

Arkansas Economic Development Commission

Incentive Programs



 **ARKANSAS**
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Overview of Today's Presentation



Incentive Eligibility

- Which companies can legally receive incentives

Statutory Incentives

- Advantage Arkansas, Tax Back, InvestArk, Recycling Tax Credit, Tourism Tax Credit

Discretionary Incentives

- ArkPlus, Create Rebate, Training, Grant Assistance

“Eligible Business” as defined in AEDC Rules and Regulations

- A. Manufacturers classified in sectors 31-33 of the NAICS
- B. Businesses engaged in software development, digital content production, computer processing, data preparation or information retrieval services who derive at least 75% of revenue from out of state
- C. Businesses engaged in motion picture production who derive at least 75% of revenue from out of state
- D. Distribution Center that derives at least 75% of revenue from out of state
- E. Non-Retail office sector businesses that derives at least 75% of revenue from out of state
- F. A national or regional corporate headquarters
- G. Scientific and technical services business that derive 75% of sales revenue from out of state and that pay in excess of 150% of the county or state average hourly wage (whichever is less)

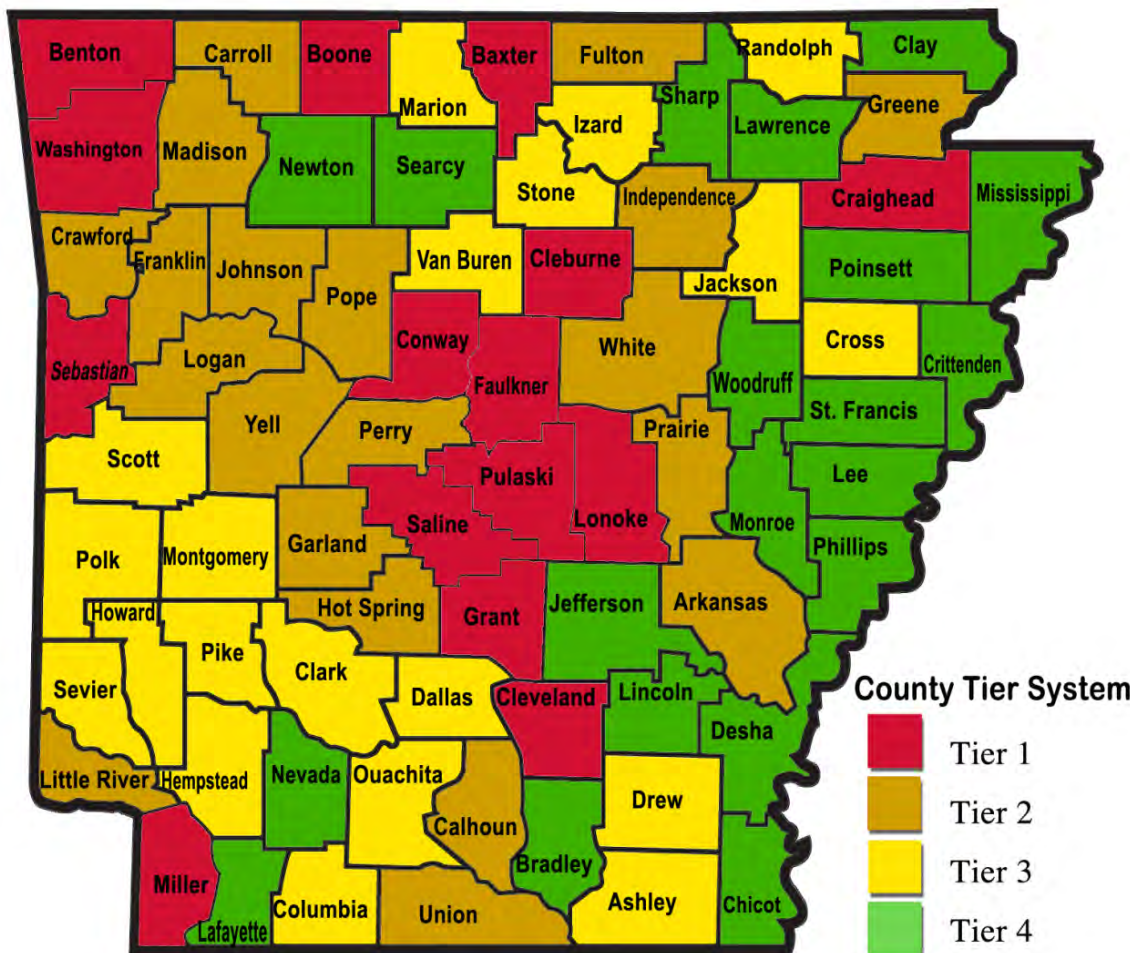
Tier System for Statutory and Discretionary Incentives

- Formerly known as entitlement areas of the State
- Counties are divided into four tiers based on:
 - Poverty Rate
 - Unemployment Rate
 - Per Capita Income
 - Population Growth
- Tiers are assigned annually based on the previous year's statistics

Incentive Eligibility



TIER MAP



Effective August 1, 2012

Statutory Incentives



Advantage Arkansas

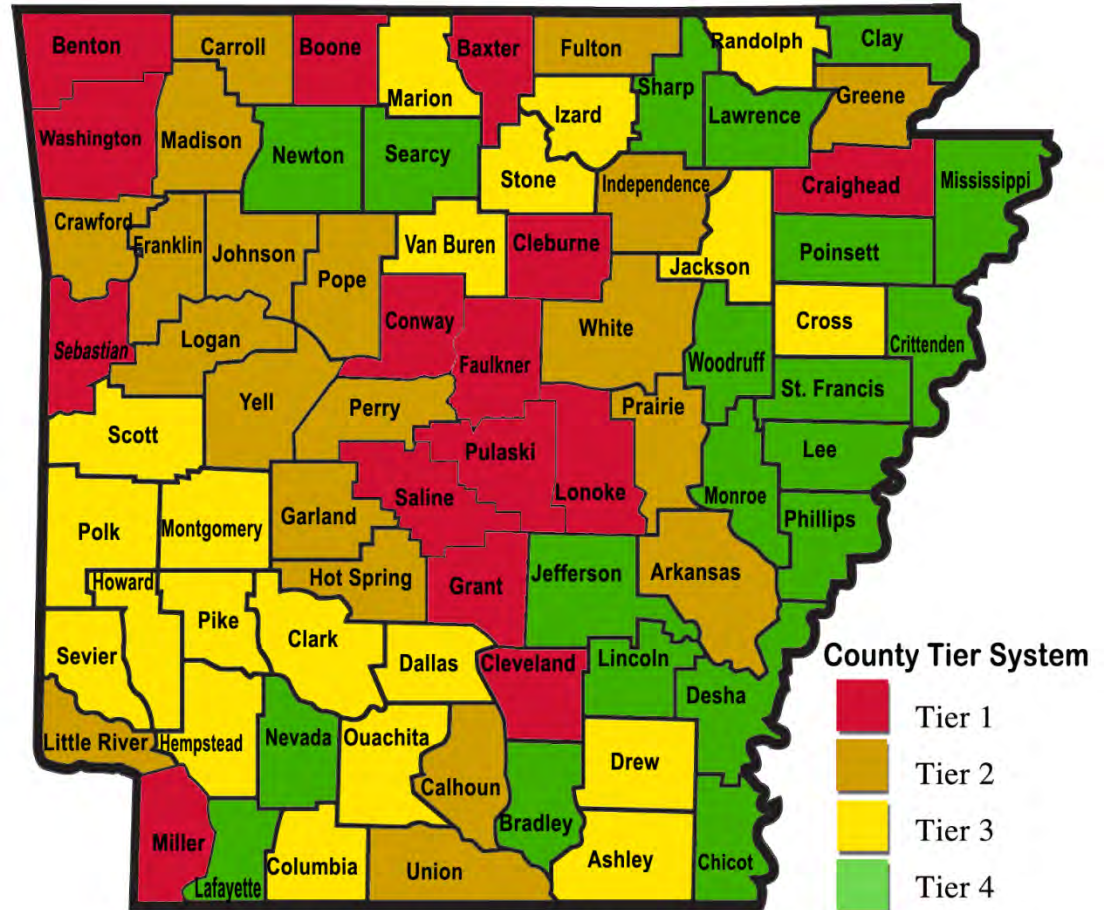
- Provides an Income Tax credit to eligible companies
- Credit is based on percentage of payroll of the new employees hired
- Payroll includes wages, overtime and bonuses (not fringe benefits)
- Percentage is based on tiers
- Credit is earned annually for a period of 5 years
- Company can offset 50% of its income tax liability
- Unused credits may be carried forward for 9 years
- The company must pay an average hourly wage equal to the lowest county average hourly wage for the preceding year - \$10.48/hr
- Can be combined with any incentives except Create Rebate, ArkPlus or Targeted R&D

Statutory Incentives



Advantage Arkansas

Tier	Payroll Threshold	Credit
1	\$125,000	1%
2	\$100,000	2%
3	\$75,000	3%
4	\$50,000	4%



Effective August 1, 2012

Statutory Incentives



Advantage Arkansas Example

- Company in a Tier 4 County will add 5 new employees at \$15.00/hr for an annual payroll increase of \$156,000.
- Based on payroll information provided by Company X the Advantage Arkansas income tax credits are calculated as follows:

<u>Year</u>	<u>Annual Payroll Increase</u>	<u>Estimated Tax Credits</u>
Year 1	\$ 156,000	\$ 6,240
Year 2	\$ 156,000	\$ 6,240
Year 3	\$ 156,000	\$ 6,240
Year 4	\$ 156,000	\$ 6,240
Year 5	\$ 156,000	\$ 6,240
	Total Estimated Benefits	\$ 31,200

Tax Back

- Provides a refund of state and local sales and use taxes paid on qualified expenditures:
 - Building materials for new construction
 - Building materials for renovation
 - Taxable machinery and equipment
- A refund shall not be authorized for:
 - Routine operating expenditures
 - Licensed motor vehicles
 - Expenditures for routine repair and maintenance that do not result in new construction or expansion

Statutory Incentives



Tax Back

- To qualify, the company must
 - Qualify for a job creation incentive
 - Invest a minimum of \$100,000 in land, building and/or equipment
- The refund will not include the sales tax dedicated to the
 - Educational Adequacy Fund (7/8%)
 - Conservation Tax Fund (1/8 %)
- Currently the state sales tax is 6%; therefore the refund of state taxes will be 5% of the eligible taxable purchases

Statutory Incentives



Tax Back

- Project Costs must be incurred within 4 years
- Company must obtain a city and/or county resolution authorizing the refund of the local sales and use taxes
- Tax Back may be combined with any other incentives EXCEPT InvestArk or ArkPlus
- Example: Siloam Springs Company investing \$1M in facility upgrades
 $\$1M \times 8\% (5+2+1) = \$80,000$ sales and use tax refund

InvestArk

- Provides a sales and use tax credit based on eligible expenditures:
 - New Construction
 - Expansion
 - Modernization
- In order to qualify, a business must:
 - Have been in continuous operation in AR for at least 2 years
 - Invest a minimum of \$5M in a project (including land, buildings and equipment)
 - Hold a direct-pay sales and use tax permit from the Arkansas Department of Finance and Administration

Statutory Incentives



InvestArk

- Credit earned is equal to $\frac{1}{2}\%$ above the state sales and use tax rate in effect at the time of the application
 - Current sales tax rate is 6%; refund is based on 6.5%
- Company can offset 50% of its sales and use tax liability in any one year
- Credits can be carried forward for 5 years
- Project costs must be incurred within 4 years
- Can be combined with any other incentive EXCEPT Tax Back
- Example: Company investing \$10M in equipment
\$10M x 6.5% = \$650,000 sales and use tax credits

Recycling Tax Credit

- Provides an income tax credit equal to 30% of the cost of purchase and installation of equipment used exclusively for reduction, reuse or recycling of solid waste material for commercial purposes
- Equipment must be used in the collection, separation, processing, modification, conversion, treatment or manufacturing of products containing:
 - At least 50% recovered materials;
 - Of which at least 10% is post-consumer waste
- ADEQ administers and determines eligibility

Statutory Incentives



Tourism

- Provides income tax credits equal to 4% of new annual payroll of employees that work at least 30 hours a week
- Provides sales tax credits based on eligible project expenditures
 - 25% credit in high unemployment counties (Arkansas, Chicot, Clay, Crittenden, Dallas, Desha and Mississippi) with minimum investment of \$500,000
 - 15% credit in low unemployment other counties with a minimum investment of \$1,000,000

Tourism

- “Tourism Attraction” includes:
 - Cultural or historical site
 - Recreational or entertainment
 - Areas of natural phenomenon or scenic beauty
 - Theme parks
 - Amusement or entertainment parks
 - Indoor or outdoor plays or music shows
 - Botanical gardens
 - Cultural or educational center

Tourism

- “Tourism Attraction” does **not** include:
 - A lodging facility unless it represents less than 60% of the total approved costs or is attached to a 75,000 ft² convention center
 - Facilities primarily devoted to the retail sale of goods
 - Movie theaters, bowling alleys, fitness centers miniature golf, go-karts, skating rinks, night clubs, retail stores, restaurants or others that are deemed to primarily serve the local community
 - Facilities owned by the State
 - Gambling attractions

Discretionary Incentives



ArkPlus

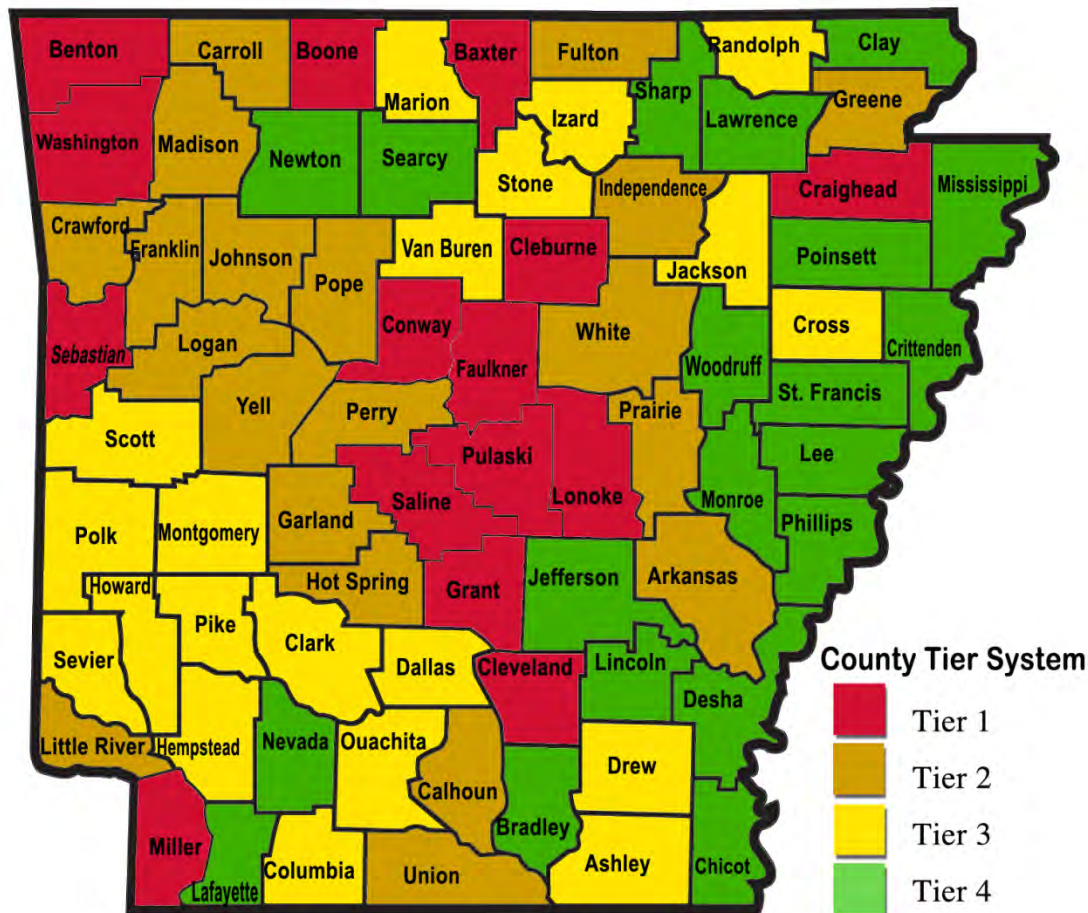
- Provides a state income tax credit equal to 10% of the total investment in the project
- Requires both a minimum payroll and minimum investment, based on tiers
- Company can offset 50% of its sales and use tax liability in any one year
- Credits can be carried forward for 9 years
- Project costs must be incurred within 4 years

Discretionary Incentives



ArkPlus

Tier	Payroll Threshold	Min. Inv.
1	\$2M	\$5M
2	\$1.5M	\$3.75M
3	\$1.2M	\$3M
4	\$800,000	\$2M



Effective August 1, 2012

Discretionary Incentives



ArkPlus

- ArkPlus can be used with any other incentives EXCEPT Advantage Arkansas, Tax Back or InvestArk
- Example: Company has decided to locate its facility in a Tier 1 county,
 - \$2M annual payroll
 - \$5M investment in land, building and equipment**\$5M x 10% = \$500,000 income tax credits**

Discretionary Incentives



Create Rebate

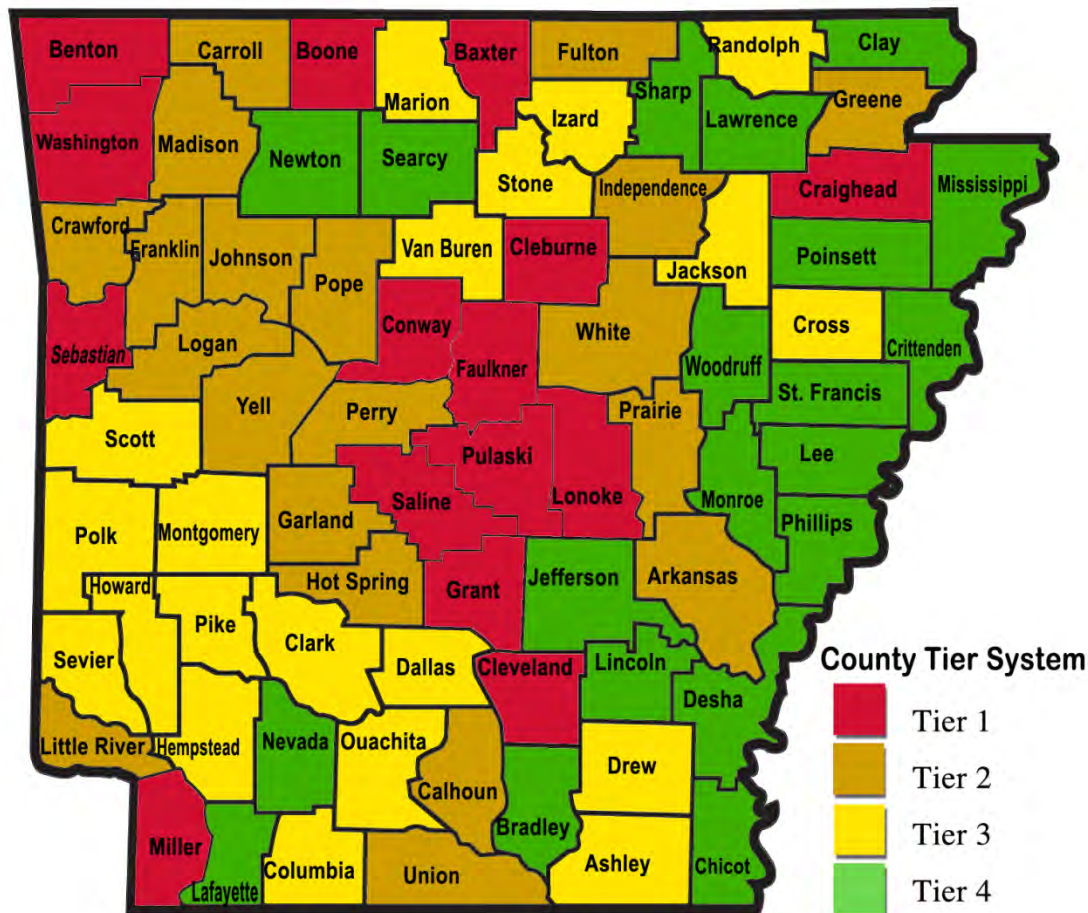
- Provides an annual cash rebate based on percentage of company's payroll for new employees
- Percentage is based on tier
- Company must create at least \$2M in new annual payroll of full-time permanent employees within 2 years
- Incentive can be offered for up to a 10 year period

Discretionary Incentives



Create Rebate

Tier	Payroll Threshold	Benefit
1	\$2M	3.9%
2	\$2M	4.25%
3	\$2M	4.5%
4	\$2M	5.0%



Effective August 1, 2012

Discretionary Incentives



Create Rebate Example

- Company is considering a site in a Tier 2 County
- Will employ 125 new employees at \$15.00/hr for an annual payroll of \$3,900,000
- AEDC is offering 3 years of Create Rebate at 4.25% benefit
- Create Rebate benefits are calculated as follows:

<u>Year</u>	<u>Annual Payroll Increase</u>	<u>Estimated Refund</u>
Year 1	\$ 3,900,000	\$ 165,750
Year 2	\$ 3,900,000	\$ 165,750
Year 3	\$ 3,900,000	\$ 165,750
	Total Estimated Benefits	\$ 497,250

Discretionary Incentives



Business and Industry Training Program

- Start-up training for new and expanding businesses and industries that commit to creating new jobs or implementing new technology
- Program includes: coordinating with educational institutions, reimbursement for eligible training expenses, recruitment advertising, training facilities

Existing Workforce Training Program

- Provides financial assistance to companies for upgrading the skills of their existing workforce
- Administered by a council which includes Higher Ed, Workforce Education and Economic Development
- Program reimburses or provides income tax credits based on trainer's hourly pay

Discretionary Incentives



Cash Grants

- Governor's Quick Action Closing Fund (GQACF)
 - Established for Governor Beebe in 2007 Session
 - Created to close competitive expansion and new projects
 - Governor's approval is always required
 - For every \$1 of GQACF committed by the state, communities have committed \$0.72
- Economic Infrastructure Fund (EIF)
 - Appropriated from state general revenue every 2 years
 - Funds can be used anywhere in the State
 - Preference is to use EIF where we can't use CDBG
 - Granted to cities and counties then reimbursed to company for qualified expenditures

Cash Grants

- Community Development Block Grant Funds (CDBG)
 - Federal funds that flow to every state
 - Entitlement cities receive CDBG funds directly and are not eligible to receive CDBG funds from the state
 - Bentonville, Conway, Fayetteville, Fort Smith, Hot Springs, Jacksonville, Jonesboro, Little Rock, North Little Rock, Pine Bluff, Rogers, Springdale, Texarkana, West Memphis
 - In general, CDBG cannot be used for a project that results in the closing of a facility in another state
 - Application process takes 60-90 days
 - 51% of new jobs must be made available to low-to-moderate income individuals

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Financing Programs



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Overview of Today's Presentation



Fixed Asset Financing Programs

- Industrial Development Bonds
- State Small Business Credit Initiative Loans
- CDBG Loan to Industry

Working Capital Financing Programs

Debt Support/Financing Programs

- State Small Business Credit Initiative Loans
- Minority Business Loan Mobilization Guaranty
- Disadvantaged Business Enterprise Guaranty

Equity Support/Financing Programs

- Equity Investment Tax Credit Program
- Risk Capital Matching Program

INDUSTRIAL DEVELOPMENT BONDS

- Finances purchase or improvement of Property, Plant & Equipment
- Long Term, Fixed-Rate, Below Market Rates
- Can be issued on tax-exempt or taxable basis
- Can be issued by ADFA or local issuer
- Can be guaranteed by AEDC and/or ADFA
- Provides access to Payment In Lieu of Tax (PILOT) Agreement
- Can only be issued for companies that qualify as Industrial Enterprise

Fixed Asset Financing Programs



State Small Business Credit Initiative Loans (SSBCI)

- Total of \$13.5 million available for eligible projects
- Program is managed by Arkansas Development Finance Authority
- Overall, loans require 10:1 match with other private funds
- Flexible pricing, repayment terms and collateral position
- Can be used with non-federal AEDC or ADFA programs
- Must be able to show how the SSBCI funds are a catalyst for the project to qualify. Open to small business only

Community Development Block Grant Loans (CDBG)

- Funded through Annual Housing and Urban Development Grant
- Program is managed by AEDC
- Loans must finance projects that show at least 51% of jobs are made available to Low-to-Moderate Income Persons
- Flexible pricing, repayment terms and collateral position
- Can be used with many other financing programs

Working Capital Financing Programs



Debt Support Financing Programs

State Small Business Financing Program

- Same General Requirements as mentioned earlier
- Funds working capital needs rather than specific fixed asset

Working Capital Financing Programs



Debt Support Financing Programs

Minority Business Loan Mobilization Program

- Can provide guaranty for loans so enterprise can finance contracts
- Goal is to help show lenders and sureties the enterprise's ability to perform and not require the guarantee for future loans
- Originally targeted to African American, American Indian, Asian American, Hispanic American, Pacific Island American, handicapped persons or certified disadvantaged business enterprise but now available to any small business
- Proceeds may be used for reasonable costs of the contract including but not limited to , inventory purchase and working capital

Working Capital Financing Programs



Debt Support Financing Programs

Disadvantaged Business Enterprise Guaranty Program

- Provides 80% guaranty for loans up to 200,000
- Purpose is to promote the development of minority enterprise in the State
- Originally applicant must be 51% owned by African American, American Indian, Asian American, Hispanic American, Pacific Island American or Service Disabled Veteran. Now open to all small business
- Proceeds may be used for repair, expansion projects, inventory purchase and working capital
- Can be matched with other small business programs

Working Capital Financing Programs



Equity Support Financing Programs

Equity Incentive Tax Credit Program

- 33 & 1/3% State tax credit to investors of eligible business
- Purpose is to help business raise money before it is “debt ready”
- Limited to Targeted Businesses and/or those that pay 150% of average wage of County or State, whichever is lower
- Designed to promote and stimulate knowledge-based and other entrepreneurial efforts
- Can be matched with other small business programs, especially Risk Capital Matching Program

Working Capital Financing Programs



Equity Support Financing Programs

Risk Capital Matching Program

- Side by side investment with private investment
- Split up into Validation Fund and Enterprise Development Fund
- Enterprise Development requires 4:1 match
- Validation Fund requires 1:9 match
- Designed to promote and stimulate knowledge-based entrepreneurial efforts
- Can be matched with other small business programs, especially Equity Incentive Program

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