



# THE GROWING ALABAMA CREDIT 2018 REPORT

Alabama Department of Commerce

## ABSTRACT

Per the ALABAMA DEPARTMENT OF REVENUE ADMINISTRATIVE CODE CHAPTER 810-17-1 ECONOMIC TAX INCENTIVES Reporting Requirements, the Alabama Department of Commerce is reporting on the Growing Alabama Credit.

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## Section I- Overview of the Economic Tax Incentive

*Section One- The purpose of the Economic Tax Incentive and shall report whether or not each Economic Tax Incentive has been successful in meeting the purpose for which it was enacted, in particular, whether each Economic Tax Incentive benefits those originally intended to be benefited, and if not, those who have benefited.*

**A description of the Tax Incentive.** The description shall include the initial statement of purpose of the Tax Incentive as provided for in the enabling legislation, the name(s) of the agency administering the Tax Incentive, a description of the Tax Incentive and how it is calculated or awarded, the history of the Tax Incentive which shall include when and under what authority the Tax Incentive was created, including any amendments to the statute and any departmental rules associated with the Tax Incentive;

The **Growing Alabama Credit** (the "Tax Incentive") was passed, as one of two incentives, through the Alabama Renewal Act. The statement of purpose in the enabling legislation for the Tax Incentive, administered by the Department of Commerce (the "State Agency"), is:

- (1) to create new programs for the growth of business and industry in Alabama; and
- (2) to create the Growing Alabama tax credit to address economic development needs in Alabama.

The Tax Incentive is an incentive to provide a source of funds for site preparation and public infrastructure needs of existing industrial sites. Approved projects are funded when Taxpayers make contributions to a local economic development organization (the "LEDO"). Taxpayers receive an income tax credit (the Tax Incentive) equal to their contributions.

The Tax Incentive is authorized under Code of Alabama § 40-18-403. The Tax Incentive became effective June 20, 2016. The Tax Incentive has not had any amendments to the statute. Departmental rules associated with the Tax Incentive are located in the Alabama Administrative Code Chapter 281-6-2.

**The goals of the Tax Incentive** and whether or not the Tax Incentive has been successful in meeting these goals. For example, if a job creation incentive includes wage thresholds for a business to qualify, a goal for the tax incentive program would be to create high-paying jobs;

The purpose of the Tax Incentive is to provide a source of funds for site preparation and public infrastructure needs of existing sites. Yes, the Tax Incentive has proven to be a successful inducement to raise funds for addressing site deficiencies in existing Alabama industrial sites.

**A description of the intended beneficiaries of the Tax Incentive**, including any tax types to which the Tax Incentive applies to or is designated. This description shall include the activities the Tax Incentive is intended to promote and the effectiveness of the Tax Incentive in promoting those activities.

The intended beneficiary of the Tax Incentive is the taxpayer ("Taxpayer") contributing to the LEDO. The Tax Incentive can be applied against the Taxpayer's income tax liability.

The Tax Incentive is intended to promote the activities found in Code of Alabama § 40-18-372. The Tax Incentive has proven to be a successful inducement of promoting such activities and addressing economic development needs in Alabama.

**Describe how and why such recipients benefit from such Tax Incentive.**

Taxpayers benefit by receiving a Tax Incentive equal to their contribution to the LEDO. The Tax Incentive is limited to offsetting up to 50% of a Taxpayer's annual income tax liability. If the Tax Incentive exceeds 50% of the Taxpayer's tax liability, the Taxpayer may carry the remaining Tax Incentive forward for up to five years.

## Section II- Impact and Benefits

*Section Two shall encompass the impact of the Economic Tax Incentive and shall report whether or not the state receives a positive return on investment, specifically the direct and indirect impact on state and local tax revenues, from the business or industry for which the Economic Tax Incentive is intended to benefit and any other economic benefits produced by such Tax Incentive. If applicable, this shall include, but is not limited to:*

The number of taxpayers applying for, qualifying for and claiming the Tax Incentive, and the Tax Incentive amounts (in dollars) claimed by taxpayers in the reporting year:

Three (3) LEDO's applied for and qualified for the Growing Alabama Credit program in 2018. \$6,619,400 of Alabama income tax credit was claimed in the 2018 reporting year.

The number of taxpayers applying for, qualifying for and claiming the Tax Incentive, and the Tax Incentive amounts (in dollars) claimed by taxpayers since the creation of the Tax Incentive, if available:

Five (5) LEDO's have applied for and qualified for the Tax Incentive since the creation of the Tax Incentive. \$6,619,400 of Alabama income tax credit has been claimed since the creation of the Tax Incentive.

The amount of Tax Incentives that could be carried forward and the length of time the Tax Incentive can be carried forward;

The amount of the Tax Incentive that can be carried forward is the amount of the Tax Incentive exceeding 50% of the Taxpayer's tax liability. This amount may be carried forward for up to five (5) years.

The amount of Tax Incentives that have been transferred, if applicable, and the amount that the credit(s) were discounted when they were transferred;

The Tax Incentive cannot be transferred.

The amount of fees and/or other transaction costs associated with the Tax Incentive, including but not limited to application fees and transferability fees;

There is no application fee associated with the Tax Incentive.

The estimated cost of administering the Tax Incentive;

The estimated cost of administering the Tax Incentive is \$23,293.

The number of direct jobs created by the Tax Incentive;

Based on information contained in LEDO applications received during the reporting year for the Growing Alabama program, it is estimated the Tax Incentive will create 1,932 direct jobs.

The timing between awarding the Tax Incentive and creation of jobs and/or investment, and the maintenance of any job creation requirement;

The timing between the award of the Tax Incentive and the LEDO completing the site preparation and public infrastructure work varies by project and is dictated by the project agreement between the LEDO and the State.

Describe any caps associated with the Tax Incentive (identify if fiscal year or calendar year) and whether or not the cap was met for each year the Tax Incentive was in existence. Include the number of taxpayers who were denied a Tax Incentive due to the cap being in place:

The Tax Incentive is capped at \$10 million per fiscal year. The cap has not been met in any year of the program. No Taxpayer has been denied the Tax Incentive due to the cap being in place.

Describe any penalties, including clawback provisions, associated with noncompliance of the Tax Incentive;

There is no clawback provision on the Tax Incentive. The State cannot clawback on the Tax Incentive granted to Taxpayers because a Taxpayer receives the Tax Incentive equal to its contribution.

Provide an estimate of the indirect economic activity stimulated by the Tax Incentive. This shall include an estimate of any tax benefits that have been sourced outside of Alabama; and

The Tax Incentive has created an estimated 1,958 indirect jobs with a total annual payroll of \$68.5 million.

Any other information necessary for the State Agency to comply with the requirements of the Act.

No.



## Section III- Economic Results

*Section Three shall encompass the economic results of each Economic Tax Incentive, taking into account the extent to which the Tax Incentive successfully changes business behavior, and the unintended or inadvertent effects, benefits, or harm caused by the Economic Tax Incentive, including whether the Economic Tax Incentive conflicts with other state laws or regulations. This shall include, but is not limited to:*

Any results the Tax Incentive has on Alabama's economy. Indicate whether or not the Tax Incentive is successfully influencing business decisions and describe how this is being determined;

Yes, the Tax Incentive has influenced business decisions to locate on industrial sites that have been remediated through the Growing Alabama program.

Any evidence that the Tax Incentive is or has changed business behavior, as opposed to rewarding businesses for what they would have done anyway;

Yes, one company chose to locate on an undesirable site in a rural county as a direct result of the remediation work done through the Tax Incentive.

How the Tax Incentive is effecting businesses beyond those that benefit directly from the Tax Incentive;

The Tax Incentive is positively affecting businesses beyond the Taxpayers that benefit directly from the Tax Incentive. The State Agency utilizes RIMS multipliers to estimate the positive effect the Tax Incentive has on surrounding businesses.

Any potential changes to the design or administration of the Tax Incentive that could lead to better results. If possible, indicate if the Tax Incentive could be made more effective through legislative changes;

The Renewal Commission of Alabama ("Commission"), which is composed of 9 members from all across the state, is required to approve the Tax Incentive. Since there is no application deadline for this program, the State Agency receives applications at various times throughout the year. A meeting of the Commission must be called soon after receiving the application due to the time sensitive nature of the program. It has been difficult to get a physical quorum since the members are from all parts of the state and the meetings generally last less than 15 minutes. Legislation allowing the Commission to meet telephonically would benefit the State Agency and the members of the Commission. Further, eliminating the cap and sunset date could be beneficial.

State whether or not the State Agency could accomplish the same purpose or goal of the existing Tax Incentive through a non-tax incentive or subsidy, such as a normal budgetary expenditure, and do it more effectively or efficiently. Explain your reasoning.

No, the State Agency could not accomplish the same goal of the Tax Incentive through a non-tax incentive or subsidy. The State Agency believes that, while a competitive tax environment is important, targeted incentives such as the Tax Incentive are the best way to achieve success for remediation of industrial sites.

Explain the methodology and assumptions of the review, analysis, and evaluation of the Tax Incentive.

For applications with job creation and investment commitments, the State Agency evaluates the return on investment (net of the Tax Incentive) prior to making a recommendation to the Renewal of Alabama Commission. Further, the State Agency assumes that remediating industrial sites through site preparation and public infrastructure work will make such sites more competitive leading to successful project locations and increased economic activity.