

Incentives Update

Idaho Tax Reimbursement Incentive

Current Legislation Update

A Cushman & Wakefield Business Incentives Practice Update



EXECUTIVE SUMMARY

Historically, Idaho has relied on its quality of life to attract and retain companies. However, as evidenced across the country in a post-recession economy, states and communities must now compete more aggressively for jobs and capital. Companies with both global and national locations are reevaluating their current footprints, seeking operational efficiencies and cost savings. For example, the decision to invest capital to modernize a manufacturing plant could be made at a domestic facility or a facility on the other side of the world, and these kinds of decisions are not being made based primarily on the abundant availability of hunting, skiing, or hiking.

Since 2006, Idaho has offered companies that invest at least \$500,000 in new facilities and create at least 10 new jobs with an average salary of \$40,000 or more the comprehensive, statutory “Business Advantage” incentive package that may include a variety of existing investment and job tax credits, sales tax rebates, and property tax exemptions. More recently, the Idaho legislature has recognized the changing landscape of business retention and attraction and has approved several measures to give the state a more diverse toolbox to incentivize businesses and competed on a national level. The Idaho Opportunity Fund, which was passed in 2013, established a \$3 million deal closing fund to meet the infrastructure needs of projects at the discretion of the Director of the Idaho Department of Commerce. In addition, county tax commissioners were authorized to exempt new manufacturing facilities real property taxes up to 100% for 5 years. A personal property tax exemption on an approved business’ first \$100,000 of personal property, including equipment and furniture, became effective in July of 2013. The state also offers recruiting services and reimbursements on workforce development training.

Despite these enhanced incentives and one of the lowest costs of doing business in the country, in early 2014, Idaho’s economy still languished. The state had one of the lowest average wages in the U.S. and the nation’s highest share of workers per capita earning minimum wage. Eligibility for Idaho’s existing incentives relied heavily on capital investment and the state could not reward prospective companies on the basis of creating a large number of jobs or for paying higher wages alone. In direct response to this issue, the legislature passed the Idaho Reimbursement Incentive Act, House Bill Number 546, which Governor Otter signed into law on April 3, 2014 and which became effective July 1, 2014 as the Idaho Tax Reimbursement Incentive (TRI).

TRI is a performance-based tax reimbursement program that allows for a maximum reimbursement amount of 30% of a company’s income, payroll, and sales taxes up to 15 years. The reimbursement is made in the form of a refundable tax credit that may be applied against a company’s income or franchise tax. It is the first time the state has considered payroll taxes in regard to incentives.

Passing the bill was a feat of compromise and Idahoan practicality. Small businesses across Idaho were concerned the incentive would create an unfair advantage for the larger corporations it targeted. The Idaho Attorney General’s Office was wary the program would leave the state fiscally vulnerable. As a result of these concerns, job minimums were adjusted and layers of review were adopted in the final law. In addition, under the program, a company may only receive benefits of the Tax Reimbursement Incentive after meeting its jobs creation metrics. As a reimbursement, the incentive poses a lower risk to the state, essentially only paying back a portion of the funds it has already received from a company.

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A little over a year after going into effect, the Tax Reimbursement Incentive has been a true game changer in the State's ability to compete on new, relocation, and expansion projects. Within the first 13 months of the Tax Reimbursement Incentive being in effect, Idaho has awarded 18 TRI projects, which will bring \$440.45 million in capital investment, 3,409 new jobs, and over \$1.8 billion in new payroll to the state.

The incentive is available to existing Idaho companies that are considering an expansion in the state or to new companies looking to locate in Idaho. Projects in rural areas, where the population is 25,000 or less, must create at least 20 new jobs and in urban areas a project must create a minimum of 50 new jobs. If the company has existing operations in Idaho, the number of new jobs must exceed the number of existing full time jobs in the state during the 12 months prior to application. The wages of the new jobs must be at least equal to the average annual county wage for the proposal project location. The percentage reimbursement and term of the award are negotiated based on the economic impact of the project and the quality of the jobs created, with particular consideration given for higher wages. Applications for the Tax Reimbursement Incentive are accepted throughout the year and must be approved by both the Director of the Idaho Department of Commerce and the Idaho Economic Advisory Council, a process of checks and balances that resulted for legislative negotiations.

Amy's Kitchen was an early high profile victory for the state that directly resulted from the availability of the Tax Reimbursement Incentive. The California-based organic food company decided to take over a facility recently shuttered by another prepared food company and will add 1,000 jobs, rehiring many of the former company's employees, and will invest \$76 million in the facility. Other significant wins have included ATC Manufacturing, Inc., a thermoplastic component manufacturing company from Spokane Valley, Washington, creating 225 new jobs and making a \$25 million investment, and Fabri-Kal, a plastic container and packaging company based in Kalamazoo, MI that will be creating 150 new jobs and investing \$50 million.

While about half of the first 18 awards went to existing expanding companies, the Tax Reimbursement Incentive has been successful in driving new interest from out-of-state companies. The Boise Valley Economic Partnership reported the average number of site visits from companies considering the region for a project increased 500% over the first year of the program due to interest in the program. The incentive has also been able to drive attention to more rural areas of the state that historically have not seen much prospect activity.

The average reimbursement percentage of a company's income, payroll, and sales taxes for the Tax Reimbursement Incentive projects awarded through July 2015 has been 21%, versus the maximum allowable, 30%, and the average award term has been 9.8 years, in contrast to the maximum 15 year term available. Perhaps most indicative of Idaho's success with this new incentive, is that the approved projects have committed to an average annual wage of \$46,067, 21% over the state's average annual wage in 2014 according to the U.S. Bureau of Labor Statistics. With this new tool already proving adept at attracting and retaining businesses in Idaho, the state is poised to be a more competitive player in the future.

Betty McIntosh, Carol Henderson, Will Cowser and Brooklin Salemi, Cushman & Wakefield, Inc., Global Business Consulting, Business Incentives Practice