Economic-incentive programs drive company expansions and relocations

Despite the economic woes of the last several years, many companies have successfully relocated or expanded their operations in North Carolina with the assistance of financial incentives. With the economy showing some signs of growth, there may never be a better time to expand operations or relocate a business in North Carolina, which was ranked No. 3 in *Site Selection* magazine's most recent ranking of the "Top Business Climates." When the magazine released its ranking for new and expansion projects in 2011, North Carolina ranked No. 4 nationally and No. 1 in the South Atlantic region. Many of these projects were made possible by economic-incentive packages offered by state- and local-government agencies. For a company looking to relocate or expand, these packages can provide hundreds of thousands or even millions of dollars in tax credits and cash grants for facility upgrades, equipment purchases and other capital expenditures.

Economic incentives are typically available at three levels in North Carolina. State incentives are primarily awarded or administered through the Department of Commerce, governor's office and Department of Revenue. Local incentives are offered by towns, cities and counties. Additional incentives are offered through public and private programs operated by other entities.

The three major state-level programs are the Job Development Investment Grant (JDIG) program, One North Carolina Fund grants and Article 3J Tax Credits. Eligibility for these programs is generally limited to projects involving one of the following types of businesses: aircraft maintenance and repair, air courier services hub, company headquarters that create at least 75 jobs, customer-service call centers, electronic shopping and mail-order houses, information technology and services, manufacturing, motorsports, research and development, warehousing and wholesale trade.

Given the economic climate over the last several years and new opportunities for growth, one eligibility question that frequently arises is whether a company that has suffered a recent reduction in workforce is eligible for economic incentives. Although the analysis is fact-specific, the short answer is generally "yes," particularly if workforce has increased to pre-reduction-in-force levels or has at least been stable during the previous 12 months.

The JDIG and the One North Carolina Fund are discretionary grant programs tied to job creation and capital investment. The JDIG program provides annual grants equal to a percentage (between 10% and 75%) of withholding taxes paid by a business for employees in newly created positions. JDIG awards are typically reserved for projects involving substantial capital expenditures or the creation of hundreds of jobs.

A One North Carolina Fund award consists of a cash grant and the grant amount must be matched by funds from a local government entity. The grant funds can be used for: installation or purchase of equipment; structural repairs, improvements or renovations of existing buildings and construction of or improvements to new or existing water, sewer, gas or electric utility distribution lines or equipment for existing buildings. For a company looking to relocate or expand, the One North Carolina program can provide valuable funds for capital improvements.

Eligibility for both the JDIG and One North Carolina program requires that the Commerce Department determines both that the company is considering undertaking the proposed relocation or expansion project in another state or country and that the grant or award is necessary to complete the project in North Carolina. The company will be required to certify it is considering other locations for the project and provide the Commerce Department with a summary of incentives offered in other potential locations. Thus, it is necessary for a business to have offers from other locales before making a final decision to move forward with a project in North Carolina.

Article 3J Tax Credits are available for the creation of new jobs or substantial investments in real or personal property as part of an expansion or relocation. The tax credits may be used to offset up to 50% of a business's state income and franchise tax liability, and unused credits may be carried forward for up to five years. The amount of credit for qualifying investments is based on the county in which the investments occur, with emphasis and enhanced tax credits available for job creation and investment in North Carolina's least prosperous areas.

In addition to the major programs detailed above, a variety of other incentive programs are targeted at addressing specific business needs. Building on the success of Research Triangle Park, a number of research and development-related incentives are available. North Carolina offers a technology-development tax credit equal to a percentage (1.25% to 3.25%) of qualified North Carolina research expenses, with an enhanced credit of 20% for expenses related to research conducted with a North Carolina university.

The North Carolina Biotechnology Center, a government-sponsored organization, offers low-interest loans to early stage North Carolina biotechnology companies. The North Carolina SBIR/STTR Phase I Incentives program provides funds that can be used to pay for the costs of preparing and submitting Phase I proposals for the federal SBIR/STTR grant programs. North Carolina also offers matching funds to small businesses that have received SBIR or STTR Phase I awards.

Other industry-specific programs include: tax credits for companies purchasing and using renewable-energy equipment, grants and tax credits for businesses engaged in the recycling business (including businesses producing marketable products from recovered materials), a 25% tax credit for film and television production companies and tax credits for companies that develop interactive digital media within the state. The industry-specific programs are further supplemented by more general programs such as tax credits for businesses that ship products using North Carolina's ports and sales- and use-tax refunds and exemptions. The Department of Transportation also administers programs which provide funds to expand and improve road and rail access to new and expanded industrial facilities.

Many city and county governments also offer economic incentives to companies relocating or expanding in their jurisdictions. These incentives typically take the form of a tax rebate, with the rebate equaling a percentage of the taxes paid on the increase in the tax value of all real property, machinery and improvements above the base year prior to investment. In situations where a business is looking to upgrade or expand its facilities or equipment substantially, this tax rebate can provide a strong incentive to go forward with upgrades. Local governments are also willing to assist businesses in obtaining improvements to rail lines, access spurs, access roads and utilities. For entities that are large consumers of water, many localities will offer special water and sewer rates. Local government grants and programs work in conjunction with various state programs.

Finally, in addition to state and local incentives, there are numerous other public and private programs to assist relocation and expansion efforts. These include, among others: special rates offered by Duke Energy Corp., Progress Energy Inc. and Piedmont Natural Gas Co.; customized worker retraining through the New and Expanding Industry Training Program offered by the N.C. Community College System; and restoration, upfitting and infrastructure grants offered by the North Carolina Rural Economic Development Center Inc. Given the number of programs available, there is almost always an incentive program to fit any relocation or expansion project.

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