

Incentives Update

Made in Alabama Incentives Current Legislation Update

A Cushman & Wakefield Business Incentives Practice Update



EXECUTIVE SUMMARY

Key bills within the Made in Alabama Jobs Incentive Package have passed through the Alabama Legislature and have been signed into law by Governor Bentley. These bills represent the first meaningful revitalization of Alabama's business incentives since the Tax Reform Act of 1992. The new incentives will allow the state to attract a mix of industries, including those that may create significant office jobs but invest less capital than the typical manufacturing projects on which Alabama has previously focused its pursuits.

A CLOSER LOOK

While Alabama has enjoyed some noteworthy "wins" over the past two decades, including manufacturing plants for Hyundai, Mercedes-Benz, Airbus, Remington Arms, and Polaris, the state's existing incentives rewarded the capital investment typical of large manufacturing projects over the creation of jobs, particularly in less-capital intense fields such as software development and back office services, which are area in which Alabama seeks to become more competitive. This has led the state to lose several high-profile projects to its competitors and prompted the current effort to revitalize the state's incentives with the Made In Alabama legislation.

ALABAMA REINVESTMENT AND ABATEMENTS ACT

The Made In Alabama Incentives Package includes House Bill 59, the Alabama Reinvestment and Abatements Act, which has been signed into law by Governor Bentley and will go into effect June 24, 2015. The legislation amends existing provisions and strengthens Alabama's ability to incentivize its existing businesses to remain and grow within the state. When an existing business in an approved industry invests at least \$2 million in a project to expand, renovate, improve, or rehabilitate an Alabama facility, or replaces furniture, fixtures, or equipment at a facility within the state, it may be eligible for state, county, and local real and personal property tax abatements up to 20 years (extended from the previous limit of 10 years) and partial utility tax refunds up to 10 years. Industrial and research enterprises that are locating or expanding in Alabama may be eligible for construction-related sales tax exemptions. Farming and retail-related activities are not eligible for these programs. Furthermore, the existing Alabama Industrial Development Training program was expanded to provide training on the operation of new equipment to new hires and retained employees at new and existing businesses.

ALABAMA JOBS ACT

Also included in the package and signed into law by Governor Bentley is House Bill 58, the Alabama Jobs Act, which creates a jobs-based credit and reconsiders the state's approach to a capital investment-based credit. An eligible business may receive both jobs and investment credits for a project, but may not receive these credits while still receiving credits through the state's old programs. The existing Capital Credit program and other conflicting laws were repealed through this legislation. The Capital Credit was an income tax credit of 5% of the project's capital investment annually for 20 years with no carry forward and no transferability, While existing agreements will be honored by the state, businesses must file for the outmoded credits within 6 months of this bill's effective date, July 2, 2015. The Act also sets up the Legislative Advisory Committee on Economic Incentives to provide oversight.

Incentives Update

Made in Alabama Incentives Current Legislation Update

A Cushman & Wakefield Business Incentives Practice Update



INVESTMENT CREDIT

Alabama's new investment credit allows for an annual credit equal to 1.5% of the capital investment incurred by the beginning of the incentive period, which begins on the placed-in-service date and has a duration of 10 years. The credit may be used to offset corporate income taxes, financial institution excise taxes, insurance premium taxes, utility taxes, or any combination thereof. Unused credits may be carried forward for up to 5 years or the credits may be sold during the first 3 years at no less than 85% of the net present value. Furthermore, if the business awarded the credits is taxed as a flow-through entity, it may allocate the credits among its owners to be used against the same types of tax liabilities as noted.

JOBS CREDIT

A business must create at least 50 new jobs to be eligible for the new jobs credit, unless it is a qualifying business in the chemical manufacturing, data center, engineering design or research, or metal/machining technology or tool making industries, which may be eligible by creating any number of new jobs. The job credit may be taken each year for 10 years against utility taxes in an annual amount of 3% of eligible employees' paid wages during the previous year. If unused credits remain in a certain year, the business may carry forward the credits for 5 years.

ALABAMA VETERANS AND TARGETED COUNTIES ACT

House Bill 57, the Alabama Veterans and Targeted Counties Act, is currently on the Governor's desk and is expected to be promptly signed. It will go into effect on July 2, 2015 in conjunction with the Alabama Jobs Act. The Alabama Veterans and Targeted Counties Act will add further strength to the Alabama Jobs Act by offering additional benefits to incentivize jobs and investment in rural communities and encourage hiring eligible veterans. As currently considered in House Bill 57, a business may receive an additional 0.5% job credit, regardless of location within the state, if at least 12% of its workforce in the previous year was comprised of eligible veterans.

In addition, House Bill 57 proposes that if a business locates in a targeted county with a population less than 25,000, it must only create 25 new jobs (or less depending on the industry) to be eligible for the jobs credit and may then receive an additional 1% job credit (4% total) for an additional 5 years (15 year period total). The investment credits, as previously described under the Alabama Jobs Act, would also be available for an additional 5 years (15 years total). Furthermore, this law creates the Accelerate Rural Alabama Fund, which allows the State Industrial Development Authority to make low or no interest loans to rural communities to fund site preparation and other construction-related expenses associated with projects that create jobs in the qualified counties.

CONTACTS

For more information about how this may impact your project, please contact the Cushman & Wakefield, Global Business Consulting, Business Incentives Practice:

- Betty McIntosh, Senior Managing Director – (404) 853-5362, Betty.McIntosh@cushwake.com
- Carol Henderson, Director – (312) 470-1894, Carol.Henderson@cushwake.com