CREW NETWORK

CREW Network Industry Brief

Vol. 5 • Issue 3 • June 2023

The Importance of Business Incentives in Closing a CRE Deal

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As companies consider capital and workforce investments that can conceivably take place at a variety of domestic and international locations, they often consider the significant tax and non-tax incentives that localities, states, and countries are willing to provide to attract these investments. State and local governments cumulatively set aside billions of dollars annually to secure new capital investments, as well as the jobs that may be created or retained with these investments. Within the tax arena, business incentives include reductions in income/franchise tax, sales and use tax, real and personal property tax, and employment taxes. Non-tax benefits include job creation grants and training grants, enterprise zone benefits, infrastructure grants, utility discounts and low-cost financing.

One of the first tasks considered as part of this process is optimizing site selection, which is based on a set of complex decision-making factors. Critical qualitative factors include business climate, availability skilled labor, proximity to customers and suppliers, infrastructure capacity, and available transportation. Quantitative factors include facility start-up costs, such as new construction, land, and equipment, as well as operating costs, such as utility expenses, payroll and employee benefits expense, training expenses and state and local taxes.

The difference in tax costs associated with potential locations can be very significant. For example, a recent client analysis conducted by professional services firm Ashmore Consulting LLC compared the tax expenses of locating a medium-sized company in eight Southeastern U.S. states. Over a 10-year period, the non-federal tax cost ranged from a few thousand to several million USD. Because some site selection comparisons consider only pre-tax costs, the analysis is incomplete and fails to consider other factors that impact the ultimate price in selecting one location over another.

Because tax and financial incentives are not the only consideration in site selection, many businesses do not seek to fully identify and secure incentives. Often benefits packages are either not maximized or are overlooked. Some incentive packages can result in savings of as much as 50% of the total costs incurred for a project. These figures can apply to a project that may include as little as $5 million in capital expenditure and 20 new jobs.

While incentives serve to attract businesses and help fund expansion and investment in communities, they generally include "clawback" or recapture provisions. These provisions protect government's investment in these companies by allowing for the recovery of incentives if the company fails to meet its capital investment commitments. These commitments generally involve a required level capital investment, job creation and/or retention, utility consumption, and/or employee wage levels. Many jurisdictions require evidence that the incentives to be offered will be justified by both direct and indirect tax and fiscal benefits created by the project, and that the company delivers on its promised investment.

Any company that is considering a future investment in its current location or considering various sites to locate its capital or workforce investment should closely examine the business incentives available, as well as other qualitative and quantitative factors that are part of every decision-making process.