State & Local
Implications of Proposed Federal Tax Reform
Tax Incentives & Local Grants

Yair Zorea, Tax Partner, PwC Israel
Yonatan Kaplan, Tax Manager, PwC Israel

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Agenda

Implications of Proposed Federal Tax Reform

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2. Federal Conformity
3. Federal & State Interplay

Tax Incentives & Local Grants

1. Research & Development Credit - General
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4. Florida
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Implications of Proposed Federal Tax Reform

General Overview

- Diverse and wide-rang of state tax implications
- Each State can choose whether and/or how to conform to Federal
- State taxes may be significantly affected, *inter-alia*, by:
  1. Deemed repatriation toll charge
  2. Full expensing of certain property
  3. Interest expense limitations

Implications of Proposed Federal Tax Reform

Federal Conformity

- State legislators may act quickly in early 2018 to analyze and consider decoupling from certain federal changes
- Some states may have enhanced barriers to enact tax legislation
- Expect further delays and conformity complications

Implications of Proposed Federal Tax Reform

Federal & State Interplay

Proposal	Tax Cuts and Jobs Act	New State Tax Reform	Current State Law
Corporate tax Rates	20% Rate	This election may have numerous state tax consequences	Various corporate state income tax rates
Cost recovery (Depreciation)	100% full expensing for investments made after Sept. 27, 2017 and before January 1, 2023	• Nonconformity from such states is expected to continue • States would need to act quickly to conform	Many states already decouple from or modify Section 168(k), such as AZ, CA, CT, GA, IL, MD, MN, NY & NC. Current conforming states are CO, DE, LA, MT & NM
Business interest expense	Limit for thin capitalization to 30% of adjusted taxable income. Disallowed amounts may be carried forward five years.	• Could cause complexity for state income tax purposes since states may not adopt the five-year carryover period, apportion the carryover, and/or impose other limitations • Combined (consolidated)/non Combined tax returns	Currently there are no unique state restriction / adjustment in connection with interest expense

Implications of Proposed Federal Tax Reform

Federal & State Interplay – Cont.

Proposal	Tax Cuts and Jobs Act	New State Reform	Current State Law
Anti-base erosion	• Subpart F generally maintained; • New tax on "foreign high returns". • New 20% excise tax on certain outbound payments to related foreign corporations • Elect to treat specific amount as ECI in lieu of excise tax imposed on the payor	• Depends in part on whether the relevant state automatically conforms or subsequently adopts revisions • A state without rolling conformity may need to act quickly to conform if it intends to benefit from this provision • States also would have to address whether to adopt the eight-year tax payment period	Many states provide some level of deduction for domestic and foreign dividends (including Subpart F income) in computing taxable income such as AZ, CA, CT, FL, GA, IL, MA, NY, NC & PA
Net Operating loss (NOL) limitation	Eliminates net operating loss carrybacks and limits carryforwards to 90 percent of taxable income	Any further inconsistency in NOL rules between federal and state would lead to additional complexity	• Most state NOL rules already differ from Federal rules • Various carryback / carryforward state limitations

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Research and Development Credit - General

Overview:

- Many states adopt rules that are similar to the Federal R&D tax credit rules

California	Kentucky	New Jersey	Rhode Island
Georgia	Louisiana	New Mexico	South Carolina
Hawaii	Maine	New York	Utah
Idaho	Massachusetts	North Carolina	Vermont
Illinois	Minnesota	North Dakota	Virginia
Indiana	Mississippi	Ohio	West Virginia
Iowa	Nebraska	Oregon	Wisconsin
Kansas	New Hampshire	Pennsylvania	

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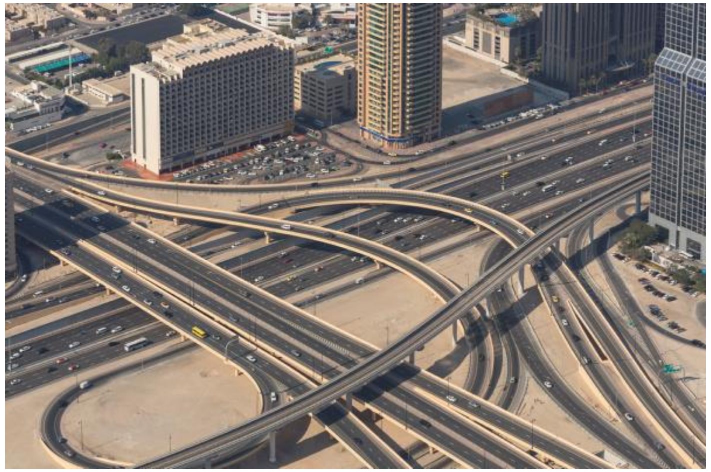
California Competes Credit



Purpose:

- Income tax credit
- Not limited to certain industry or activity
- Targets are companies that are based in CA that intend to expand or out-of-state companies that intend to relocate to CA
- Awarded based on subjective tests and competitive application process
- Online application required
- Upcoming application periods: ***January 1 - 22, 2018; March 5 - 26, 2018***

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California Competes Credit - Cont.

Eligibility:

- prospects for future growth and expansion of the company in California (new jobs)
- investment in the state by the business
- economic impact and strategic importance of the business to the state/region/locality
- other incentives available to the company
- amount of compensation and types of benefits provided to employees
- location of the business within California (i.e. zone/county)

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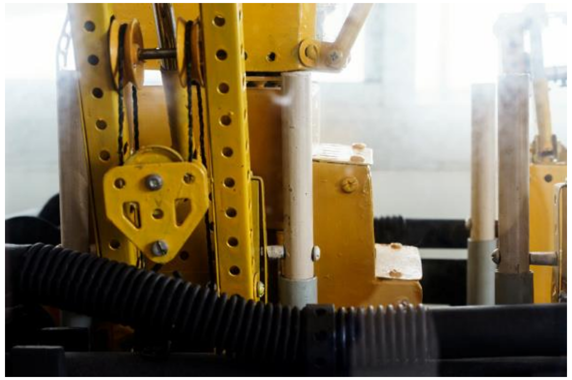
California Sales and Use tax exemption for Manufacturing and R&D equipment

- Need to be engaged in certain types of qualified businesses
- Purchase "qualified property" and use that qualified property for the "uses" allowed by the law
- Partial exemption rate is currently appx. 4%
- The partial exemption provides that sales of the qualifying property sold to a qualified person be taxed at a rate of appx. 3.3% plus any applicable district taxes
- ***Claim up to 4 years of partial sales tax exemption (get your $$$ back…)***



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New York – Emerging Technology Employment Tax Credit

- Income Tax Credit
- Encourage job creation in qualified emerging technology companies
- Product sales of $10 million dollars or less and meets other criteria

- Credit: $1,000 per additional full time employee
- Capital Tax Credit may apply to investors
- Capital Tax Credit up to $150,000 for four year investments and $300,000 for nine year investments

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Florida - Qualified Target Industry (QTI) Tax Refund

<u>Purpose:</u>

- Encourage quality job growth in targeted high value-added businesses
- Refund can be applied against sales tax and income tax
- Cap of $5 million per single qualified applicant
- Limit of 25% each year of the total refund approved

Tax Incentives & Local Grants

Florida - Qualified Target Industry (QTI) Tax Refund – Cont.

<u>Eligibility:</u>

- Be in a target industry –
  - *Life sciences*
  - *Infotech*
  - *Cleantech*
  - *Aviation/Aerospace*
  - *Homeland Security*
  - *Financial Professional Services*
- Create at least 10 net new full-time equivalent Florida jobs
- Salary levels is at least 115% of the state average wages
- Demonstrate that the jobs make a significant economic contribution

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Georgia - New Jobs Tax Credit

Purpose:

- Encourage quality job growth in targeted Tier or special zone
- Tax credits are applied only to State income taxes
- Tax credit of $750 to $4,000 per job per year
- First five years of each qualifying job that is created

Eligibility:

- Jobs must be net new jobs to Georgia
- Project must create the required minimum number
- Jobs must be full-time
- Jobs must pay more than the average wage of the county
- New employees must be offered health insurance benefits

Tax Incentives & Local Grants

Georgia - Quality Jobs tax Credit

Purpose:

- Encourage quality job growth in targeted Tier or special zone
- Tax credits are applied only to Georgia income taxes
- Tax credit of $2,500 to $5,000 per job per year
- Depends on new employees wages compared to the average wage
- Credits may be carried forward for 10 years

Eligibility:

- Jobs must be net new jobs to Georgia
- Project must create at least 50 qualifying jobs during a 24-month period
- Jobs must pay more than the average wage of the county

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Massachusetts – Economic Development Incentive Program Credit (EPIDC)

Purpose:

- Stimulate job creation in distressed areas
- Attract new businesses and encourage business expansion
- Increase overall economic development in Massachusetts
- Credit amount is up to 10% of the cost of qualifying property

Eligibility:

- Have a business designated as a certified project
  - "Qualified tangible properties"
  - Must have been acquired, constructed, reconstructed or erected
  - Must be a depreciable property with at lease a useful life of 4 years
  - Real estate cannot be purchased from closely-related parties
- Or a certified job creation project - Credit amount awarded is based on each job created

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Massachusetts – Employer Wellness Program Credit (EWPC)

<u>Purpose:</u>

- Opportunity to implement wellness programs (health coaching, dietary improvements, nicotine replacement therapy, gym membership, etc.)
- businesses with 200 or fewer employees
- Credit is equal to 25% of associated costs
- Can claim no more then $10K per year

<u>Eligibility:</u>

- Provide wellness program proposal
- Provide estimated budget

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New Jersey – Angel Investor Tax Credit

- Encourage Emerging Technology business investment in New Jersey
- Refundable Credit
- Available to individuals/companies
- Eligible tax credits in the amount of 10% of each qualified investment up to $500,000
- Must have fewer than 225 Employees, at least 75% of employees work in New Jersey
- Qualified research, pilot scale manufacturing or conducts technology commercialization in New Jersey

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New Jersey – Manufacturing Equipment and Employment Investment Tax Credit

- Encourage investment in certain manufacturing equipment in New Jersey
- Increase employment at New Jersey locations
- Employ New Jersey residents
- Tax credit can produce 2% or 4% of the qualified equipment expense
- Valid for each of the two tax years succeeding the tax year credit claimed
- Credit is limited to 3% of the investment credit base subject to certain limitations

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New Jersey – Business Loan, Lease and Improvement Incentives

- Grow NJ is a job creation and retention incentive program
- Creating or retaining jobs in New Jersey may be eligible for tax credits ranging from $500 to $5,000 per job, per year
- Bonus credits ranging from $250 to $3,000 per job, per year
- Location must be in a qualified incentive area
- Meet or exceed the employment and capital investment requirements

Tax Incentives & Local Grants

Texas – Enterprise Zone Program

Purpose:

- Similar to new jobs tax credit
- Promote job creation and significant private investment
- Located in economically distressed areas of the state
- Can be applied against sales and use tax
- Tax credit of $2,500 to $7,500 per job per year

Eligibility:

- Enterprise project designation is up to a 5 year period
- May be physically located inside or outside of an Enterprise Zone
- Minimum of 1,820 work hours during a 12-month period per job
- Jobs must exist through the end of the designation period

Thank You!

Yair Zorea, Tax Partner, PwC Israel
03-7954465
yair.zorea@il.pwc.com

Yonatan Kaplan, Tax Manager, PwC Israel
03-7955033
yonatan.kaplan@il.pwc.com

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