

**280-RICR-20-25-2**

## **TITLE 280 – DEPARTMENT OF REVENUE**

### **CHAPTER 20 – DIVISION OF TAXATION**

#### **SUBCHAPTER 25 – BUSINESS CORPORATION TAX**

PART 2 – Rhode Island Jobs Development Act

##### **2.1 Purpose**

These rules and regulations implement R.I. Gen. Laws Chapter 42-64.5. This Chapter grants incremental income tax rate reductions to companies that create new employment in this state.

##### **2.2 Authority**

These rules and regulations are promulgated pursuant to R.I. Gen. Laws § 44-1-4. The rules and regulations have been prepared in accordance with the requirements of R.I. Gen. Laws § 42-35-1 et. seq. of the Rhode Island Administrative Procedures Act.

##### **2.3 Application**

These rules and regulations shall be liberally construed so as to permit the Division of Taxation to effectuate the purpose of R.I. Gen. Laws Chapter 42-64.5 and other applicable state laws and regulations.

##### **2.4 Severability**

If any provision of these rules and regulations, or the application thereof to any person or circumstances, is held invalid by a court of competent jurisdiction, the validity of the remainder of the rules and regulations shall not be affected thereby.

##### **2.5 Definitions**

- A. "Adjusted current employment" means for any taxable year ending on or after July 1, 1995, the aggregate of the average daily number of full-time equivalent active employees employed within the state by an eligible company and its eligible subsidiaries during such taxable year.

- B. "Affiliated entity" means any corporation owned or controlled by the same persons or shareholders who own or control an eligible company.
- C. "Average daily number or full time equivalent active employees within this state" means a fraction of which the numerator is the sum of the number of full time equivalent Employees for each business day and the denominator is the number of business days.
- D. "Base employment" means the aggregate number of full-time equivalent active employees employed within the State by an eligible company and its eligible subsidiaries on July 1, 1994, or at the election of the eligible company, on July 1 of any year subsequent to 1994; provided, however, that an eligible company that is a telecommunication company shall determine its base employment on either July 1, 2001 or July 1, 2002; and provided, further, that an eligible company may not use July 1, 2003 or any subsequent date to determine its base employment unless a determination has been made by the board of directors of the Rhode Island Economic Development Corporation that:
1. but for the incentives available under the law the company is not likely to retain, expand, or add employment in this state; and
  2. that the company has provided reasonable evidence supporting a finding that the jobs retained, expanded, or added will generate new tax revenue for the state that is at least equivalent to the value of this incentive.
- E. "Business days" means the number of days the employer is operating as a normal day whereby all full time equivalent employees are eligible to work.
- F. "Eligible subsidiary" means each corporation 80% or more of the outstanding common stock of which is owned by an eligible company.
- G. "Eligible company" means any corporation, state bank, federal savings bank, trust company, national banking association, bank holding company, loan and investment company, mutual savings bank, credit union, building and loan association, insurance company, investment company, broker-dealer company or surety company or an eligible subsidiary of any of the foregoing. An eligible company does not have to be qualified to do business in the state or have any employees in this state at the time its base employment is determined.
- H. "Full-time equivalent active employees" means any employee of an eligible company who:
1. works a minimum of 30 hours per week within the State, or two or more part-time employees whose combined weekly hours equal or exceed 30 hours per week within the State and

2. earns no less than 150% of the hourly minimum wage prescribed by Rhode Island law; provided, however, for tax years ending after the later of July 1, 2003 and the first tax year that an eligible company qualifies for a rate reduction pursuant to R.I. Gen. Laws § 42-64.5-3, for purposes of this section, one hundred fifty percent (150%) of the hourly minimum wage prescribed by Rhode Island law shall mean one hundred fifty percent (150%) of the hourly minimum wage prescribed by Rhode Island law at
  - a. the time the employee was first treated as a full-time equivalent active employee during a tax year that the eligible company qualified for a rate reduction pursuant to R.I. Gen. Laws § 42-64.5-3, or, if later
  - b. the time the employee first earned at least one hundred fifty percent (150%) of the hourly minimum wage prescribed by Rhode Island law as an employee of the eligible company. For eligible companies qualifying on or after July 1 2009 for a rate reduction pursuant to R.I. Gen. Laws § 42-64.5-3, the term “full-time equivalent active employee” means any employee of an eligible company who:
    - (1) works a minimum of thirty (30) hours per week within the state;
    - (2) earns healthcare insurance benefits, and retirement benefits; and
    - (3) earns no less than two hundred fifty percent (250%) of the hourly minimum wage prescribed by Rhode Island law at the later of:
      - (AA) the time the employee was first treated as a full-time equivalent active employee during a tax year that the eligible company qualified for a rate reduction pursuant to R.I. Gen. Laws § 42-64.5-3; or
      - (BB) the time the employee first earned at least two hundred fifty percent (250%) of the hourly minimum wage prescribed by Rhode Island law as an employee of the eligible company. For eligible companies qualifying before July 1, 2009 for a rate reduction pursuant to R.I. Gen. Laws § 42-64.5-3, any new “full-time equivalent active employee”, who replaces an existing “full-time equivalent active employee”, shall meet the following standards to remain eligible:

- (i) works a minimum of thirty (30) hours per week within the state;
- (ii) earns healthcare insurance benefits, and retirement benefits; and
- (iii) earns no less than two hundred fifty percent (250%) of the hourly minimum wage prescribed by Rhode Island law at the later of the time the employee was first treated as a full-time equivalent active employee during a tax year that the eligible company qualified for a rate reduction pursuant to R.I. Gen. Laws § 42-64.5-3, or the time the employee first earned at least two hundred fifty percent (250%) of the hourly minimum wage prescribed by Rhode Island law as an employee if the eligible company

- I. "New employment" means for each taxable year the amount of adjusted current employment for such taxable year minus the amount of base employment, but in no event less than zero, provided however, no eligible company is permitted to transfer, assign or hire employees who are already employed within the State by such eligible company from itself or any affiliated entity or utilize any other artifice or device for the purpose of artificially creating new employees in order to qualify for the rate reduction provided for in this chapter. New employment shall not include employees already employed in this state who become employees of an eligible company as a result of an acquisition of an existing company by purchase, merger, or otherwise, if the existing company was eligible for a rate reduction.
- J. "Small business concern" means any eligible company, which has a base employment level of less than one hundred (100); provided, however, that a telecommunication company may not qualify as a small business concern.
- K. "Telecommunications company" means any public service company or corporation whose rate of taxation is determined under R.I. Gen. Laws § 44-13-4(4).
- L. "Units of new employment" means
  - 1. for eligible companies, which are not small business concerns, the amount of new employment divided by fifty (50) rounded down to the nearest multiple of fifty (50), and

2. for eligible companies which are small business concerns, the amount of new employment divided by ten (10), rounded down to the nearest multiple of ten (10); provided, however, that an eligible company (other than an eligible company that is a telecommunications company) with adjusted current employment of one hundred (100) or more employees in its first year of operation or in any other period following the date its base employment is determined shall determine its units of new employment by dividing the first one hundred (100) employees less its base employment by ten (10), rounded down to the nearest multiple of ten (10), and by dividing the number of additional employees in excess of one hundred (100) by fifty (50), rounded down to the nearest multiple of fifty (50).

## **2.6 General**

### **A. Tax rate reduction**

1. The rate of tax payable by an eligible company and each of its eligible subsidiaries for any taxable year ending on or after July 1, 1995, on its net income pursuant to the applicable income tax provisions of the general laws, including the provisions of R.I. Gen. Laws §§ 44-11-2(a), 44-14-3(a), 44-14-4 and 44-17-1, or on its gross earnings pursuant to § 44-13-4(4), shall be reduced by the amount specified in § 2.6(B) of this Part; this rate reduction shall be applied annually, once to those eligible companies which are permitted by law to file a consolidated state tax return and in the case of eligible companies not permitted by law to file consolidated state tax returns, then the rate reduction shall be applied annually to each eligible company and its eligible subsidiaries; provided, however, except as provided in R.I. Gen. Laws § 42-64.5-7, should any eligible company fail to maintain in any taxable year after 1997 or, if applicable, the third taxable year following the base employment period election set forth in R.I. Gen. Laws § 42-64.5-5, the number of units of new employment it reported for its 1997 tax year or, if applicable, the third taxable year following the base employment period election set forth in R.I. Gen. Laws § 42-64.5-5, the rate reduction provided for in this chapter shall expire permanently.

### **B. Reduction rate schedule**

1. The amount of the rate reduction specified in R.I. Gen. Laws § 42-64.5-3 for any eligible company that is not a telecommunications company, for each taxable year ending on or after July 1, 1995, shall be based upon the aggregate amount of new employment of the eligible company and its eligible subsidiaries for each taxable year, and shall be determined by multiplying the numerical equivalent of one-quarter of one percent (.25%)

by the number of units of new employment for each taxable year through the taxable year ending in 1997 or, if applicable, the third taxable year following the base employment period election set forth in R.I. Gen. Laws § 42-64.5-5; and for each taxable year thereafter, the number of units of new employment reported for the taxable year 1997 or, if applicable, the third taxable year following the base employment period election set forth in R.I. Gen. Laws § 42-64.5-5; provided, however, the amount of each rate reduction shall in no event be greater than six percent (6%).

2. The amount of the rate reduction specified in R.I. Gen. Laws § 42-64.5-3 for any eligible company that is a telecommunications company shall be based upon the aggregate amount of new employment of the eligible company and its eligible subsidiaries for each taxable year and shall be determined in the same manner as set forth in § 2.6(B)(1) of this Part, except that it shall be determined by multiplying the numerical equivalent of one hundredth of one percent (.01%) by the number of units of new employment and the amount of each rate reduction shall in no event be greater than one percent (1%).
3. Notwithstanding any of the provisions of this chapter, where an eligible telecommunications company has one or more affiliated entities that is an eligible company, the eligible company entitled to a rate reduction may assign its rate reduction, to be determined in the manner as provided in § 2.6(B)(2) of this Part, to the eligible telecommunications company. An entity that assigns the rate reduction shall not be eligible for the rate reduction.
4. For eligible companies qualifying on or after July 1, 2009 for a rate reduction pursuant to R.I. Gen. Laws § 42-64.5-3, the term “full-time equivalent active employee” means any employee of an eligible company who:
  - a. Works a minimum of thirty (30) hours per week within the state;
  - b. Earns healthcare insurance benefits and retirement benefits; and
  - c. Earns no less than two hundred fifty percent (250%) of the hourly minimum wage prescribed by Rhode Island law at the later of:
    - (1) The time the employee was first treated as a full-time equivalent active employee during a tax year that the eligible company qualified for a rate reduction pursuant to R.I. Gen. Laws § 42-64.5-3; or

- (2) The time the employee first earned at least two hundred fifty percent (250%) of the hourly minimum wage prescribed by Rhode Island law as an employee of the eligible company.
- 5. For existing eligible companies qualifying before July 1, 2009 for a rate reduction pursuant to R.I. Gen. Laws § 42-64.5-3, any new “full-time equivalent active employee” who replaces an existing “full-time equivalent active employee”, shall meet the following standards to remain eligible:
  - a. Works a minimum of thirty (30) hours per week within the state;
  - b. Earns healthcare insurance benefits and retirement benefits; and
  - c. Earns no less than two hundred fifty percent (250%) of the hourly minimum wage prescribed by Rhode Island law at the later of:
    - (1) The time the employee was first treated as a full-time equivalent active employee during a tax year that the eligible company qualified for a rate reduction pursuant to R.I. Gen. Laws § 42-64.5-3; or
    - (2) The time the employee first earned at least two hundred fifty percent (250%) of the hourly minimum wage prescribed by Rhode Island law as an employee of the eligible company.
- 6. Important Note: When determining if an employee meets the new criteria, the requirement to “earn healthcare insurance benefits and retirement benefits” means that an employee is eligible to participate in the company’s healthcare and retirement programs. If the employee is eligible for the company’s healthcare and retirement program but elects not to participate, he/she is still deemed to have “earned” healthcare insurance benefits and retirement benefits. Also, if an employee is required to complete a reasonable probationary period to be eligible for healthcare insurance benefits and retirement benefits, he/she is deemed to have “earned” these benefits from day one of their employment.
- 7. On or before September 1, 2009 and every September 1 thereafter, all eligible companies qualifying for a rate reduction pursuant to R.I. Gen. Laws § 42-64.5-3 shall file an annual report with the tax administrator containing each full time equivalent active employee’s name, social security number, date of hire and hourly wage as of the immediately proceeding July 1 and such other information deemed necessary by the tax administrator. The report shall be filed on a form and in a manner prescribed by the tax administrator.

## 8. Examples

- a. Rate reduction for a company with over 100 full time equivalent active employees:

Adjusted Current Employment	1,000
Less Base Employment	560
New Employment	440
Rounded Down to Nearest (50)	400
$400/50 = 8$	
$8 \times .0025 = .02$ The result is a 2% reduction in the rate of tax	

- b. Rate reduction for a company with less than 100 full time equivalent active employees:

Adjusted Current Employment	90
Less Base Employment	64
New Employment	26
Rounded Down to Nearest (10)	20
$20/10 = 2$	
$2 \times .0025 = .005$ The result is a 0.5% reduction in the rate of tax	

- C. Maximum rate reduction: No rate reduction shall exceed six (6%) percent, or In the case of a telecommunications company, one percent (1%).
- D. Rate reduction applied to net income or gross earnings
1. Credit unions and insurance companies do not qualify for a rate reduction since they do not pay a tax based upon income, however, they will be able to pass the rate reduction on to an "eligible subsidiary."
  2. In the case of a Subchapter S Corporation, there is no pass through to the shareholder since there is no provision for a rate reduction under R.I. Gen. Laws Chapter 44-30.



3. The amount of rate reduction for any eligible company that is a telecommunications company shall be determined by multiplying the numerical equivalent of one-hundredth of one percent (.01%) by the number of units of new employment and the amount of each rate reduction shall in no event be greater than one percent (1%).
  4. Where an eligible telecommunications company has one or more affiliated entities that are eligible companies, the eligible company entitled to a rate reduction may assign its rate reduction, determined in the manner set forth in the prior paragraph, to the eligible telecommunications company. An entity that assigns the rate reduction shall not be eligible for the rate reduction.
- E. Expiration of rate reduction: A rate reduction calculation must be made for each year after a base employment period is elected in accordance with R.I. Gen. Laws § 42-64.5-5. The reduction in place at the end of the third taxable year following the base employment period election shall be permanent unless the level of employment drops below the level in place at the end of the third taxable year. If the level is not maintained the rate reduction provided for shall permanently expire. Only one base employment period can be elected for purposes of rate reduction by an eligible company.

**280-RICR-20-25-2**

**TITLE 280 - DEPARTMENT OF REVENUE**

**CHAPTER 20 - DIVISION OF TAXATION**

**SUBCHAPTER 25 - BUSINESS CORPORATION TAX**

**PART 2 - Rhode Island Jobs Development Act (280-RICR-20-25-2)**

Type of Filing: Technical Revision

Effective Date: 01/01/2010

Editorial Note: This Part was filed with the Department of State prior to the launch of the Rhode Island Code of Regulations. As a result, this digital copy is presented solely as a reference tool. To obtain a certified copy of this Part, contact the Administrative Records Office at (401) 222-2473.