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## *Inside New York tax reform: Understanding the impact on New York City credits and incentives*

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### *In brief*

Enacted on March 31, 2014, New York State's FY14-15 budget enhanced the landscape of tax credit and incentive programs available to businesses undertaking certain activities in New York City. Many of these programs provide above the line or cash benefits to eligible taxpayers. Additionally, many of the tax credits and incentives, including the Relocation and Employment Assistance Program (REAP) and Lower Manhattan Relocation and Employment Program (LM-REAP) were retroactively renewed, thus providing companies the opportunity to obtain benefits for activities they have already begun undertaking, or in some instances even completed.

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### *In detail*

#### ***Relocation and Employment Assistance (REAP) Credit***

REAP provides New York City business tax credits to taxpayers that relocate jobs from outside of New York City, or below 96<sup>th</sup> Street in Manhattan, to a qualified premises in one of New York City's outer boroughs or above 96<sup>th</sup> Street in Manhattan. As long as 1 employee is relocated and transferred to an eligible premises, the credit is available for any new jobs created at that premises as well as any jobs that are subsequently transferred to that premises. Hotel and retail operations are not eligible for the credit. Qualified taxpayers may receive a credit up to \$3,000 per eligible employee

per year for twelve years, which can total \$36,000 per employee. The credit is refundable as cash for the first five years, including the year of relocation.

The program had expired on June 30, 2013. Pursuant to the New York State budget, REAP was retroactively renewed to include all activity since June 30, 2013, and extended to include applications filed through June 30, 2015.

#### ***Lower Manhattan Relocation and Employment Assistance (LM-REAP) Credit***

LM-REAP provides New York City business tax credits to taxpayers that relocate jobs from outside of New York City to a qualified premises in Lower

Manhattan. The relocation requirements vary depending on whether the taxpayer had any employees within New York City prior to the date of relocation. Hotel and retail operations are not eligible for the credit. Qualified taxpayers may receive a credit up to \$3,000 per eligible employee per year for twelve years, which can total \$36,000 per employee. The credit is refundable as cash for the first five years, including the year of relocation.

The program had expired on June 30, 2013. Pursuant to the New York State budget, LM-REAP was retroactively renewed to include all activity since June 30, 2013, and extended to include applications filed through June 30, 2015.

### ***Industrial and Commercial Abatement Program (ICAP)***

ICAP provides a property tax abatement for newly built or renovated industrial and commercial buildings located anywhere in New York City, except in certain areas of Manhattan. To qualify, applicants must make capital improvements equal to at least 30% of the property's taxable assessed value in the year of issuance of the building permit or, if no permit is required, the start of construction within four years. The benefit period ranges from eight to twenty-five years depending on the location of the project and the type of work being performed. The abatement received for properties with retail space may be limited depending on the percentage of retail space. The preliminary application must be filed prior to issuance of a building permit, or if no permit is required, prior to the start of construction.

The program's expiration date was extended from March 1, 2015, to March 1, 2017.

### ***Lower Manhattan Commercial Revitalization Program (LMCRP)***

LMCRP provides qualified industrial and commercial tenants located in the eligible Lower Manhattan area with a property tax abatement for either three or five years depending on the term of the lease. The benefit is equal to the lesser of the property tax liability or \$2.50 per square foot with a one-third decrease in the last two years of benefit. An application must be filed with the New York City Department of Finance within 180 days of lease commencement. A taxpayer may receive both LMCRT and LMCRP benefits.

The program eligibility period was extended to include leases commencing on or before March 31, 2016 (originally on or before March 31, 2014).

### ***Lower Manhattan Commercial Rent Tax Special Reduction (LMCRT)***

LMCRT provides eligible tenants located in a non-residential building south of Canal Street with a five-year commercial rent tax reduction. The annual benefit is equal to the base rent paid in year one or the base rent for the year in question, whichever is less. An application must be filed with the New York City Department of Finance within 180 days of rent commencement or sixty days from the date the budget act became law, whichever is later. Previously, applications for tenants in a non-government owned building were required to be filed within 180 days of lease commencement.

The program had expired on June 30, 2013, and was retroactively extended by the New York State budget to include leases commencing July 1, 2005, through June 30, 2015.

### ***Commercial Expansion Program (CEP)***

CEP provides qualified industrial/manufacturing and commercial tenants located in eligible Manhattan areas north of 96<sup>th</sup> Street and anywhere in the other four boroughs with a property tax abatement for either three or five years depending on the term of the lease. The benefit is equal to the lesser of the property tax liability or \$2.50 per square foot with a one-third decrease in the last two years of benefit for commercial properties. For manufacturing facilities with a lease term of at least five years, the benefit is equal to the lesser of the property tax liability or \$2.50 per square foot for all five benefit years. An application must be filed with the New York City Department of Finance within 180 days of lease commencement.

The New York State budget extended the program's eligibility period to include leases commencing on or before June 30, 2016 (previously on or before June 30, 2014)

### ***Lower Manhattan Sales & Use Tax Exemption (LMSTE)***

LMSTE provides eligible taxpayers signing a lease, with a minimum term of ten years, in one of two eligible areas in Lower Manhattan locations an exemption from New York State and New York City sales and use taxes on qualified purchases at the project site. Eligible Area A is generally defined as south of Murray Street between South and West Streets and provides an exemption for build-out costs at the eligible property. Eligible Area B includes the World Trade Center site, the World Financial Center and Battery Park City and provides an exemption for office furniture, equipment, and build-out costs at the eligible premises. The exemption is available for eligible purchases made and uses occurring during the first year of the eligible lease, with property delivered and services rendered within ninety days of the first year of the lease.

The incentive for Eligible Area A was retroactively extended by the New York State budget to include leases commencing no later than September 1, 2015 (previously September 1, 2013). The exemption for Eligible Area B was extended to include leases commencing no later than September 1, 2017 (previously September 1, 2015)

### ***Lower Manhattan Energy Program (LMEP)***

LMEP provides property owners and commercial tenants in eligible Lower Manhattan buildings up to a 45% reduction in electricity transportation and delivery costs for up to twelve years. The application must be submitted to New York City Department of Small Business

Services prior to issuance of the building permit for renovation, or prior to execution of the Inducement Resolution for IDA applicants.

The New York State budget extended the program's expiration date from June 30, 2013 to June 30, 2015.

### ***Energy Cost Savings Program (ECSP)***

The ECSP reduces energy costs for eligible manufacturing and commercial businesses that relocate to and make improvements to property in, or lease previously improved buildings in Manhattan above 96<sup>th</sup> Street or anywhere in the other four boroughs. The benefit can reduce regulated energy costs up to 45% and regulated natural gas costs up to 35% for eligible businesses for twelve years. The deadline for filing the

application with New York City Department of Small Business Services varies depending on the applicant's basis for qualification.

The New York State budget extended the program's expiration date from June 30, 2013 to June 30, 2015.

### ***Additional New York Budget resources***

- [New York tax reform enacted](#) (April 2, 2014)
- [Inside New York tax reform: Understanding the impact on asset management companies](#) (April 10, 2014)
- [Inside New York tax reform: Understanding the impact on state tax credits](#) (April 14, 2014)

- [Inside New York tax reform: Understanding the impact on manufacturers](#) (May 7, 2014)
- [Inside New York tax reform: Understanding the new unitary combination provisions](#) (May 22, 2014)

### ***The takeaway***

The broad extension of New York City tax credit and incentive programs in the FY 14-15 budget as adopted provides eligible New York City businesses with the opportunity to obtain benefits - both retroactively and prospectively - for past, present, and future business activities.

## ***Let's talk***

If you have any questions regarding New York City incentive programs, please contact:

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