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USING GOVERNMENT INCENTIVES TO GROW YOUR BUSINESS

Government entities have become increasingly aggressive about offering incentives to attract, grow and retain business—usually in the form of tax breaks. Lately, these programs have been greatly expanded to reward "green" investments, invite innovative new industries and even rework existing programs to meet current initiatives. Federal-level programs, often aimed at stimulating the economy, are on the rise too.

Domenicucci

Laramie

Nevertheless, many executives don't effectively consider the impact of incentives on their strategic planning—not only by failing to seek all or part of the incentive's benefit, but also by neglecting to identify all the applicable incentives prior to making strategic decisions. The key is to consider incentives throughout the company's strategic planning processes.

Daniel Domenicucci and Andrea Laramie, Senior Managers in Ernst & Young LLP's Business Incentives and Credits Practice, explain how companies should identify, access, secure and comply with government incentives more effectively.

What is the biggest challenge in evaluating government incentives?

Numerous programs are available, including many that are not well known or widely used. The challenge is to determine which programs—including those that apply to consolidation, reinvestment and even contraction—fit your business and plans.

You should consider an incentive in terms of your entire strategic plan, not as a singular event or task. First determine where you would like to take your business, identify viable options for achieving your goal and then evaluate the incentive programs that best align with your options.

Companies tend to do a better job considering incentives that apply to physical plant or other large, high-profile investments. But they often overlook incentives that could apply to "routine" investments over time, such as adding new equipment and reconfiguring a process to enhance productivity. State-level economic development agencies are increasingly receptive about helping with what companies might plan to do over the next five years to retain jobs and maintain local operations.

Planning and foresight are critical. There's even opportunity to influence legislation and policy for certain states to accommodate your needs, if you are able to articulate them and if they meet the state's own objectives.

What types of incentives are available?

They are wide ranging but can be grouped into general categories. Some states have zone-based incentives, and many more have property tax abatements. There are tax credits against tax liabilities that can be used for investment or employment, including some that are refundable or assignable and result in potential cash over time. In some cases, there may even be outright cash grants or low-interest financing for investments in people or capital. Other incentives may take the form of training benefits.

How do companies keep track of available incentives?

Traditional incentives have been centered on tax benefits, so a company's tax department has had "ownership" of this process in many cases. But programs are expanding into areas that require input from human resources, finance, treasury and government affairs. Successful companies establish a multidisciplinary team to help identify all possible incentive programs. It is critical that the teams have access to the company's overall strategy, so they can determine whether potential programs fit the company's plan and direction. When using this approach, leadership and accountability are crucial.

It's important to fully understand terms and conditions that may be associated with an incentive program. Unless these provisions and details are clearly understood, a company may make a significant decision clearly influenced by the incentives but which may be undermined because it is based upon inaccurate or incomplete details that render adverse long-term consequences. This is where Ernst & Young can help. We assist with the process of identifying, evaluating and negotiating incentives. We find that companies often recognize greater benefits when taking a collaborative role with government agencies, focusing on project management and leveraging successful experiences. This should not be treated as an adversarial process, but as a collaborative effort to find the right tools to meet clearly articulated objectives.

Do all incentives require a capital investment by the recipient company?

Not necessarily. In many cases, programs ultimately reduce the recipient company's operating costs. Many state and federal programs target job-related costs, while others target capital specifically. Some incentives help companies make existing facilities more environmentally friendly. Understanding the programs and matching them to your business objectives, and vice versa, is pivotal to success.

For more information about how Ernst & Young LLP can help increase the impact of business incentives to your financial success, please contact Daniel Domenicucci at (313) 628-8585 or daniel.domenicucci@ey.com or Andrea Laramie at (313) 628-8037 or andrea.laramie@ey.com.