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Comparison of Economic Development Incentives for South Carolina and North Carolina

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Business Consideration – Electricity Rates

Rates per kwh for industrial users

- **South Carolina**
  - 2012 → 5.72 ¢/kWh
  - 2013 → 5.85 ¢/kWh
  - no sales tax
- **North Carolina**
  - 2012 → 6.22 ¢/kWh
  - 2013 → 6.11 ¢/kWh
  - NC repealed sales tax on sales of electricity to manufacturers effective July 1, 2010.

Source: U.S. Energy Information Administration, Form EIA-826, Monthly Electric Sales and Revenue Report with State Distributions Report.

TAX COMPARISONS

Corporate License Fees/ Franchise Taxes

- SC Corporate License Fee:
  - $1 for each $1,000, or fraction thereof, of capital stock and paid-in or capital surplus + $15.
  - Apportioned in same ratio as income taxes.

Corporate License Fees/ Franchise Taxes

NC Franchise Tax:

- $1.50 per $1,000 of the largest of three alternative bases:
  - 1. capital stock + surplus + undivided profits (% allocable to NC)
  - 2. fifty-five percent (55%) of appraised ad valorem tax value of tangible property in NC
  - 3. (book value of NC real + tangible personal property) <u>less</u> (outstanding debt created to acquire or improve NC real property)

Income Tax Rates
(C Corps)

SC: 5%

NC: 6.9%

Note: Both the NC House and Senate Finance pending Tax Reform bills reduce the NC corporate income tax rate.

Income Tax Apportionment for Manufacturers

- States typically use one of three forms of apportionment:
- Three factor formula

$$\frac{\dfrac{\text{In-State Property}}{\text{Total Property}} + \dfrac{\text{In-State Payroll}}{\text{Total Payroll}} + \dfrac{\text{In-State Sales}}{\text{Total Sales}}}{3}$$

- Double-weighted Sales
  - Sales is counted twice
- Single Factor (Sales) → $\dfrac{\text{Sales Here}}{\text{Sales Everywhere}}$

Income Tax Apportionment for Manufacturers

- A manufacturer with property and/or payroll in a state generally prefers Single Factor of Sales.
- Manufacturers in small states like South Carolina typically sell very little in the state.

Income Tax Apportionment for Manufacturers

- South Carolina now has a single factor (Sales) apportionment, see S.C. Code §§ 12-6-2210 & -2240.
- North Carolina has a double-weighted Sales factor, NC Gen. Stat. § 105-130.4(i).

Apportioned Income

- South Carolina offers a single factor sales apportionment formula.

$$\text{Net Income Remaining After Allocation} \times \frac{\text{Value of Sales Made in SC}}{\text{Value of Sales of the Taxpayer everywhere}}$$

- Once the ratio is determined it is then applied to the corporation's total income to determine the amount of income attributed to South Carolina operations.

Corporate Income Tax Credits

- In addition to a low corporate income tax rate and a favorable formula for determining the income subject to that rate, South Carolina provides a myriad of credits that in some cases can completely eliminate a company's corporate income tax liability for up to 10, or in some cases 15, years.
- NC also has a number of similar tax credit provisions. All such credits are up for review in the current legislative session.

South Carolina Job Tax Credit

- South Carolina Code § 12-6-3360(C)(1) provides a tax credit against South Carolina income tax, bank tax, or insurance premium tax for a qualifying business creating new jobs in this state.
- Corporations, sole proprietorships, partnerships, S corporations, and limited liability companies are eligible for the credit.
- To qualify for the job tax credit, a business must:
  - Be a certain type of business, and
  - Create and maintain a required minimum number of "new, full time jobs" at the time a new facility or expansion is initially staffed.

South Carolina
Job Tax Credits

- The following types of businesses qualify for the Jobs Tax Credit.
  - Manufacturing and Processing
  - Warehousing and Distribution
  - Research and Development
  - Agribusiness Operations
  - Qualifying Technology Intensive Facilities
  - Retail Facilities and Service Related Industries in Tier IV counties

South Carolina Job Tax Credits

- The following types of businesses qualify for the Jobs Tax Credit cont'd.
  - Tourism
  - Corporate Office
  - Banks
  - Certain Retail and Service Related Businesses

South Carolina Job Tax Credit

- The value of the credit (per job, per year) depends on the county's development tier as set forth below:

COUNTY'S DEVELOPMENT TIER	
Tier I	$1,500
Tier II	$2,750
Tier III	$4,250
Tier IV	$8,000

- Multi-County Industrial Park: raises the value of the credits by $1,000 per job, per year.

South Carolina Job Tax Credit

- In general, a taxpayer must increase employment by a monthly average of 10 new, full time jobs to qualify for the credit.
- Exceptions include:
  - Tourism facilities that consist of new hotels and motels must create 20 new, full time jobs.
  - A qualifying service-related facility must create 25 to 175 new, full time jobs at a single location based upon average cash compensation.

South Carolina Small Business Job Tax Credit

- If the company is a manufacturing, processing, warehousing and distribution, research and development, agribusiness, or qualifies technology intensive facility, or a corporate office that has fewer than 99 employees worldwide, *the company could qualify for the **Small Business Jobs Tax Credit** by creating a monthly average of 2 net new jobs, instead of 10.* The amount of credits is half that of regular JTC's

South Carolina Job Tax Credit

- Amount of credit available each year for 5 years, commencing in year after job created.
- Capped at 50% of SC income tax liability.
- 15 year carry-forward.

North Carolina Article 3J Credits

- Originally the NC Article 3J Credits were very similar to the SC Job Tax Credit Act.
- The NC Act was amended to include credits for investing in real (lowest tier only) and business personal property, as well as job creation.
- The NC Act was also amended to include requirements very similar to the SC Job Development Credit Act.

North Carolina Article 3J Credits

- Credits may be combined to offset up to 50% of the taxpayer's state income and franchise liability.
- Unused credits may be carried forward for up to five years (15-year carry-forwards exist for taxpayers that invest at least $150 million over a two-year period).

North Carolina Article 3J Credits: Eligible Business Types

- Aircraft maintenance and repair
- Air courier services hub
- Company headquarters
- Customer service call centers
- Electronic shopping and mail-order houses
- Information technology and services
- Manufacturing
- Motorsports facility
- Motorsports racing team
- Research and development
- Warehousing
- Wholesale trade

North Carolina Article 3J Credits Eligibility Requirements

- The average wage of all full-time workers employed by the taxpayer at the establishment during the taxable year must meet or exceed the applicable wage standard of the county in which the establishment is located.
- The taxpayer must offer qualifying health insurance for all full-time positions at the establishment and pay at least 50% of the employee premiums.
- The taxpayer must not have received any significant environmental violations within the prior two years, or criminal penalty within the prior four years, from the N.C. Department of Environment and Natural Resources.
- The taxpayer may not have overdue taxes.

North Carolina Article 3J Credit for Creating Jobs

- Eligible taxpayers that meet a minimum threshold of new full-time jobs created during the taxable year may claim a credit for each new job created.
- The job threshold and the credit amount per job are determined by the tier designation of the county in which the jobs are created.

County Tier Designation				
1	2	3	UPZ/AGZ	
5	10	15	5	Job Threshold
$12,500	$5,000	$750	+$1,000*	Credit per Job

* If the job is filled by a resident of the zone or a long-term unemployed worker, add an additional $2,000.

North Carolina Article 3J Credit for Investing in Business Personal Property

- Eligible taxpayers may claim a credit based on a percentage of the cost of capitalized tangible personal property that is placed in service during the taxable year.
- This credit is taken in equal installments over four years.
- The credit percentage and threshold are based on the tier designation for the county where the property is placed in service.

County Tier Designation				
1	2	3	UPZ/AGZ	
$0	$1 million	$2 million	$0	Investment
7%	5%	3.5%	7%	Credit %

North Carolina Article 3J Credit for Investing in Real Property

- Eligible taxpayers that invest at least $10 million in real property within a three-year period and create at least 200 new jobs within two years at an establishment located in a Tier 1 county are allowed a credit equal to 30 percent of the eligible real property investment.
- This credit is taken in equal installments over seven years.

North Carolina County Tier Designation

- The N.C. Department of Commerce annually ranks the state's 100 counties based on economic well-being and assigns a tier designation to each.
- The 40 most distressed counties are designated as Tier 1, the next 40 are Tier 2, and the 20 least distressed are Tier 3.
- A multi-jurisdictional industrial park can qualify for the most advantageous Tier designation.

North Carolina Urban Progress Zones (UPZ) and Agrarian Growth Zones (AGZ)

- Municipalities with a population of at least 10,000 have the ability to define qualifying areas of poverty as Urban Progress Zones.
- Counties that do not have a municipality with a population of at least 10,000 have the ability to define qualifying areas of poverty as Agrarian Growth Zones.
- Projects located within these zones receive enhanced Article 3J Credits.

North Carolina Ports Enhancement Zone (PEZ)

- Ports Enhancement Zone is similar to an Urban Progress or Agrarian Growth Zone.
- Ports Enhancement Zone is applicable to tracts within 25 miles of State ports.
- Within Ports Enhancement Zone borders, job creation thresholds, business investment thresholds and credit values are calculated as a Tier One Development Area, irrespective of the Development Tier of the Zone's surrounding county.

South Carolina Investment Tax Credit

- South Carolina Code § 12-14-60 allows manufacturers locating or expanding in South Carolina a one-time credit against a company's corporate income tax of up to 2.5% of a company's investment in new production equipment.
- The actual value of the credit depends on the applicable recovery period for property under the Internal Revenue Code.
- The following table illustrates the credit value for the various years outlined in the code.

RECOVERY PERIOD	CREDIT VALUE
3 years	.5%
5 years	1%
7 years	1.5%
10 years	2%
15 years or more	2.5%

South Carolina Research & Development Tax Credit

- In order to reward companies for increasing research and development in a taxable year, South Carolina Code § 12-6-3415 provides a credit equal to 5% of the taxpayer's qualified research expenses as defined in Section 41 of the Internal Revenue Code.
- The credit taken in any one taxable year may not exceed 50% of the company's remaining tax liability after all other credits have been applied.
- Any unused portion of the credit can be carried forward for 10 years from the date of the qualified expenditure.

North Carolina Technology Development Tax Credit

- Taxpayers that have qualified North Carolina research expenses during a taxable year are allowed a credit equal to a percentage of those expenses determined in the following manner:
  - Small business (annual receipts less than $1 million): If the taxpayer is a small business as of the last day of the taxable year, the business is allowed a credit of 3.25 percent.
  - Low-tier research: For expenses for research performed in a Tier 1 county, a business is permitted a credit of 3.25 percent.
  - Eco-Industrial Park: For expenses with respect to research performed in an Eco-Industrial Park certified under N.C. § 143B-437.08, the business is allowed a credit of 35 percent.
  - Other research: For expenses not covered above, the percentages are:
    - $0 - $50 million 1.25%
    - $50 to $200 million 2.25%
    - More than $200 million 3.25%
    - A taxpayer that has North Carolina university research expenses for the taxable year is allowed a credit equal to 20 percent of those expenses.
  - TD credits may be used to offset up to 50 percent of state income or franchise after all other credits against that tax are applied. Any unused portion of the credits may be carried forward for 15 years.

South Carolina Port Tax Credit

- The SC Port Tax Credit was amended by H.3557 in 2013.
- There are now 3 ways to qualify for the tax credit.
  - (1) Existing business which increase their imports/exports through a SC port; and
  - (2) Two alternatives for new warehouse and distribution facilities.

South Carolina Port Volume Increase Tax Credit

- South Carolina Code § 12-6-3375, as amended by H.3557 (2013), provides an income tax credit or withholding tax credit to manufacturers, distributors, freight forwarders, freight handling, goods processing, cross docking and transloading that use South Carolina port facilities and increase base port cargo volume by 5% over base-year totals.
- To qualify, a company must have 75 net tons of non-containerized cargo,10 loaded TEUs or 385 cubic meters transported through a South Carolina port for their base year.
- The base year port cargo volume will be re-calculated every year after the initial base year.

South Carolina Port Volume Increase Tax Credit

- The South Carolina Coordinating Council for Economic Development has the sole discretion in determining eligibility for the credit and the amount of credit that a company may receive.
- The total amount of tax credits allowed to all qualifying companies is limited to $8 million per calendar year, which may be awarded as credits against withholding taxes or against income taxes.

South Carolina Port
New Warehouse Tax Credit

<u>Alternative 1</u>

- In addition, South Carolina provides a possible tax credit of up to $1 million to distributors that locate a new warehouse or distribution facility in South Carolina and invest at least $40 million, create at least 100 new jobs at that site, and have a minimum of 500,000 TEUs or containerized equivalent.
- The base cargo requirements do not apply to this credit.
- Withholding tax credit may be carried forward 20 succeeding taxable quarters.
- Pro-rata clawback.

South Carolina Port New Warehouse Tax Credit

Alternative 2

The Act also allows the CCED to award a Port Volume tax credit to a taxpayer which does not currently have a distribution center so long as the taxpayer:

1. Employs at least 250 jobs statewide;
2. Completes construction of the facility within 5 years of the tax credit award; and
3. Has a base year TEU of 500,000 or non-containerized equivalent.
4. Pro rata clawback.

North Carolina Ports Tax Credit

- Any customer of the N.C. Ports at Morehead City and Wilmington who is subject to payment of North Carolina income taxes can qualify for a tax credit.
- By increasing use of ports facilities, a customer – new or existing – can take a credit on income taxes due to the state.
  - The tax credit is earned on cargo wharfage and handling fees – in or out – charged by the N.C. Ports Authority.
  - The credit is the amount by which current-year fees exceed the average of the past three years.
  - The credit applies directly to income taxes due to the state – up to 50 percent of the total tax liability for each tax year.
  - Any unused credit may be carried forward for five years.
- Limitations: e.g., bulk cargo through Port of Wilmington is excluded.

Property Taxes

Basic Property Tax Calculation

South Carolina

- FMV * Assessment Ratio * Millage = 

North Carolina

- Appraised Value * Combined Tax Rate

  (per $100 of value) = 

- No assessment ratio.

Example – York County (unincorporated portion – School District 1) (350.5 mills) vs. Mecklenburg County (unincorporated portion) (0.7922 tax rate) - $10M of M&E of manufacturer in Year 1.

  - York County - $327,542
  - Mecklenburg County - $71,298

South Carolina Property Taxes

FMV of manufacturer's M&E is determined by reducing the original cost by an annual allowance for depreciation as stated in the schedule set out in SC Code §12-37-930:

Most Manufacturers:	11%
Aerospace:	15%
Apparel and Textile:	14%

South Carolina
Property Tax Exemptions

- In support of business, South Carolina completely exempts three classes of property from local property taxation:
  - All inventories (raw materials, work-in-progress, and finished goods)
  - All intangible property
  - All pollution control equipment

South Carolina 5-Year Property Tax Abatement

- By law, manufacturers and R&D facilities (investing $50,000 or more) and distribution or corporate headquarters facilities (investing $50,000 or more and creating 75 new jobs when initially staffed) are entitled to a five-year property tax abatement from county operating taxes.
- This abatement usually represents and offset of up to 20% to 50% of the total millage, depending on the county.
- The abatement does not include the school portion of the local millage.
- Municipality may also offer 5-year abatement – discretionary.

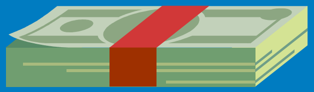
Property Tax Incentives
South Carolina

Property Tax Incentives

- FILOT – Fee in Lieu of Tax
- MCIP/MCBP – Multi-County Industrial or Business Park
- SSRCs – Special Source Revenue Credits

FILOT
South Carolina

Equation to calculate normal property tax bill:

FMV * Assessment Ratio * Millage = 

- FILOTs affect all 3 variables in property tax formula – (1) FMV; (2) AR; and (3) Millage.
- 3 FILOT Acts – Most common – Title 12, Chapter 44 of the S.C. Code of Laws (Simplified FILOT).

FILOT
South Carolina

Fair Market Value (FMV) – S.C. Code §12-44-50(A)(1)(c):

Real Property

- Outside of FILOT: Based on assessment by DOR or county assessor.
- Inside of FILOT: Traditionally, original cost over the life of the FILOT (recent legislation allows for value to be based on appraisal by SCDOR).

Machinery & Equipment (M&E)

- Generally, same outside and inside FILOT, but if in FILOT not entitled to extraordinary obsolescence.

FILOT
South Carolina

Assessment Ratio:

- Outside of FILOT
  - Manufacturing - 10.5% on both real and personal property (chiefly M&E).
  - Commercial – 10.5% on personal property and 6% on real property.

- Inside of FILOT
  - Down to 6% on both real and personal property.
  - 4% on Super Fees/Enhanced Investment FILOTs.

FILOT
South Carolina

Millage:

- Millage includes the combined millage for all taxing entities (always county and school district; occasionally a city or SPD).
- Outside of FILOT
  - Millage is set annually. Can actually go down in reassessment years but tends to increase.
- Inside of FILOT
  - Millage is fixed for the life of the FILOT or subject to 5-year rate reset.

FILOT
South Carolina

- Minimum "Project" Requirements:
  - Standard FILOT – S.C. Code §12-44-30 (14).
    - $2.5 M ($1M for certain counties or in Brownfields Voluntary Cleanup Scenarios).
  - Super Fee/Enhanced Investment FILOT – S.C. Code §12-44-30 (7).
    - $150M and 125 new full-time jobs or $400M.
  - Very broad definition of "project."

FILOT
South Carolina

- Investment Period – S.C. Code §12-44-30(13).
  - Standard FILOT – 5th anniversary of end of property tax year in which FILOT property initially placed in service.
  - Super Fee/Enhanced Investment FILOT – 8th anniversary of end of property tax year in which FILOT property initially placed in service.
  - Extensions – up to 5 more years (but NOT to reach statutory minimums).
  - 15-year investment period available for very large investors in SC.
- FILOT Term
  - Up to 30-year rolling payment period for Standard FILOTs (40-year period for Enhanced Investment FILOTs) – S.C. Code §12-44-30(21).
  - Possible extension of 10 years.
- Additional advantage – elimination of agricultural rollback taxes (if real estate is AG use).

Multi-County Industrial or Business Parks South Carolina

- Established pursuant to Article VIII, Section 13(D) of the SC Constitution and Title 4, Ch.1 of S.C. Code.
- Counties may jointly develop MCP within the geographical boundaries of one or more of the member counties.
- Area comprising the parks and all property located therein is exempt from ad valorem taxes.
- Owners or lessees of park MCP property pay an amount equal to property taxes or FILOT that would have been due and payable except for exemption.
- Why bother?

Special Source Revenue Credits
South Carolina

- MCPs facilitate taxpayer benefitting from SSRCs.
- County may use to equalize (or lower) its property tax rate with any other county or state.
- FILOT NOT a requirement for SSRCs.
- Typically, presented as a % of FILOT payment or a flat $ amount and applied against FILOT payment due for a defined period of time.
- Both real and personal property expenditures may be reimbursed.
- Examples:
  - ✓ 25% SSRC for 10 years.
  - ✓ $50,000 SSRC per year for 20 years.
  - ✓ 33% SSRC per year until SSRC cap of $250,000.

North Carolina Property Taxes

- Like South Carolina, the state of North Carolina does not impose a property tax levy.

- Also like South Carolina, there is only one assessment in each county. The value as determined by the county assessor constitutes the base for all levies, including cities.

- Property is assessed at 100% of appraised value.

North Carolina Property Taxes

- The tax rates vary from county to county and city to city.
- The weighted average county-wide tax rate for all counties for 2010-2011 was 60.3¢ per $100 of appraised valuation.
- County-wide rates for 2010-2011 ranged from 23¢ to $1.02 per $100 of appraised value.
- Cities and towns levy taxes above the county tax.
- Municipal tax rates ranged from $1.65 to 82¢ per $100 in 2010-2011, and the average rate was 38.4¢ per $100 of value.

Source: NC State and Local Taxes 2011 (NC DOR)

North Carolina
Property Taxes

- New manufacturing machinery is generally appraised at cost and depreciates annually until it reaches a minimum level, frequently 25% of cost. [South Carolina's floor is 10%]
- The annual depreciation varies but a common figure is 10% per year. [In SC, typically 11%.]
- Most counties have adopted a "trending" procedure to value M&E. Under this procedure, the M&E is valued at replacement cost each year and then depreciated according to age and expected life.

Source: NC State and Local Taxes 2011 (NC DOR)

North Carolina
Property Taxes

- Trending and depreciation tables are published annually by the State of North Carolina.
- The historic installed cost of equipment is “trended” to current reproduction cost using trend data derived from the Bureau of Labor Statistics Annual producer price index studies.
- The trended cost is then depreciated, generally using depreciation tables developed by the IRS about 30 years ago.

North Carolina Property Tax Exemptions

Manufacturer's Exemptions

- Excluded from property taxation are manufacturer's inventories (new materials, goods in process, finished goods), N.C.G.S. §105-275(33).
- Property used to reduce air or water pollution is exempt.
- Personal property used exclusively for the prevention or reduction of dust in textile mills is exempt.

North Carolina Property Tax Incentives

- Very general authority under N.C.G.S. §158-7.1.
  - Subsection (a) gives broad general authority for cash grants.
  - Subsection (b) gives more defined authority for real estate incentives (e.g. free land, reduced cost leases, etc.).
  - Applies to counties and municipalities.
  - No statutory investment or job creation requirements though typically jurisdictions develop and use guidelines.
- Subsection (a) cash grants can be in undefined amounts and for an undefined number of years, subject to negotiation.

North Carolina Property Tax Incentives

- Extraordinarily broad authority.
- Grants can be up-front (normally with clawback provisions) or over time (normally with reduction provisions or both).
- Can be in amounts in excess of anticipated property tax collections; but normally limited to some percentage of anticipated property collections.
  - Up to 80% is frequent, but many will do less.
  - Loosely based on needs of local government.
- Can be for a varying number of years; but normally no more than eight to ten years.
  - Three projects have gone over ten years of incentives (15, 20, 30).
  - Upfront incentives are calculated as being recovered in a certain number of years.

North Carolina Property Tax Incentives

- Not referred to as tax abatements or rebates which are constitutionally prohibited in NC.
- In agreements may be denominated in cash amounts, certain percentages of property taxes paid, or certain percentages of property tax base valuation.
- Can be granted without a public notice and public hearing, but almost always done.

North Carolina Property Tax Incentives

- Subsection (b) gives authority to local governments to utilize real estate as an incentive.
  - Free or reduced cost land
  - Free or shared site preparation
  - Below market rate leases
  - Build to suit and leasebacks
- Allows for negotiated sales; not subject to bidding.
- Must be preceded by 10 day public notice and public hearing.
- Must recover value of incentive within ten years taking into account all taxes and revenues generated by the company.
- Very specific findings of government board required.
- Free or reduced cost land upfront has become common.
- More and more local governments are doing subsidized leases.
- Financing acquisition of property (GS 160A-20 Installment Financing).

Sales Taxes

South Carolina Sales Taxes

- Sales and Use Tax
  - The sales and use tax rate in South Carolina is 6%.
  - Some counties assess a local option sales tax and/or a capital project sales tax, which currently range from 1 to 2.5%.

Sales Tax Exemptions for Manufacturers in SC

- Sales Tax Exemptions
  - South Carolina supports new and expanding industry with a wide range of valuable exemptions to the sales tax (state and local). These exemptions, found in SC Code § 12-36-120, include the following:
    - Machinery and equipment, and applicable repair parts, used in the production of tangible goods.
    - Materials that will become an integral part of the finished product.
    - Coal, coke, or other fuel for manufacturers, transportation companies, electric power companies, and processors.
    - Industrial electricity and other fuels used in manufacturing tangible personal property.
    - Research and development machinery and equipment.
    - Air, water and noise pollution control equipment.
    - Material handling equipment for manufacturing or distribution projects investing $35 million or more in the state.
    - Packaging material.
    - Long distance telephone calls and access charges, including 800 services.
    - Construction materials used in the construction of a single manufacturing or distribution facility with a capital investment of at least $100 million in an 18 month period.

North Carolina
Sales Taxes

- North Carolina levies a general sales and use tax of 4.75% (decreased from 5.75% effective July 1, 2011,) and a local sales tax rate of 2% in all 100 counties.
- 19 counties (and counting) have an additional .25% tax.
- Mecklenburg county levies an additional .5% local tax for public transportation.

Source: State and Local Taxes 2011 (NC DOR)

Sales Tax Exemptions for Manufacturers in NC

- Manufacturing exemptions:
  - Mill machinery, mill machinery parts or accessories, and specialized equipment used to unload or process bulk cargo are exempt from sales and use tax, but are subject to a privilege tax.
  - This rate is one percent with a maximum of $80 per article. N.C. § 105-187.51D.
  - Purchases of ingredients or component parts of a manufactured product that becomes an ingredient or component part of tangible personal property that is manufactured are exempt from sales and use tax. N.C. § 105-164.13(8).
  - Packaging items that constitute a part of the sale at wholesale or retail and are delivered with the product to the customer are exempt from sales and use tax. N.C. § 105-164.13(23).
  - Fuel and electricity sold to a manufacturer for use in connection with the operation of a manufacturing facility are exempt from sales and use tax. N.C. § 105-164.13(57).
  - Fuel purchased by a manufacturer for use in connection with the operation of a manufacturing facility is not subject to the privilege tax. N.C. § 105-187.51A.

Sales Tax Exemptions for Construction Materials

- South Carolina
  - Exempt for the construction of manufacturing, warehouse or distribution center if the Cap X is $100M in 18 months.
- North Carolina
  - Certain industries may receive refund if Cap X thresholds are met. The thresholds vary by county and are either $50M or $100M. The qualifying industries are air courier services; aircraft manufacturing, bioprocessing, financial services, motor vehicle manufacturing, paper from pulp manufacturing, pharma manufacturing, semiconductor manufacturing, solar energy manufacturing, and turbine manufacturing.

Sales Tax Exemptions: Datacenters in South Carolina

- Datacenters locating or expanding in South Carolina may be exempt from some sales and use taxes when the new or expanding facility meets certain investment and job creation requirements.
- To qualify under S.C. Code § 12-36-2120(79) a company must:
  - Be certified by the SC Department of Commerce as a qualifying datacenter.
  - Invest at least $50 million (or a combined $75 million with one or more other companies) in real or personal property at a single facility over a five year period.
  - Create at least 25 new jobs within a five year period with an average wage that is at least 150% of the state or county per capita wage, whichever is lower.
  - Maintain the 25 jobs for at least 3 years.
- The items that may be exempt from sales and use tax are: computer equipment, software and electricity directly used in datacenter operations.

Sales Tax Exemptions: Datacenters in North Carolina

- Sales of machinery and equipment to be located and used in an eligible data center are exempt from sales and use tax, but are subject to a privilege tax.
- A minimum capital investment of $150 million for a facility located in a Tier 1 county, or a minimum investment of $225 million in a Tier 2 or Tier 3 county, is required.
- Wage standard and health insurance requirements per N.C. § 105-129.83 are certified.
- Sales of electricity are exempt from sales and use tax.
  - The Secretary of Commerce must make a written determination that at least $250 million in private funds has been or will be invested in real property and/or eligible business property within five years after the commencement of construction of the facility.
- Sales of computer software are exempt from sales and use tax.

Sales Tax Caps

- South Carolina Code § 12-6-2110 provides a $300 maximum sales tax cap on the sale or lease of aircraft, motor vehicles, motorcycles, boats, recreational vehicles and other items.
- North Carolina
  - **Special Exemptions**: Motor vehicles are exempt from sales and use tax, but are subject to the highway use tax. Highway use tax is three percent of the retail value of the motor vehicle titled in the state, with the exceptions of a maximum tax of $1,500 per vehicle for recreational vehicles and $1,000 maximum tax for Class A or Class B motor vehicles. N.C. § 105-187.3
  - **Discounts**: Aircraft and boats are taxed at three percent to a maximum of $1,500 per item. N.C. § 105-164.4(1b)

Hard Dollars

Cash Grants/Credits

SC:

- DOC Grants (Deal Closing, Set Aside, Rural Infrastructure Fund)
- Job Development Credits (JDC)

NC:

- City/County BIP Grant
- One NC Fund
- Job Development Investment Grant (JDIG)
- Industrial Development Fund

SC Deal Closing Fund

- Section 12-28-2910 provides that eligible expenditures include water and sewer projects, road or rail construction and improvement projects, land acquisition, fiber-optic cable, relocation of new employees, pollution-control equipment, environmental testing and related due diligence reports, acquiring and improving real property, and site preparation.
- Site preparation is defined as surveying, environmental and geotechnical study and mitigation, clearing, filing, and grading.
- Relocation expenses constitute eligible expenditures only for those employees to whom the company is paying gross wages at least two times the lower of the per capita income for either the State or the county in which the project is located.

South Carolina Job Development Credit

- To be eligible a company must:
  - Meet the requirements of a manufacturing and processing, corporate office, warehouse and distribution, research and development, agribusiness, tourism, or qualified service-related facility as required for the Jobs Tax Credit
  - Create at least 10 new, full-time jobs
  - Provide full-time employees with a benefits package that includes a comprehensive health plan and pay at least 5% of an eligible employee's cost of health plan premiums
- The Coordinating Council will generally only allow companies to collect credits for 10 years, and only on new full-time jobs with wages at or above the current county average wage.

South Carolina Job Development Credit

- State employee withholding taxes used to reimburse company for eligible project costs.
- Amount dependent upon number of jobs, wage levels and development level of county; approval required.
- 5 years to reach job creation/investment goals.
- Payable quarterly over 10 years commencing with initial draw.

BIP Program

- North Carolina
  - Charlotte-Mecklenburg Business Investment Program (BIP):
    - Company potentially eligible for a grant equal to 90% of new property taxes for first 3 years

One North Carolina Fund

- One NC Fund Grant
  - Pays in installments as equivalent proportion of jobs created.
  - Local government match required – satisfied by county BIP Grant.
  - May use for M&E, building improvements and infrastructure.

One North Carolina Fund

- The One North Carolina Fund consists of nonrecurring appropriations made available to the governor as a flexible and discretionary tool allowing North Carolina to respond quickly to enable job creation and/or retention for projects competitive with other locations.
- Awards are based on jobs created, economic impact of the project, the importance of the project to the state, quality of industry and environmental impact.
- Awards are allocated to local units of government as part of a negotiated challenge grant.
- Local governments are required to match the One North Carolina award with cash, fee waivers, in-kind services, donations of land, buildings or other assets or provisions of infrastructure.
- For a company to be considered for a grant, the company must agree to meet or exceed 100 percent of the average county wage. Funds allocated through One North Carolina are used for:
  - Installing or purchasing equipment
  - Structural repairs, improvements or renovations of existing buildings to be used for expansion
  - Construction of or improvements to new or existing water, sewer, gas or electric utility distribution lines
  - Normally used for projects with lower employment numbers
  - Some very large projects can get JDIG and One North Carolina Fund Grants

Job Development Investment Grant (JDIG)

- A discretionary incentive program that provides a limited number of cash grants directly to new and expanding businesses that will:
  - provide economic benefits to the state
  - are competitive with other locations
  - need the grant to carry out the project in North Carolina.
- Grant funds are disbursed annually to approved companies based on a percentage of withholding taxes paid by new employees.
- A five member Economic Investment Committee (EIC) evaluates the projects and makes decisions regarding JDIC awards, funding levels, grant periods and other terms of the grants.
- The EIC is authorized to award grants to be disbursed annually for a period of up to 12 years, ranging from 10 to 75 percent of the withholdings associated with eligible positions created by a company over a specified period of time.
- The JDIG program is subject to a legislative cap on grants made by the EIC in a given year, based on the cumulative financial impact of those grants in any future grant year.
- Up to 25 grants can be made annually.
- The maximum amount of total liability for grants provided for in agreements entered into in any single calendar year may not exceed $15 million.
- The amount of a grant associated with any specific position may not exceed $6,500 in any year.
- Reserved for projects with high employment numbers.

Incentives — Industrial Development Fund

- The Industrial Development Fund (IDF) provides grants and loans for infrastructure development in the counties designated as Tier 1 or Tier 2 under G.S. 143B-437.08. Eligible units of local government may apply for the funds in conjunction with a company that commits to create new jobs or retain existing jobs in North Carolina.
- To qualify, companies must meet the same eligibility requirements as those outlined in the Article 3J Tax Credits for Growing Businesses.
- **Funding Level and Use**
  - Funding is based on the availability of monies and the merits of a project.
  - IDF grants and loans for any one project cannot exceed a total of $10,000 per new job created or current job retained, up to a maximum of $500,000 per project.
  - Grants may be awarded to local governments for infrastructure improvements that are publicly owned and maintained, including construction or improvement of water, sewer, gas, rail and electrical utility systems.
  - Loans with a four-percent fixed interest rate may be awarded to the project business, through the unit of local government applicant, for investments in privately owned or maintained assets, such as the purchase of machinery and equipment or building renovations. IDF loan funds may not be used to acquire land or buildings or to construct new buildings.
  - All IDF loans must be made in participation with a North Carolina bank that originates 50 percent of the loan and shares equal risk and collateral with the unit of local government.
- **Match Requirements**
  - In the 25 most distressed counties, there is no local match requirement. Federal or state grant funds may not be used to meet the local match requirement, with the exception of funds granted through the N.C. Rural Economic Development Center.
- **Utility Account**
  - Units of local government in the 80 most distressed counties may apply for utility account funding.
  - Most requirements of the utility account are the same as the IDF.
  - However, as there is no job commitment requirement, it is not necessary to apply for the funds in conjunction with a company. The applicant must demonstrate the project is expected to lead to job creation in eligible industries in the near future.

NEXT CHALLENGE. NEXT LEVEL.

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