 2022, \$20,255,279 in FY 2023, and \$10,779,550 in FY 2024. There is only one financial institutions taxpayer in the JDA program, and public reporting indicates that this taxpayer has withdrawn from the program as of FY 2025. Therefore, ORA estimates that there is no impact on the financial institution tax from the proposed legislation in future years.

Comments on Sources of Funds:

All business corporation tax, public utilities gross earnings tax, financial institutions tax, and insurance company gross premiums tax revenues are general revenues.



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Summary of Fiscal Impact:

FY 2025: Not applicable due to the implementation date of July 1, 2025.

FY 2026: A general revenue gain from an increase in business corporation tax revenue of \$2,872,332 is forecast.

FY 2027: A general revenue gain from an increase in business corporation tax revenue of \$2,915,423 is forecast.

Budget Office Signature: _____

Digitally signed by Joseph Codega Jr.
Date: 2025.04.08 16:00:33 -04'00'

Fiscal Advisor Signature: _____

