



State Credits & Incentives

Updates & Opportunities

PRESENTER:

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Agenda



- Overview of Tax Credit Basics
- R&D Tax Credits
- Job Tax Credits
- Investment Tax Credits
- Retraining Tax Credits
- Negotiable Incentives
- Practice Discussion



Overview of Tax Credit Basics

Types	Utilization	Procedures
Cost-based <i>or</i> Threshold-based Designated credit pool?	Reduce % of state Income Tax Liability Credit towards state Payroll Withholding Alternative (sales/use tax exemptions)	Assignment to Affiliated Entity State sign-off Key Elections

R&D Tax Credits

R&D Tax Credits

Understanding the Landscape

- Federal credit first enacted in 1981.
- The credit was a near-annual budget bargaining chip for omnibus budgetary bills – eventually made permanent in 2015 (PATH Act).
- Approximately 35 states offer R&D tax credits, most of which mirror federal rules, with differences pertaining to:
 - Application deadlines
 - Calculation methodologies
 - Credit utilization intricacies
 - Credit tranches (“upgraded” credits)

R&D Tax Credits

What is R&D?

- 4-part qualifying test
 1. Technical uncertainty
 2. Process of experimentation
 3. Principles of a hard science
 4. New or improved product or process (do not need to re-create the wheel)
 - Internal use software
- Qualifying costs (wages, supplies, and contractors)
- Calculation methodologies

R&D Tax Credits

Credit Utilization:

- Some states permit utilization for 100% of state income tax liability, but others may cap to a reduced percentage
- Credit ordering considerations
- Alternative taxes (payroll withholding, sales/use tax, franchise taxes)
- Carryforward durations (e.g., California vs. Georgia)

R&D Tax Credits

Challenges When Claiming Credit:

- Utilization (available payroll election)
- Pooled credit funds (e.g., Virginia)
- Application deadlines
- Record-keeping, supporting documentation
 - Baked in challenge due to calculation methodologies
- Need for state apportionment study
- “Funded” research or no IP rights

Job Tax Credits



Job Tax Credits

Who Qualifies:

- New and expanding companies for creating (and maintaining) new jobs in a jurisdiction (favors concentration).
 - Headcount increase? Alternative measuring?
- State rules generally carry industry-specific qualifications
- Qualifying job standards
 - FT vs. PT
 - W2 employees
 - Health insurance
 - Location specific (transient workforce?) → fulfills policy objectives
 - Quality jobs (compensation thresholds; removes other requirements)

Job Tax Credits

Credit Potential:

- Credit rates per new job created will vary based on state and job credit program (inverse relationship of credit rate to job threshold). Notable credit rates include Georgia (\$4,000 or \$5,000), South Carolina (\$25,000), and Tennessee (\$4,500).
- Bonuses (e.g., port tax credit bonuses)?
- Utilization considerations (alternative methods and carryforwards)
- Note: may take shape as state or local-level grants

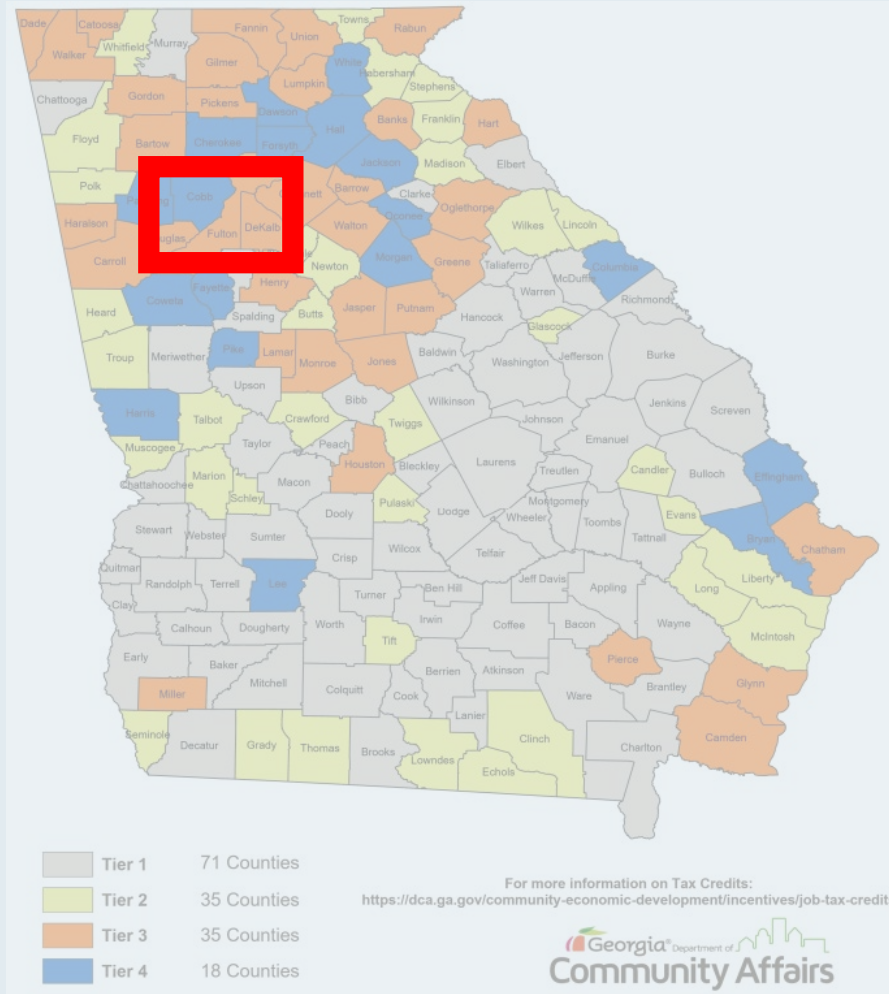
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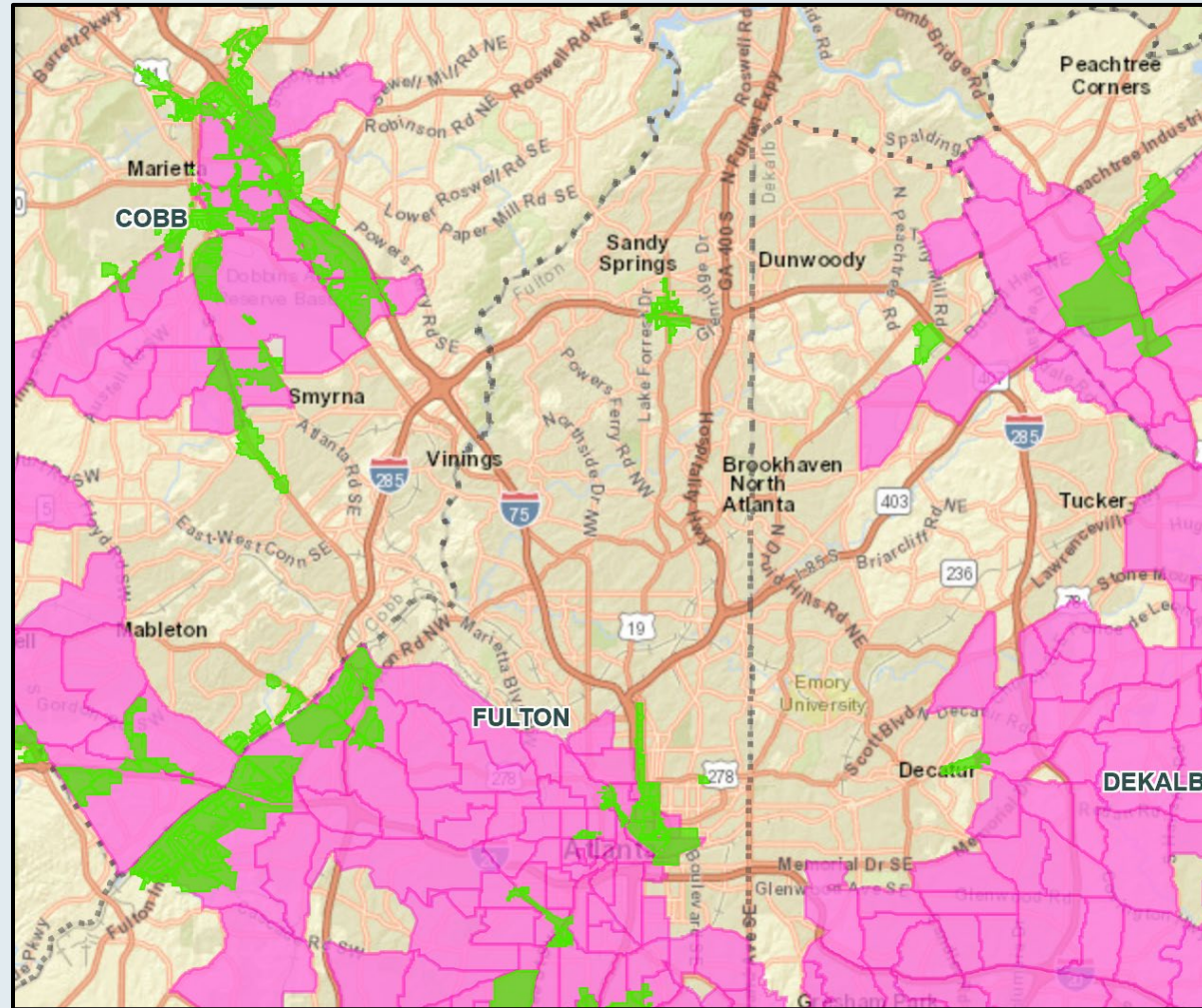
10 Job Increase x \$4,000 x 5 Years =
\$200,000 Credit

Job Tax Credits





Georgia Job Tax Credit



Job Tax Credits

Challenges When Claiming Credit:

- Expiration of state-endorsed opportunity zones
- Expiration of transient employee exemption
- COVID impact to labor market
- Corresponding investment requirement
- Insufficient documentation
- Too late in the application process (often with first-come, first serve)

Investment Tax Credits

Investment Tax Credits

General Requirements:

- Industry-focused investment (generally manufacturing, utility, telecom)
 - NAICS (GA) or state designation/approval (MA)
- Spending thresholds (+\$1mm; capex and real property)
- 1-5% credit rate (GA and TN rates may be as high as 8-10%) → generally limited to income tax credits
 - Rural county, enterprise zones
 - Higher rates for types of purchases (e.g., pollution control)
- Historically operating in the state?
- Typically separate from site revitalization credits (e.g., brownfields)

Investment Tax Credits

Challenges When Claiming Credit:

- Application/Pre-Approval Process
- Invoice review to identify qualified costs (time intensive)

Retraining Tax Credits

Retraining Tax Credits

General Requirements:

- Qualified training focuses on new technology or new equipment (excludes cross-training)
 - Focus on qualified employees (role and FT/PT designation)
- Other credits or grants may capture more generic on-the-job training and certification renewals (look to workforce commissions)
- Qualified costs for calculation may include:
 - Employee wages
 - 3rd party trainers (internal “super users” and external trainers)
 - Reasonable costs for travel to training



Retraining Tax Credits

EXAMPLE: Georgia Retraining Credit Potential

- \$500 per qualified training, per qualified employee.
- \$1,250 per qualified employee, per year
- Income tax credit (capped at 50%)



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Company offered 4 retraining
programs to 40 employees
\$50,000 Credit

Retraining Tax Credits

Challenges When Claiming Credit:

- Documentation, documentation, documentation!
 - Duration
 - Testing
 - Training materials
- Pre-approval procedures

Negotiable Incentives

Negotiable Incentives

MARKETS BUSINESS INVESTING TECH POLITICS VIDEO INVESTING CLUB [JOIN](#)

Amazon will get up to \$2.2 billion in incentives for bringing new offices and jobs to New York City, Northern Virginia and Nashville

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Negotiable Incentives



We SPEAK Business



Georgia's Successful Partnership with Kia
Serves as Model for Efficiency and Job Growth



Negotiable Incentives



TIMING IS EVERYTHING



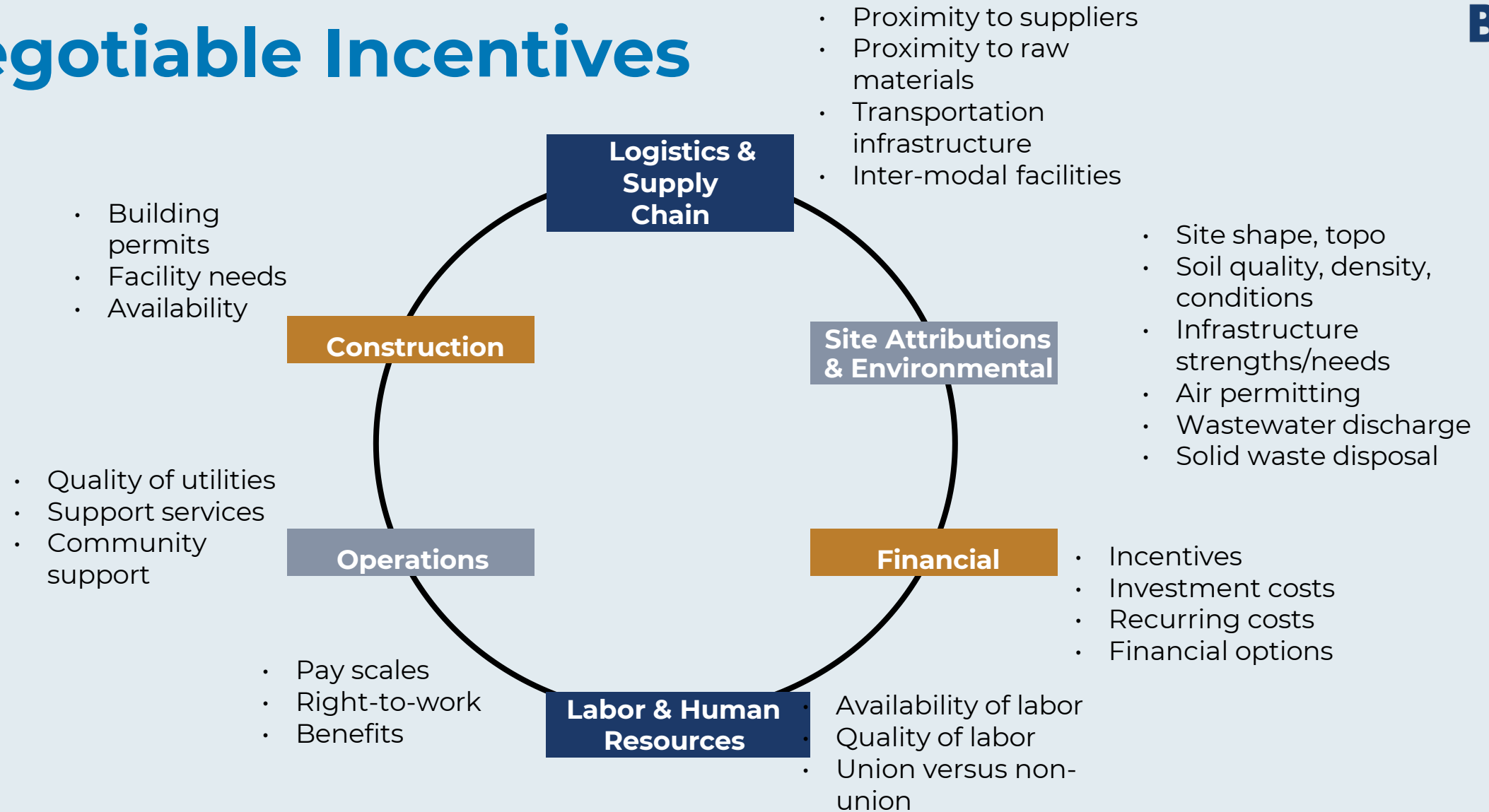
Negotiable Incentives



Potential Opportunities:

- Permitting (fee waiver and/or expedited process)
- Utility rates
- Favorable sales tax rules
- Training support (Quick Start)
- Property tax relief
 - Bond-for-title (“bonds that aren’t real, leases that don’t operate like leases, and governments acting as if they own something they don’t.”)
- Site Selection Considerations

Negotiable Incentives



Practice Discussion



Thank You