



# THE GROWING ALABAMA CREDIT 2019 REPORT

Alabama Department of Commerce

Pursuant to the ALABAMA DEPARTMENT OF REVENUE  
ADMINISTRATIVE CODE CHAPTER 810-17-1  
ECONOMIC TAX INCENTIVES

## 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 (Act 2016-102). 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 Growing Alabama Credit program is an incentive to Alabama income Taxpayers to make contributions to Economic Development Organizations (EDO's) for approved qualifying projects. Approved projects are funded when Taxpayers make contributions to an EDO. Taxpayers receive an income tax credit (the Tax Incentive) equal to their contributions.

Qualifying activities include:

- (1) site preparation and public infrastructure needs of existing industrial sites;
- (2) site preparation and public infrastructure for industrial or research parks;
- (3) capital improvements or economic development activities at inland ports or intermodal facilities;
- (4) marketing program to encourage STEM-trained persons to remain in Alabama;
- (5) creation, operation or support of tech accelerator programs; and
- (6) construction, maintenance, promotion, operation, management, leasing, and subleasing of an agricultural center.

The Tax Incentive is authorized under Code of Alabama § 40-18-403. The Tax Incentive became effective June 20, 2016. Departmental rules associated with the Tax Incentive are located in the Alabama Administrative Code Chapter 281-6-2.

The Tax Incentive was amended by Act 2019-392.

**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 to undertake a variety of qualifying projects to stimulate economic activity. Yes, the Tax Incentive has proven to be a successful inducement to raise funds for undertaking such activities.

**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 EDO, as well as the EDO itself. 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 and the additional qualifying activities added in the AIM Act. 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 EDO. 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:

Five (5) EDO's applied for and qualified for the Growing Alabama Credit program in 2019. \$7,513,835 was claimed in the 2019 reporting year by donating Taxpayers against Alabama income tax liability.

\*As a correction to the 2018 Growing Alabama report submitted last year, the Department of Revenue inadvertently provided an incorrect amount to the State Agency of tax claimed for the Growing Alabama Credit in 2018. The amount of credits claimed and reported on this report should have been \$0.

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:

Ten (10) EDO's have applied for and qualified for the Tax Incentive since the creation of the Tax Incentive.  
 Since the creation of the Tax Incentive, \$7,513,835 has been claimed by donating Taxpayers against Alabama income tax liability.

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 \$51,365.

The number of direct jobs created by the Tax Incentive;

Based on information contained in EDO applications received in 2019, it is estimated the Tax Incentive will create four hundred four (404) direct jobs.  
 Based on information contained in EDO applications received over the life of the program, it is estimated the Tax Incentive will create two thousand six hundred thirty (2,630) 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 EDO completing the approved activity varies by project. The credit is awarded (claimed) in the tax year the donation was made. There is no jobs creation or maintenance required.

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 was not met in FY16, FY17, or FY18. The cap was met in FY19.

No application submitted by an EDO has been denied due to the cap being in place. However, in FY19, one EDO delayed filing an application until FY20 due to the cap.

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

Since the creation of the program, the Tax Incentive has created an estimated four thousand nine hundred fifty-four (4,954) indirect jobs with a total annual payroll of \$119 million in the first year of full employment.

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 undertake approved activities to spur economic activity in Alabama. It has provided necessary funding to local economic development organizations to improve industrial sites to attract new industry to the state.

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.

TechStars, a world-class tech accelerator operator, chose Alabama to launch an EnergyTech Accelerator. This accelerator will attract startups that are building technologies and business models to enhance the future of energy. Focus areas will include smart cities, the “internet of things,” industrial electrification, connectivity and electric transportation. TechStars’ location in Alabama is a direct result of receiving funding through the Growing Alabama program.

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;

Legislation to increase the cap to \$20 million per fiscal year and extending the sunset date to September 30, 2024 would ensure that this program will continue to provide funding to local economic development organizations to develop marketable sites. With the additional eligible uses of the funds provided in Act 2019-392, the \$10 million cap (which was reached in 2019) will not be sufficient to provide funding for all of these uses.

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. 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.

EDO’s applying for the following activities must include an economic impact report with the application:

- (1) capital improvements or economic development activities at inland ports or intermodal facilities;
- (2) marketing program to encourage STEM-trained persons to remain in Alabama;
- (3) creation, operation or support of tech accelerator programs; and

(4) construction, maintenance, promotion, operation, management, leasing, and subleasing of an agricultural center.