A more human resource.

Overview of The Types of Incentives

Incentives

Federal, state and local governments provide tax credits and incentives to encourage new job creation, job retention, and employee skills training, and to attract new capital investment. Tax credits and incentives can take on many forms including, but not limited to . . .

- Cash Grants
- Corporate Income Tax Credits
- Refundable Income Tax Credits
- Withholding Tax Rebates / Abatements
- Property Tax Abatements / Exemptions / Rebates
- Sales Tax Exemptions / Rebates
- Free Land
- Forgivable Loans / Low Interest Financing
- Utility Tax Credits
- Utility Riders / Discounts
- Training Grants / In-Kind Services

Discretionary vs. Statutory

Tax credits and incentives generally fall into one of two categories: discretionary or statutory.

Discretionary incentives are commonly referred to as negotiated incentives because their availability and/or value are often negotiated with state or local economic development representatives. These programs can require a ‘material factor’ or ‘but-for’ argument, meaning the company is required to demonstrate that its proposed project involving new capital investment and/or the retention/creation of jobs would not occur ‘but-for’ the availability of incentives. Because of the need to show that the incentives in question are to some extent inducing the proposed project to move forward, related activities such as employee hiring, investment of capital, or execution of a real estate agreement, cannot occur until the proposed incentives, or inducements, have been approved.

These types of programs often require regular reporting of benchmark activities, such as periodic employment levels and/or capital expenditures, to demonstrate that a business is meeting or has met agreed upon performance milestones. In many instances, discretionary incentives will include clawback or recapture provisions so that if a company fails to satisfy it performance commitments, it could have to repay incentives already received.

Examples of discretionary incentive programs include:

1. California Competes Tax Credit
2. Florida Qualified Targeted Industry Refund
3. Indiana Economic Development for Growing Economy (EDGE) Tax Credit
4. Kansas High Performance Incentive Program
5. Grow New Jersey Tax Credit
6. New York Excelsior Tax Credit
7. Ohio Job Creation Tax Credit
8. Texas Enterprise Fund

Statutory incentives differ in that they typically do not have a ‘material factor’ requirement. These types of incentives are, by law, available to all eligible companies and in many instances can be secured retroactively if the company was otherwise eligible to apply under the program(s) in question. (Both statutory and discretionary incentives can be subject to the state or local government budget considerations that may limit the availability of funds in any given year.) In some instances, the eligibility criteria can be straightforward. For example, the company or project must be located within an underdeveloped area, hire employees from targeted groups, etc. Any business meeting the program requirements can benefit from the incentive. Some statutory tax credit incentives can also have attributes like refundability, transferability/salability, the ability to claim against alternative tax bases, or lengthy carryforward provisions making it easier for companies with little or no income tax liability to monetize the potential benefit.

Examples of statutory incentive programs include:

1. Work Opportunity Tax Credit (WOTC)
2. Indian Employment Tax Credit
3. Federal Empowerment Zone Tax Credit
4. Enterprise Zone Tax Credits
5. Oklahoma Energy Efficient Tax Credit
6. Alabama Historic Tax Credit

State and Local Levels of Government / Incentives

State governments and economic development agencies will leverage both discretionary and statutory incentives to encourage job creation and investment within their states and localities. And, these benefits will usually include cash grants, tax credits, sales and use tax reductions, and training grants.

Incentives provided by local governments tend to be discretionary with a few exceptions (*i.e.*, Philadelphia Job Creation Tax Credit and New York City Commercial Expansion Program); and, while the potential exists for cash grants, benefits are most commonly realized as reductions of either property tax or sales tax.

Property Tax Incentives

Localities leverage property tax incentives to induce job creation, job retention and investment. The incentives can be applied to both real property and business personal property and generally include:

Property Tax Abatements

Abatements serve as a reduction of incremental property tax resulting from new construction, property renovation, or the acquisition and installation of equipment for up twenty years. Both the level of abatement and term can often be negotiated. Property tax abatement incentives are typically structured as Payment-in-lieu-of-Tax (PILOT) arrangements**.** In a PILOT arrangement, a local government or economic development agency takes title or ownership to business property, making it exempt for property tax purposes. The company then leases the property back and makes a ‘payment-in-lieu-of-tax’, or PILOT, that is generally less than the property tax the company would have paid if the property in question was fully-taxed at the prevailing rate.

Property Tax Rebates

Rebates serve to ‘repay’ a company for the incremental property tax resulting from new construction, renovation, or property acquisition. These incentives are typically equal to a percentage of the incremental increase in tax and are available for up to twenty years.

Tax Increment Financing (TIF)

In a TIF deal, a local government issues bonds to raise funds in support of a company’s project. The bonds are supported by an increase in local property tax revenues. The proceeds generated through a TIF are typically used to offset the cost of required public infrastructure improvements (*i.e.*, water/sewer extensions, road improvements, etc.) required to support a company’s project that the company may have otherwise been required to fund directly.

ADP Services

ADP is a recognized market leader in both discretionary and statutory tax credits and incentives. ADP currently manages over $1.8 billion* in discretionary incentives on behalf of over 100 clients, including many Fortune 500 companies. In 2015 alone, ADP secured over $1 billion* in tax credits and incentives for its clients.

ADP helps clients identify and capture tax credits and incentives for which they are eligible:

- **Federal and state incentive programs**. Our tailored incentive analysis helps identify eligible opportunities and targets locations with the highest tax liability – and the most credits to gain.
- **Changing regulations and laws**. ADP professionals stay on top of relevant changes.
- **Reviews of previous work**. We review past work to help detect additional savings opportunities that were not previously captured.
- **Audit-ready work papers and audit support.** We deliver both at no additional cost.
- **Secure data.** ADP invests in the latest security technology and best practices to help keep our clients' data secure.
- **Pay for performance.** Our contingent pricing model creates a relationship in which we both share in the savings with full transparency into our fees.

In addition, ADP offers your company:

- A team of experienced CPAs, attorneys, tax experts and incentive specialists in the industry.
- An expansive, detailed proprietary incentives database.
- Proprietary mapping system, matched with the incentives database, to plat locations or potential locations and identify available incentive opportunities.

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* Source: ADP Internal Data