

Economic Development Incentives: Automotive Industry Expansions/ Consolidations

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Whether considering an expansion or consolidation of an automotive business, the company should always consider economic development incentives in its site location analysis. Many states have specifically targeted advanced manufacturing and headquarters projects as those it wishes to expand in their state. Available incentives can often be a major driver in choosing one state over another as a final site location for a facility. The availability of the types of incentives and their value to a particular project vary based on the particular project. Potential incentives include those available at the federal, state, and local levels.

FEDERAL

New Markets Tax Credits If the project will be located in a low income area, new markets tax credits may be available where gap financing is needed. This program can provide below-market financing, or can be structured in a manner that allows the business operating in a low income community to “sell” federal income tax credits to an investor who can use the credits to offset its federal income tax.

Specialized Industry Incentives The Departments of Energy, Labor, Transportation, and Housing and Urban Development may have targeted grant programs that could assist with general project costs, such as extending necessary infrastructure to a new manufacturing location.

Federal Tax Credits for Hiring There are federal tax credits available for hiring targeted populations, including disabled veterans and veterans returning from Iraq and Afghanistan.

STATE

Sales Tax Exemptions Some states may offer sales tax exemptions on construction materials or on new machinery and equipment for new projects.

Corporate Income Tax Credits Some states will provide corporate tax credits for job creation or capital investment. If the tax credit exceeds the company’s tax liability, some states will refund the excess. Other states will not provide a refund, but will provide a carryforward of unused tax credits for a period of years. In some cases, the employee withholding tax withheld by the employer will be refunded to the company for a period of years, either in addition to a corporate income tax credit or in lieu of such a credit. In other cases, the value of the credit may be a set dollar amount per new job created.

Infrastructure Grants There may be grant funding available at the state level for items such as site preparation, road work, or sewer and water line extensions to the site.

Discretionary Grant Funding Many states have a discretionary “deal closing” fund for projects where there is a significant gap between that state and another potential site location.

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Renaissance Zone/Enterprise Zone/Urban Revitalization Zone These sites are generally designated at the state level. Locating within the site, or hiring from residents within the site, provide a variety of benefits to the employer. Generally, the sites are designated due to economic distress of the area.

Job Training Grants or Reimbursements Most states provide a form of job training assistance for new employees. In some states this is a per job reimbursement amount that can be used to offset wages of the new employee while they are in training. In other states, there is a reimbursement of actual training costs incurred by the company. In still other states, there are in-kind job training programs, in which the local workforce development board or local community colleges provide the training at no or a reduced cost to the company.

LOCAL

Property Tax Abatements or Rebates Municipalities may be able to offer a partial or total tax abatement for new real and personal property investment in a facility for a period of years. In some states, property tax abatements are not allowed, but there may be the availability of offsetting grants or the ability to use the incremental increase in tax revenue to the municipality as a revenue source for the repayment of bonds that may be issued in order to provide up-front revenue for the project.

Sales Tax Exemptions In states that also have a local option sales tax, the municipalities may offer exemption from the local option sales tax on construction materials or on new machinery and equipment for new projects.

Inventory Tax/Freeport Exemptions In some states, property tax includes a tax on inventory in the state. In those states, the locality may, for certain projects, provide a Freeport exemption so that the facility's inventory is not taxed if it leaves the state within a certain defined period of time.

THE BOTTOM LINE

As automotive companies look to the future, they should consider whether their strategic plans include expansion or consolidation. It is essential to evaluate the value of these potential incentives early in the site location process, as it may affect a company's final site location decision.

Miller Canfield's Economic Incentives team has years of experience assisting clients with the entire process, from analyzing potential site costs to negotiating incentive agreements to ensuring the company is aware of its ongoing compliance obligations.