



## **State and Federal Incentive Programs**

**Article 3J Credits:** Article 3J provides two types of tax credits to eligible taxpayers that undertake qualifying activities in North Carolina.

1. **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 credit is taken in equal installments over four years following the year the jobs are 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. Currently for Catawba County, 10 jobs must be created paying at or above the wage standard of \$563/week to qualify for tax credits equaling \$5,000 per new job created.
2. **Credit for Investing in Business 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, in excess of an applicable threshold. This credit is taken in equal installments over four years, beginning the year after the property is first placed in service. The current threshold for Catawba County is \$1million and the credit percentage is 5%.

**Job Development Investment Grant:** Provides a percentage up to 75% (designated by the Economic Incentive Committee) of employee state income tax receipts per full-time job created, for approximately 10 years. The employee salary must meet the average wage standard of \$625 per week and the company must provide health insurance. There are a limited number of grants given each year and each request must be approved first by the NC Department of Commerce and second by the Economic Investment Committee for businesses.

**One NC Fund:** Provides funds for the purchase of equipment, structural repairs, improvements or renovations of existing buildings, for expansion and construction of or improvements to new or existing water, sewer, gas or electric utility distribution lines, or equipment for existing buildings. Moneys may also be used for construction of or improvements to new or existing water, sewer, gas or electric utility distribution lines, or equipment to serve new or proposed industrial buildings used for manufacturing and industrial operations. Funding is provided at the discretion of the Governor, usually provided on an amount for each full-time job created, which is determined by the NC Department of Commerce and the Governor. Factors considered include economic impact, strategic importance to the state, region or locality, quality of jobs, quality of industry and project, and environmental impact.

**Community Development Block Grant:** Provides funding for infrastructure such as water, sewer and roads for businesses committed to a site.\* In Catawba County CDBG provides \$12,000 per each full-time job created by businesses that qualify for the Article 3J Credits and \$7,500 per job for businesses that do not qualify for the Article 3J Credits. The cap is \$1,000,000 and it requires a 25% local match. In addition, the business must agree to hire 60% of employees from previously low to moderate-income levels, which is \$29,000, or less.

\*site must be outside of the city limits of Hickory. (Hickory is an entitlement city and runs their own CDBG program)

**Economic Development Administration:** Provides up to 50% funding for water, sewer and road infrastructure for businesses plus 10% presumed benefit.



## **State and Federal Incentive Programs** (continued)

**Golden Leaf Foundation Fund:** Provides funding for initiatives that result in job creation and retention in tobacco-dependent or economically distressed counties; improve new and existing business performance in tobacco-dependent or economically distressed areas through responsible and effective technology and business training; supports programs that assist with small business and entrepreneurial interests related to cultural, heritage, and eco-tourism. A non-profit 501(c)3 organization must make application; funding decided by the Foundation staff and Board of Directors.

**Local Government Incentives:** These incentives at the municipality and county levels are negotiated on a case by case basis. These incentives typically are based upon job creation, including wage rate, investment in real property and machinery and equipment and the type and general description (NAICS) of the business. Incentives typically involve granting an amount equal to a percentage of the property tax to the business and/or property and in-kind infrastructure improvements. Each municipality may, on a case-by-case basis, consider annexation, alter or waive fees or implement special measures to attract or retain businesses in their municipality city limits. In addition, Catawba County has a policy that provides for the extension of water and sewer lines outside of municipalities. The county fronts 100% of the costs with the participating city repaying 75% of the loan with no interest. Each municipality has its own policies in providing city services.

**Industrial Revenue Bonds:** Industrial revenue bonds are issued by a governmental entity which borrows money and uses the loan proceeds to finance a manufacturing plant or other facility for a specific private company. The governmental entity uses the company's loan repayments to retire the bonds. The principal amount may not exceed \$20 million on federal bonds, state bonds do not have a principal cap. Typically, the interest rates on IRB loans are lower than the current market rate.

**Community College Industrial Training Programs:** The program trains workers for any new or expanding business that has created at least twelve new jobs. The program pays the instructors wages and travel costs, for classroom materials and for the use of the training facility.

**Department of Transportation Rail Industrial Access Program:** Provides funding for a portion of the cost of constructing or refurbishing spur tracks to new or expanded industrial facilities. The funded portion is between 35% and 50% of eligible project costs, with percentage funded determined by project's score in an economic benefit point system that credits jobs created, capital investment, number of rail carloads to be generated, and whether project is in a distressed county or will preserve a short line railroad. Program will fund site preparation, track construction, switches, and grade crossings and signals. Will not fund engineering, utility relocation, right-of-way relocation or rail docks.

**Department of Transportation Site Access Fund:** Provides funding for the construction of roads to new industrial facilities that also qualify for the Lee Act. Departmental policies provide that the number of employees at the facility and the amount of truck traffic to and from the facility will be primary justifications for assistance.

**On-The-Job-Training (OJT):** OJT is a federally funded activity through the Workforce Investment Act that can reimburse employers up to 50% of an employee's wages during his/her training. It is designed to give unemployed or under-employed workers the opportunity to learn valuable new skills beneficial to the workforce. OJT encourages employers to provide the training and allows for monetary incentives to help compensate for training time and cost.



## **State and Federal Incentive Programs** (continued)

**Incumbent Workforce Development Grant:** Program provides funding to established North Carolina businesses to provide educational and skills training for current workers. It is designed to benefit business by enhancing the skills of employees, thereby increasing employee productivity and the potential for company growth. Maximum funding for any project is \$37,500. The business must state that it is not eligible for or has exhausted efforts to secure funding through existing incumbent worker training programs in the North Carolina Community College System, or the university system, such as the New and Expanding Industries Program and the Focused Industrial Training Program.

### **Tax Incentives for Datacenters and Internet Datacenters:**

#### **Data Centers:**

- Certain datacenters are exempt from sales tax in North Carolina. Instead, a privilege tax of 1% (up to a maximum of \$80/article) is imposed on capital purchases, made before July 1, 2015, of qualifying machinery or equipment located and used at the datacenter, including: (i) equipment cooling systems; (ii) hardware for distributed and mainframe computers and servers; (iii) data storage devices; (iv) network connectivity equipment and peripheral components and systems; and (v) machinery or equipment related to the generation, transformation, transmission, distribution, or management of electricity.
- A datacenter is eligible for the tax exemption described above if it is a facility that provides infrastructure for hosting or data processing services. The facility must also meet certain power and cooling system requirements to be eligible, as set forth in N.C.G.S. § 105-164.3(5c). There is a minimum investment depending on where the facility is located – for facilities located in a “Tier 1” area, a \$150 million investment is required, otherwise, a \$225 million investment is required (Exhibit 1 to this Summary shows a map of the North Carolina Department of Commerce’s 2010 County Tier Designations). The investment must be in improvements to real property and/or installed machinery or equipment, and be completed within five years of the date of the first qualifying improvement. The company must also meet certain wage and health insurance standards.
- If the owner of a datacenter (which includes an entity that is owned by or under common control with the owner of the datacenter) places a second datacenter into service within five years after the first datacenter is placed into service, it is eligible for the same tax exemption. To qualify, the two datacenters must be linked through a fiber-optic or similar connection and there must be a minimum investment of \$75 million in real property and/or installed machinery or equipment in the second datacenter. The company must also meet certain wage and health insurance standards for the second datacenter.

#### **Internet Datacenters**

- Eligible business property located and used at an eligible Internet datacenter is exempt from sales tax in North Carolina (and is not subject to the 1% privilege tax). (N.C.G.S. § 105-187.51C(b)) “Eligible business property” is that which is capitalized for tax purposes under the Internal Revenue Code and is used either: (i) for the provision of a service included in the business of the primary user of the datacenter, including equipment cooling systems for managing the performance of the property; (ii) for the generation, transformation, transmission, distribution, or management of electricity, including exterior substations and other business personal property used for these purposes; or (iii) to provide related computer engineering or computer science research. (N.C.G.S. § 105-164.13(55)) Sales of electricity for use at an eligible Internet datacenter are also exempt from sales tax in NC.



## **State and Federal Incentive Programs** (continued)

- An Internet datacenter is eligible for the tax exemptions described above if it is a facility that is used primarily by a business engaged in software publishing (NAICS industry code 51120) or Internet activities (NAICS industry code 519130). It must also be located in a "Tier 1" or "Tier 2" area, as determined by the North Carolina Department of Commerce (see Exhibit 1). The company must invest a minimum of \$250 million in real property and/or eligible business property within five years after the commencement of construction of the facility. The facility must also be comprised of a structure or series of structures located on a single or contiguous parcels of land that are commonly owned or owned by affiliation with the operator of that facility.

### **Calculation of Corporate Income Tax for Capital-Intensive Businesses in NC**

#### **A. Calculating Corporate Income Tax Liability for Capital-Intensive Businesses**

- In June 2009, the North Carolina General Assembly amended a law to encourage the location and expansion of certain capital-intensive businesses in North Carolina. Under the new law, certain capital-intensive businesses may qualify for a benefit that could allow them to pay significantly less income tax in North Carolina. Subsequent to the passage of this law, Apple Inc. selected North Carolina as the location for a new datacenter.
- For a corporation that is taxable both within North Carolina and elsewhere, the State of North Carolina taxes a fraction of the corporation's income based on a formula that takes into account the company's amount of sales, payroll, and property it maintains within North Carolina. The amount of income that must be apportioned to North Carolina is based on a four-factor apportionment formula. The formula is the sum of the property factor, the payroll factor, and twice the sales factor, which is then divided by four.
- For eligible capital-intensive corporations, beginning with the January 1, 2010 tax year and expiring on January 1, 2019, the amount of income that must be apportioned to North Carolina for income tax computation will be calculated solely based on the company's sales factor. This could benefit a capital-intensive corporation with low sales in North Carolina, as compared to the property and payroll it maintains in North Carolina.

#### **B. Definition of Eligible Capital-Intensive Corporations**

- An eligible "capital-intensive" corporation is one that has invested, or is expected to invest, at least \$1 billion to construct a facility in North Carolina within nine years after construction begins.
- The facility must be located in a "Tier 1" or "Tier 2" area, as determined by the North Carolina Department of Commerce (Catawba County is a "Tier 2" county). It must also maintain the average number of employees it had at the facility during the first two years after the facility is placed in service throughout the remaining time in which the corporation must complete the \$1 billion investment. The company must also meet certain wage and health insurance standards.