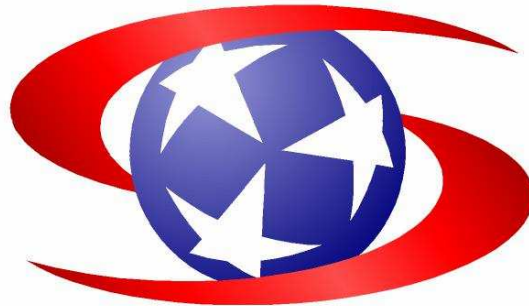


**Economic
Development
Incentives
2007/2008**

MANUFACTURING

STATE OF TENNESSEE



ECONOMIC & COMMUNITY DEVELOPMENT

**For More Information, Please Contact the ECD
Business Development Office**

**Phone - 615.741.3282
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Tennessee Taxes & Incentives

Manufacturer* - is one whose principal business is fabricating or processing of tangible personal property for resale.

Franchise Tax

- Tax on the greater of apportioned net worth or book value of property owned or used in Tennessee
- Tax rate is 25 cents per \$100

Incentives

- Finished goods inventory in excess of \$30 million may be excluded
- Pollution control equipment is exempt
- Property under construction and not being utilized is not included
- Property rented from the industrial development corporation may be valued by capitalizing it on the books
- 2/3 of capital investment for super job tax credit is excluded from franchise tax base

Excise Tax

- Tax is based on the net earnings of the company derived from the business in Tennessee
- Tax rate is 6.5%

Incentives

- All capital losses claimed in the year incurred
- Net operating losses can be carried forward for 15 years
- Three factor, double weighted sales apportionment formula
- Tennessee does not have the throwback provision

Job Tax Credit

- \$2,000 per job or \$4,500 per job in a Tier 1, Tier 2 and Tier 3 Economically Distressed County¹
- Applied to both Franchise and Excise Tax
- Must create 25 jobs and increase capital investment by \$500,000 in a qualified business enterprise within a fiscal year
- May be carried forward 15 years
- The percentage of liability offset from 33 1/3 to 100 for employment ranging from 25 to 5,000 or more
- A business plan² must be filed on or before the last day of the fiscal year in which the investment is made and must describe the investment made, the number of jobs the investment will create, and the expected dates the jobs will be filled. Tenn. Code Ann. § 67-4-2109(c)(2)(D).

* All Tennessee tax and tax-based incentive information herein is for informational purposes only. For more specific information on whether a facility qualifies as a manufacturer and what incentives are potentially available please contact your ECD Business Development Specialist.

¹ Tier 2 and Tier 3 counties are entitled to additional enhanced incentives as detailed below.

² For information on how to obtain the appropriate Job Tax Credit Business Plan forms please contact your local ECD Business Development Specialist.



Tennessee Taxes & Incentives

Credit Offset Limitation Based on Number of Tennessee Employees

Percentage of Total Franchise and/or Excise Tax Liability Offset by JTC	Total Number of Tennessee Full-Time Employees at the End of the Fiscal Year
33 1/3%	Less than 1,000
50%	1,000 or more but less than 3,000
75%	3,000 or more but less than 5,000
100%	5,000 or more

Enhanced Job Tax Credit for Tier 2 and Tier 3 Economically Distressed Counties

Tennessee recently enacted new legislation that allows for an additional tiered Job Tax Credit. This credit had been created to promote new industry locations and expansions in the more rural areas of the state. The tiers are based on each Tennessee counties' per capita income, unemployment, and poverty level. Analysis has been performed determining each Tennessee counties' tiered status. Projects which locate in a Tier 2 or Tier 3 county will be eligible for this additional credit.

- \$4,500 per job applied to both Franchise and Excise Tax
- Tier 2 counties – credit is taken annually for a three (3) year period
- Tier 3 counties – credit is taken annually for a five (5) year period
- Must create 25 jobs and increase capital investment by \$500,000 in a qualified business enterprise within a fiscal year
- Credit can offset up to 100% of the total franchise and excise tax liability
- Credit is in addition to the regular Job Tax Credit

Super Job Tax Credit

Tennessee recently enacted legislation that provides a job tax super credit (“super credit”) for taxpayers investing in excess of \$100 million in a qualified project creating 100 or more jobs paying at least 100% of the average occupational wage in the state.³ This super credit may be used to offset up to 100% of a taxpayer's Tennessee franchise and excise tax liability annually beginning with the first tax year after the investment and job creation thresholds have been met. The super credit is taken annually and does not have a carry forward provision.

- The super credit is in addition to the regular job tax credit which will still have the fifteen (15) year carry forward and normal percentage of offset. The only difference is by qualifying for the super credit, the amount of the credit is \$5,000 a job instead of the regular \$2,000 or \$4,500.
- In addition, the super credit allows for the offset of total franchise and excise tax liability to be up to 100% during the time when the super credit is being taken on an annual basis.
- The super credit also provides for a 2/3 reduction of the required capital investment made during the investment period on Schedule G of the franchise and excise tax return.

³ The current Average Occupational Wage data can be found on the website for the Tennessee Department of Labor and Workforce Development - www.state.tn.us/labor-wfd/wages/intro.htm



Tennessee Taxes & Incentives

- The super credit investment period is three (3) years, but can be expanded to five (5) years with the approval of the Commissioner of ECD.
- The number of years a company may take the annual super credit of \$5,000 per job is dependent upon the capital investment and number of jobs created as follows:

Capital Investment	Number of Net New Jobs	Number of Years for Annual Credit
\$100,000,000 or more	100	3
\$250,000,000 or more	250	6
\$500,000,000 or more	500	12
\$1 billion or more	1000	20

Industrial Machinery Credit

Tennessee offers manufacturers an Industrial Machinery Credit which may be used to offset up to 50% of the total franchise and excise tax liability. Any unused credit may be carried forward for up to 15 years.

The credit is for the purchase, third-party installation, and/or repair of qualified industrial machinery as defined in T.C.A. 67-6-102⁴ and computer equipment and any peripheral devices purchased in making the required capital investment for the job tax credit.

The percentage of Industrial Machinery Credit allowed is dependent upon the capital investment made during the investment period⁵ as follows:

Capital Investment ⁶	Percentage of Credit	Must File a Business Plan
Less than \$100,000,000	1%	No
\$100,000,000	3%	Yes
\$250,000,000	5%	Yes
\$500,000,000	7%	Yes
\$1,000,000,000	10%	Yes

The Industrial Machinery Credit is available whether the company is creating jobs or not.

⁴ Although exempt from sales and use tax, the Industrial Machinery Credit does not include industrial supplies or raw materials. To claim the Industrial Machinery Credit, the company must file a Schedule T.

⁵ For purposes of the Industrial Machinery Credit the “investment period” means a period not to exceed three (3) years from the filing of the business plan related to the required capital investment, during which the required capital investment must be made. The three (3) year period for making the required capital investment may be extended by the Commissioner of ECD for a reasonable period, not to exceed two (2) years for good cause shown. Tenn. Code Ann. § 67-4-2009(4)(I)(vi).

⁶ For purposes of the Industrial Machinery Credit the “capital investment” means an increase of a business investment in real or tangible personal property owned in Tennessee and/or leased property in Tennessee valued according to Tenn. Code Ann. § 67-4-2108(a) or (b). A capital investment shall be deemed to have been made as of the date of payment or the date the taxpayer enters into a legally binding commitment or contract for purchase or construction. Tenn. Code Ann. § 67-4-2009(4)(I)(v).



Tennessee Taxes & Incentives

Property Tax

- No state property tax

Sales and Use Tax⁷

- No sales tax on purchases, installation and repairs of qualified industrial machinery
- No sales tax on raw materials for processing
- No sales tax on pollution control equipment for manufacturers
- No sales tax on quality control equipment provided it is used for 100% testing
- Reduced sales tax rates for manufacturers' use of energy fuel and water (1.5% vs. 7%)

Additional Tax Credit

Day Care Credit

- Applies to both Franchise and Excise Tax
- 25% of the cost of a day care facility not to exceed \$25,000 per facility with a max of \$100,000

⁷ Manufacturer or processor must be registered for a sales and use tax number to apply for exemption on industrial machinery purchases and repairs, and reduced rates on energy fuel and water used. Tenn. Code Ann. §§ 67-6-102(2) & 67-6-206. In addition, the manufacturer must apply for and receive an authorization separate from the sales tax registration in order to qualify for the exemption and reduced rates. Please contact your local ECD Business Development Specialist for information on applying for and obtaining an Industrial Machinery Exemption Authorization.



Tennessee Taxes & Incentives

FastTrack

Tennessee has a state funded program called FastTrack. Included in the program is the FastTrack Infrastructure Development Program (FIDP)-[*Community* generated] and the FastTrack Job Training Assistance Program (FJTAP)-[*Company* generated].

Under the guidelines of this program the state can make grants to local governments to help them meet the public infrastructure requirements for locating and expanding industries as well as address the training needs of a company.

Both programs require application for financial assistance.

FastTrack Infrastructure Development Program (FIDP)

The FastTrack Industrial Development Program is Tennessee's initiative to support the public infrastructure needs of the local community to support expansion or location of industry. Project funding is determined by evaluating each project in terms of capital investment, new jobs created, the types of the created jobs, and the community in which the project locates. Once a targeted funding amount of eligible activity is established, final approval is subject to FIDP funding appropriated by the Tennessee General Assembly and approval by the Department of Economic and Community Development's Loan & Grant Committee. There are state regulations that apply relative to procurement/bidding procedures.

FastTrack Job Training Assistance Program (FJTAP)

The FastTrack Job Training Assistance Program is Tennessee's initiative to support industrial recruitment and expansion through direct training assistance for newly hired employees, employees in upgraded positions, and employees retained through instruction. FJTAP staff assists each individual company to develop customized training plans and to provide funding. Eligibility for FJTAP support and levels of funding for training assistance are determined by:

- The amount of company investment
- The number of new hires
- The types of skills and knowledge that must be obtained by prospective or newly hired employees

Job Specific Training (*Training assistance is targeted to production/technician level individuals.*)

- Classroom - formal instruction relating to specific skills presented in a classroom environment
- On-the-Job Training - instruction that focuses on the development of specific skills and knowledge vital to production. Training is provided by company technicians or instructors mutually acceptable to FJTAP and the company.
- Vendor - manufacturer of actual manufacturing equipment or service provider being used by the client may be utilized to deliver specific skills training.
- System Support - instruction associated with plant-wide applications. Instruction may include new methods for increasing mechanization, quality, materials handling, etc.
- Development and Coordination – supports the cost associated with the development of instructional materials and coordination of the overall training program.



Tennessee Taxes & Incentives

Travel

- Supporting the expense of travel for the purpose of training can be considered as a viable option for the training of new hires and especially for persons who will serve as a company instructor.

Job Based Training (JBT)

Program to offer potentially faster reimbursement monies associated with training. Once the project commitment is determined and cost per job established, this quick start program may offer the company an accelerated portion of training dollars.

- After the first 3 months (60 work days) The Company records are reviewed *{proper documentation will be required}* for number of new jobs created.
- Calculation is made to determine salary paid to those new jobs multiplied by 25%.
- Calculation is made of predetermined cost-per-job multiplied by the number of jobs created during this period.

The company will be entitled to Job Based Training dollars for whichever above scenario is LESS.

- After 3 additional months the same calculation is run, with proper documentation, to allow an additional 25% computation on salaries for jobs created during the period, compared to the calculation of number of new jobs multiplied by again, the established cost-per-job.

The company is again entitled to JBT dollars for whichever scenario is LESS.

Depending on the number of new jobs to be created during the periods of review, it may be possible for the company to receive the entire training commitment ***IF the total committed job number is reached.***

It is the company's elective to pursue the training commitment in either type of reimbursement method or in a combination thereof. If the commitment is not met in JBT, then direct training can be used for the balance ***IF the total job commitment is met.***

Employee Recruitment and Screening (Provided by Dept. of Labor & Workforce Dev.)

The Tennessee Department of Labor and Workforce Development, Job Service Division, will provide recruitment and screening services. Utilizing the client/company's prepared job specifications, Job Service will recruit the number of persons requested by the company. The persons will be screened using the company's specifications. Those persons meeting the specifications will be referred to the company for employment considerations.

Workforce Development

- Leadership Training - is directed toward providing supervisors, team leaders, and managers with the interpersonal skills necessary to motivate and lead production workers towards the accomplishment of organizational goals.



Tennessee Taxes & Incentives

- Team Training - is provided for manufacturing/production employees where interpersonal communication is important in fostering interdependence, cooperation, commitment, motivation, etc.
- Instructor Certification - Certification of company personnel insures the availability of certified instructors not only at startup but also on a long term basis. The weeklong certification seminar provides candidates with the facilitation skills necessary to deliver a wide range of programs.

State Industrial Access Program (SIAP)

Other state assistance can be considered for providing needed transportation improvement for the project. Through the State Industrial Access Program (SIAP), local governments submit their requests on behalf of new industry moving into their communities, which the Department of Transportation reviews to determine the most feasible design.

Industrial Revenue Bond Financing

Industrial revenue bond financing is available in Tennessee for both taxable and tax-free situations.