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Maximizing state and local business tax incentives

State and local tax incentive programs can save companies a significant amount. Is your company missing out?

State and local governments have offered business incentives for years. However, in an effort to stimulate job growth and investment, the number and type of tax credits and financing programs has taken a quantum leap recently.

Credit and incentive (C&I) programs vary tremendously from state to state. Consequently, your company may be able to obtain substantial benefits—and not even know it.

Tax credits, preferential financing, and cash grants enhance the rate of return on investments. In some cases, they can give companies an even bigger financial boost than layoffs, hiring freezes, or other cost-cutting moves.

Some popular regional benefit and incentive programs include:

- Manufacturing.** Wisconsin has made a major pitch to manufacturers with its recently enacted Manufacturing and Agriculture Credit. The credit offsets tax on manufacturing income and will reduce the effective tax rate on such income to 0.4 percent by 2016.
 - Information technology.** Colorado and Alabama offer significant tax-related benefits to set up secure data processing centers.
 - "Green" and renewable energy.** Several western states offer energy production incentives. Utah, for example, offers a number of renewable energy system tax credits, including one that encourages companies to pursue difficult-to-obtain energy reserves.
- New Mexico, Oregon and Wisconsin offer incentives that encourage processing agricultural waste, or biomass, into renewable energy.
- Job creation and targeted employment.** Many states have incentives in place to reward large-scale job creation employment practices, such as Grow New Jersey, a program created in 2012 that is expected to add more than 700 jobs in the state. Several states also provide tax credits for hiring recently discharged veterans.

C&I programs can provide significant savings. However, identifying the available incentives and determining which ones your organization qualifies for can be a daunting task.

To track down—and successfully secure—state and local tax credits and incentives, consider the following:

C&I benefits are out there—but aren't always easy to find. Even if you're familiar with a program or heard about an incentive through a colleague or trade association, tracking down all the information you need to obtain the maximum amount of benefits may be challenging. Pick a point person who is responsible for starting the process long before the company makes the proposed investment in facility space or jobs.

Both small and large businesses often lack the resources to research, apply for, and follow up on credits and incentives, particularly if they need to focus on the logistics of opening a new plant, hiring new employees, or other operational tasks.

Larger businesses with internal finance, tax, and real estate departments often are capable of initiating the process but still may need help tracking down all available benefits. Otherwise, they risk missing out on programs that haven't been widely publicized.

Expanding a plant or hiring new workers, for example, might qualify you for training money and earn you credit for new hires or an investment credit for adding research capabilities.

A professional advisor who is familiar with the various available C&I programs can help companies obtain a more complete package. Consultants are also able to identify which programs or benefits would work best, depending on your company's status and goals. If, for example, your company has accumulated losses in prior years and is able to carry those losses forward, from a cash standpoint, you might want to focus on refundable tax credits or forgivable loans.

Locating and understanding the program specifics can be difficult. C&I advisors can also help by acting as the quarterback between different government agencies. Local and state government economic development agencies may not be in constant contact with each other or be able to see how the various C&I components fit with each other.

Bankers and attorneys can also help analyze documentation—such as legal covenants or loan requirements—related to the incentive. Businesses, then, are free to focus on the operational aspects of expansions or relocations.

Size matters. Because incentive programs often involve a significant amount of paperwork, the benefits need to be valuable enough for a company to invest the time to obtain them.

Some benefits are better suited for larger organizations, such as "corporate headquarters" tax credits. Enterprise zone tax credits often require higher levels of investment and entail complex reporting requirements that are better suited to bigger companies.

For smaller companies, financing is often a problem. Angel investor tax credits, which encourage individuals to invest in companies, and provide a new network for businesses to find capital can be extremely valuable. State and local programs that provide low interest loans and grants also tend to have great utility for small businesses than nonrefundable tax credits or similar benefits that don't enhance cash flow.

Long-term plans are another consideration. Even if it won't qualify now, a start-up company with a small staff but big plans to grow may want to at least look into state and local tax incentive programs. If the organization expands within a few years, being ready to roll with incentive applications can help it achieve the maximum amount of benefits in the future.

Companies may benefit from getting advice before they expand—not after. If your company is thinking about moving to a new space, opening a new location, or adding a significant amount of staff, start the C&I process before plans are finalized.

Privacy can also pay off. In some cases, companies may want to seek out and apply for benefits anonymously before they publicly announce plans to open a new location, build a new plant, or close an existing one.

Avoiding industry rumors and layoff concerns among employees aren't the only concern. A company can potentially weaken its leverage for negotiating credits and incentives if a state or locality finds out it has been selected as the location for a company's new facility.

Selling yourself is important. Knowing what incentives apply to your business is just half the battle: To successfully obtain the benefits, you may need to convince state and local officials your company is a good fit for their incentive programs.

Don't expect an application will automatically land you all available C&I benefits. Some of the more competitive incentives require you to develop a compelling story about the project. Careful preparation is critical to success. Make sure the company's financials are in order, particularly if you plan to borrow any funds, and always back up your business model with evidence.

Presenting a carefully thought-out, well-documented plan that includes cost and revenue estimates and other information—particularly details about any new or emerging technology your company offers or plans to add, such as a cutting-edge operational systems; or job training for a new type of skill—can help ensure a worthwhile payoff.

Conclusion

Companies should expect greater accountability when applying for C&I incentives. Many states and localities now have annual incentive-related filing requirements and stipulations that require companies to repay benefits if they don't create the promised amount of jobs or fulfill any other benefit provisions. You should fully understand these "clawback" provisions before signing a C&I contract.

Still, if you plan to expand, invest in new technology, or grow your operations in another way, today's incentives may be able to help your organization improve its rate of return and cash flow. But given the number of incentives and the often-involved application process, determining which benefits your company may be eligible for isn't always easy.

The economy has spurred the creation of many state and local tax incentive programs. Yet that doesn't mean they'll necessarily fade away as soon as the housing and financial markets fully rebound. The competition among cities and states for jobs and investment is likely to be fierce for years to come.

Employing a C&I professional to handle the incentive program research and paperwork can help a company obtain the maximum amount of benefits. Your company will likely receive multiple returns on any fees incurred—and hopefully be able to invest in hiring, research, and other operational aspects to position your business to grow.

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