

Enterprise Zone Credit: Does Your Company Qualify?

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In 1982, Rhode Island enacted legislation to incentivize certain businesses to create new jobs and grow the Ocean State economy. The “Distressed Areas Economic Revitalization Act” was originally passed to target “areas in [Rhode Island] which are characterized by substantial and persistent levels of unemployment; blighted areas; obsolete, dilapidated, and abandoned industrial and commercial structures.” Pursuant to recent rulings by the Rhode Island Enterprise Zone Council, the Port of Providence and Pawtucket/Lincoln will each retain their designation as an “Enterprise Zone” until 2017. Governor Lincoln D. Chafee and Providence Mayor Angel Taveras have both touted these designations as yet another opportunity to promote positive economic change within Rhode Island.

In addition to the zones in the Port of Providence and Pawtucket/Lincoln, there are eight designated “Enterprise Zones” in Rhode Island, each with varying terms of existence, including zones in Cranston, Central Falls, East Providence, Warren/Bristol, Providence, West Warwick, Portsmouth/Tiverton, and Woonsocket/Cumberland. As an incentive for businesses to create jobs, Rhode Island provides Enterprise Zone tax credits if:

1. The business is located in an Enterprise Zone;
2. The business grows its employee base by at least 5% by hiring Rhode Island residents for full-time employment;
3. The total wages paid by the business increases;
4. The new employee’s duties take place within the Enterprise Zone; and
5. The business obtains a Good Standing Certificate from the Rhode Island Secretary of State.

For a business certified by the Enterprise Zone Council, the amount of the credit will be based on the where the employee lives; for example if the employee lives within the designated Enterprise Zone, the tax credit will equal 75% of the wages paid to that employee, up to a total of \$5,000. If the employee does not live in

the Enterprise Zone, the credit would be for 50% of the wages paid, up to a maximum amount of \$2,500.

Alternatively, if the business owner lives within the Enterprise Zone where the business is located, he or she may qualify for a business owner tax credit. For three years, a qualified business owner may take a \$50,000 deduction against adjustable gross income for applicable business corporation taxes or an individual owner's personal income tax. For the fourth and fifth years, the business owner may deduct \$25,000. Additionally, in the event that a business does not take advantage of these tax credits, there is a carryover of the credit for up to three years; however, in order to retain these tax credits the Enterprise Zone Council must determine that the business remains eligible.

There are also some important caveats to be aware of regarding the Enterprise Zone Credits. For example, the tax credit may not be used by a business to decrease income tax below a stated minimum. Also, if a certified business files a consolidated return with other non-certified businesses, only the certified business may take advantage of the tax credit.