

# The Providence Journal

## Lawmaker says obscure tax break costly to state

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PROVIDENCE — A tax break that generates about \$5 million a year in savings for certain companies that do business in Rhode Island came under attack at the State House on Wednesday.

At issue is a tax break with an ungainly title: the domestic production activities deduction (sometimes called the “production deduction,” or DPAD).

It is generally aimed at encouraging local manufacturing by reducing a manufacturer’s tax bill.

But amid the recession, with Rhode Island facing steep budget deficits, the tax break is something the state can no longer afford, according to Rep. Amy G. Rice, D-Portsmouth, Middletown, Newport. (The state has a budget gap of \$220 million for the year that will end June 30.)

The production deduction was created through a 2004 federal law. In essence, it replaced a federal export tax benefit that had been ruled illegal by the World Trade Organization.

In general, it is a federal income tax deduction for domestic manufacturers and certain other businesses. Corporations that claim the tax break on their federal returns receive an automatic tax benefit on their Rhode Island returns.

Rice’s bill (H 7563) would essentially require corporations doing business in Rhode Island to opt out of the production deduction for state tax purposes.

Under current law, corporations may claim the break for production activities “that are not even occurring in Rhode Island,” Rice said in a letter to the House Finance Committee. “Given the current fiscal problems our state faces, it makes no sense for Rhode Island to subsidize the out-of-state activities of large multi-state corporations,” she added.

Disallowing the production deduction for Rhode Island tax purposes would also help to minimize proposed reductions in state aid to cities and towns, thereby limiting local property tax increases — and Rhode Island’s over-reliance on property taxes, she said. The measure would increase state tax revenue by about \$5 million a year, she said.

Russell Dannecker, fiscal policy analyst at the Poverty Institute, of Providence, which analyzes tax and budget policies on behalf of low-income people, said that the tax break at the state level does not help struggling companies because it can be claimed only if a business is profitable, “and the vast majority claiming it are large multi-state firms that may invest little or nothing in the state in which the deduction is being taken.”

Daniel Bass, lead organizer for Ocean State Action, a coalition of labor unions and advocacy groups, told the committee that the tax break is contained in federal law, but was never specifically approved for Rhode Island tax purposes. “Ultimately, enacting this legislation would disallow a deduction that likely creates no benefits for Rhode Island and costs our state millions of dollars each year,” he said.

Jeffrey Taylor, a lobbyist representing Alexion Pharmaceuticals Inc., a global biopharmaceutical company based in Cheshire, Conn., whose operations include a manufacturing plant in Smithfield, said that pharmaceutical companies and other businesses would suffer if the tax break were disallowed.

The only person testifying in favor of continuing the tax break at the Rhode Island level, Taylor said that Alexion currently uses it. Eliminating it “will harm Rhode Island’s growing biotechnology industry,” he said.

Without the tax break, companies doing business in Rhode Island would have a more difficult time coming out of the recession and trying to compete globally, he said.

Alexion has invested more than \$140 million in its Smithfield plant, which has 100 employees and expects to hire more in the future, he said.

Overall, 25 states allow the production deduction, 21 states and the District of Columbia, disallow it, and 4 are not affected by it, Dannecker said. (The Vermont House in March approved a measure that would temporarily limit the tax break at the Vermont state tax level.)

Rep. Helio Melo, D-East Providence, the committee’s deputy chairman, said that no vote was scheduled on the measure on Wednesday. “We just wanted to hear any witnesses” on the issue, he said.

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