Business Incentives for Industrial Development

<u>Property Tax Abatements and Credits</u>

Federal incentives:

- **50% Bonus Depreciation** – The new law allows an additional first-year depreciation deduction equal to 50% of the cost of improving Gulf Opportunity Zone property. In order to qualify, the property generally must be placed in service on or before December 31, 2007 or by December 31, 2008 (for Orleans Parish by December 31, 2010) in the case of non-residential real property and residential rental property. This deduction is allowed for both regular tax and alternative minimum tax purposes for the taxable year in which the property is placed in service. The property which would be depreciable under these rules would be computer software and other property with a recovery period of 20 years or less, but more importantly, it would also apply to non-residential real property or residential rental property. This last category would include commercial real estate and also hotels, as hotels are not non-residential rental property but instead non-residential real property. Other types of commercial property listed above also could benefit from this.

- **Rehabilitation Tax Credit** – The 20 percent credit available for qualified expenditures of certified historic structures is increased to 26 percent. The 10 percent credit available for qualified rehabilitation expenditures with respect to buildings placed in service prior to 1936 is increased to 13 percent. The increased amounts apply to expenditures paid or incurred prior to January 1, 2009 and thereafter the 20 and 10 percent credit apply. Again the expenditures must be incurred on or after August 28, 2005 and before January 1, 2009.

<u>Renewal Community</u>

(Exclusive to businesses located and/or looking to expand into the renewal community)

- **Commercial Revitalization Deduction (federal) -** Allows businesses that construct or rehabilitate commercial property to deduct 50% of the costs the year of the project's completion, or 100% of the total cost of the project over a 10-year period.

- **Zero Percent Capital Gains Rate (federal) -** A business that holds an asset for at least five years does not have to pay taxes on the profit of its sale.

- **Increased Section 179 Deduction (federal) -** Allows businesses to claim a deduction (up to $20,000 in additional expensing increasing to $35,000 for property acquired after December 31, 2001) if the business qualifies as a Renewal Community Business. This claim can be on certain depreciable property such as equipment and machinery.

State incentives:

- **Restoration Tax Abatement** – The Restoration Tax Abatement (RTA) Program is an economic development incentive created for use by municipalities and local governments to encourage the expansion, restoration, improvement, and development of existing commercial structures and owner-occupied residences in Downtown Development Districts, Economic Development Districts, or Historic Districts. The RTA Program does not exempt the acquisition cost of the structure. In addition, only equipment which becomes an integral part of that structure can qualify for this exemption (not machinery and equipment used in the business, i.e., retail gondolas or movable property such as furniture and fixtures, etc.) *Note: an Enterprise Zone or Economic Development Zone is not a qualifying district.* Property owners may have ad valorem taxes abated for a five-year period on the improvements made to an existing property during which time assessments and property taxes would remain at their pre-improvement value. Again, the building must be in an historic, downtown development or economic development district.

- **Industrial Property Tax Exemption Program** – This is Louisiana's original incentive program, for capital investments, and is for manufacturers only. It may be used by manufacturers new to the State as well as new investments and miscellaneous capital additions to existing facilities in Louisiana. Louisiana’s Industrial Property Tax Exemption Program exempts new manufacturing facilities and expansions from all improvements to the land, buildings, machinery, equipment, and any other property that is part of the manufacturing process. The taxes may be exempted for up to ten years. Program benefits can be combined with those of other programs, such as the Enterprise Zone or Quality Jobs programs.

- **State Historic Tax Credits** – For Louisiana income and franchise tax purposes, a historic rehabilitation tax credit of 25 percent of eligible costs and expenses incurred in the rehabilitation of a historic structure located in a downtown development district. The credit shall not exceed twenty-five percent of eligible costs and expenses of the rehabilitation. No taxpayer shall receive more than five million dollars of credit. This credit is transferable.

Sales/Use Tax Credits & Rebates

State incentives:

- **Inventory tax credit programs** – Manufacturers, distributors and some retailers are allowed a credit of 100% of the amount of local inventory taxes paid against state corporate income and franchise tax liability.

- **Industry Assistance Program** –Tax exemptions to manufacturers if their contractors give preference and priority to LA manufacturers, suppliers, engineers, contractors and labor, except where not reasonably possible to do so without added expense or substantial inconvenience.

- **Quality Jobs** –This program provides a cash rebate as an incentive to encourage targeted businesses to locate in Louisiana, create quality jobs and promote economic development. The cash rebate is an annual rebate for up to 10-years of 5% of gross annual payroll for minimum hourly wage rates of $9.01, or 6% of gross annual payroll for minimum hourly wage rates of $11.59. A company must hire at least 5 new employees. Additionally, businesses that expand or locate are eligible for a state rebate of 4%, and a local rebate (depending of the local rate) for sales/use taxes paid on equipment, machinery and construction materials. Again, a company must hire at least 5 new employees or increase current workforce by 10%.

- **Enterprise Zone** – The Enterprise Zone (EZ) Program is a JOBS incentive program which provides Louisiana Income and Franchise tax credits to a business hiring a minimum number of net new employees. 35% of these new jobs must be filled from one of four targeted groups. A business does not have to be investing money, just creating additional jobs. Because of the Jobs creation, Sales/Use Tax rebates may be available. EZs are areas with high unemployment, low income, or a high percentage of residents receiving some form of public assistance. Businesses that expand or locate in a designated enterprise zone are eligible for a state rebate of 4%, and a local rebate (depending of the local rate) for sales/use taxes paid on equipment, machinery and construction materials. A company must hire at least 5 new employees or increase current workforce by 10%.

Employee Training

Federal incentives:

- **On-the-Job Training** – Employers can create a skilled and reliable workforce by training workers while on the job. Save 50% on wages for the duration of the training period.

- **Incumbent Worker Training** – Employers can enable their current workforce to attain higher-level jobs within the organization, opening entry-level opportunities for new entrants to the workforce. Designed for current employees who seek career growth within the company. Save 50% on wages for the duration of the training period.

- **Customized Training** – Employers in high-demand, high-growth industries with special training needs can access Customized Training services for new employees. Receive 50% up front for the cost of the training program.

Worker Tax Credits

Federal incentives:

- **Work Opportunity Credit** – Up to $3,500 for the first year and $5,000 for the second year for each new hire of someone on long-term family assistance.

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- **Wage Credit (Federal)** – Up to $1,500 or 15 percent of an employee’s salary up to $10,000 for each employee who lives and works in the renewal community.

State incentives:

- **Enterprise Zone** – Businesses that expand or locate in a designated enterprise zone are eligible for a state income or corporate franchise tax credit of $2,500 ($5,000 for aerospace and automobile parts manufacturers) for each new employee hired and rebate of a portion of City and State sales/use taxes paid on equipment, machinery and construction materials. A company must hire at least 5 new employees or increase current workforce by 10%.

Innovative Financing

Federal Incentives:

- **New Market Tax Credits** – Another aspect of the new law is expansion of the new market tax credit provisions to any area within the Gulf Opportunity Zone. This allows qualified equity investments in the community development entities to get federal credit on income tax owed for investors. Again, because of this federal subsidy, the cost of capital to potential investors in rehabilitation and restoration within the City of New Orleans can result in considerably lower interest rates for such purposes. The new law has added, on top of the existing allocation of tax credits, $300 million more tax credits to the Gulf Opportunity Zone for calendar year 2005 and 2006, and $400 million for calendar year 2007 for qualified community development entities. These community development entities are currently in existence and able to do these types of transactions in Orleans Parish.

- **Gulf Opportunity Zone Tax-Exempt Bonds** – Prior to the changes in the Internal Revenue Code in 1986, commercial establishments such as restaurants, hotels, motels, office buildings, etc., could be financed with tax-exempt bonds. This obviously keeps the borrowing costs down to the business trying to finance a new or renovated facility, since the lender of the money buying the tax-exempt bonds does not have to pay federal income tax on the interest earned. This results in considerably lower interest rates to the business (1.5% to 2%) under the new Section 1440N, the Gulf Opportunity Zone bond provisions. Tax-exempt bonds can now be issued for these various commercial purposes, and Louisiana has a maximum total of $7.9 billion that can be issued. Certain restrictions apply to these types of bonds, including the fact that no golf courses, country clubs, massage parlors, hot tub/sun-tanning facilities, race tracks, or other gambling facilities, or off-premises alcohol facilities may be financed.

State incentives:

- **LA Energy Fund** – Gives public agencies access to private financing in the form of low-interest bonds. Participating government agencies repay the bonds from savings on energy bills organized into long-term contracts with energy service companies (EACOs).

- **Retention & Modernization Program** – Financial assistance and tax equalization to existing LA companies to encourage the modernization of operations.

- **LA Economic Development Award Program** – Financing for publicly-owned infrastructure for industrial or business development projects (including engineering expenses, site acquisition, preparation, construction, building materials and capital equipment.

- **Tax Equalization Program** – Equalizes the overall taxes between a LA site and a competing site in another state, for companies locating their headquarters in LA.

- **Headquarter Growth Program** – Eliminates taxes on interest and dividends for companies locating their headquarters in LA and aligns with other states to apportion income from capital gains.

City incentives:

- **Industrial Revenue Bonds** – Industrial Revenue Bonds can be issued by New Orleans Industrial Development Board to finance industrial sites and buildings, equipment, storage facilities and pollution abatement and control projects.

- **Payment in Lieu of Taxes (PILOT)** – The Industrial Development Board will essentially own the facility and lease it back at a predetermined rate which will be less than the ad valorem on the facility. Timeframe is determined by a cost benefit analysis. Past PILOTs have ranged from 10 to 20 years.

- **EB-5 Visa Investor Program** – Foreign investments of $500,000 or more creating 10 indirect jobs qualify for obtainment of a U.S. visa.