

Hearing on Economic Tax Incentive Reports

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Section 40-1-50 (Act 2016-389) Requirements

Each state agency that administers an economic tax incentive shall prepare and submit to the Legislature an annual report on each economic tax incentive that the agency administers.

The schedule of economic tax incentives subject to annual reporting requirements provided by the Department of Revenue.

Reports due no later than the second Legislative day of the Regular Session beginning in the 2018 Regular Session of the Legislature and each year thereafter.

**Current and past reports available under publications on LSA's website:
lsa.state.al.us**

[Tax Expenditure Reports Link](#)



2018 Schedule of Tax Incentives Subject to Reporting

2013 Historic Rehabilitation Tax Credit

2017 Historic Rehabilitation Tax Credit

Apprenticeship Tax Credit

CAPCO

Enterprise Zone Tax Credit/Exemption

Film Credit

Growing Alabama Credit

Investment Credit (Jobs Act)

Irrigation Equipment Tax Credit

Jobs Credit (Jobs Act)

New Markets Tax Credit

Port Credit

State Property Tax Abatements

Report Criteria

Reports to include an agency assessment of the incentive based on the following criteria:

Success of the incentive in meeting the purpose for which it was enacted.

- Intended parties benefitted?
- If not, who did?

Positive return on investment to the state.

- Direct and indirect impact on state and local tax revenues.
- Any other economic benefits produced by the incentive.

Economic results of each incentive.

- How does incentive change business behavior?
- Unintended or inadvertent effects/benefits.
- Any conflict with other state laws or regulations.



Hearing Requirements

Per Section 40-1-50 (g):

The House Way and Means Committees and the Senate Finance and Taxation Committees shall conduct hearings on the reports every odd-numbered year, to be concluded thirty days before the beginning of Regular Session of the Legislature.

This hearing will focus on reports filed during the **2020 regular session**.

Required under this provision:

The committees shall analyze and consider each economic tax incentive and provide recommendations to modify, discontinue, or take no action.



Tax Incentive Reports



2013 Historic Rehabilitation Tax Credit (HRTC)

Alabama Act No. 2013-241

Provides a tax credit against the financial institutions excise or income tax liability of the taxpayer for the rehabilitation, preservation, and development of historical structures.

Authorized credit of up to 25% of the qualified rehabilitation expenditures for certified historic structures and 10% of the expenditures for qualified pre-1936 non-historic structures

Annual credit reservation limit of \$20 million per calendar year **from 2013-2016**, not to exceed \$60 million

No tax credit claimed may exceed \$5 million for commercial projects and \$50,000 for residential structure

Non-refundable, transferable, and can be carried forward for up to 10 years

Administered by the Alabama Historical Commission



2020 Report Statistics for 2013 (HRTC)

2019 CALENDAR YEAR

- New applications – None (expired)
- New qualifying projects – One
- Value of credit certificate for new project - \$270,687
- Number of taxpayers claiming credit – 40
- Value of credits claimed - \$7,073,937

HISTORICAL INFORMATION

- Number of applications – 72
- Completed projects – 38
- Total value of credit certificates issued - \$39,459,695
- Number of taxpayers claiming credit – 123
- Value of credits claimed - \$32,873,908
- Value of carried forward credits - \$6,500,000

2017 Historic Rehabilitation Tax Credit (HRTC)

Alabama Act No. 2017-380

Provides an income tax credit against the tax liability of the taxpayer for the rehabilitation, preservation, and development of historical structures.

Credits available are capped at \$5 million for commercial projects and \$50,000 for residential projects

The credit is equivalent to 25% of the qualified rehabilitation expenditures for certified historic structures

For tax years 2018 through 2022, the aggregate amount of all tax credits that may be reserved in any year shall not exceed \$20 million with a cumulative cap of \$100 million during that period

Refundable, transferable, cannot be carried forward

Administered by the Alabama Historical Commission

2020 Report Statistics for 2017 (HRTC)

2019 CALENDAR YEAR

- New applications – 37
- New qualifying projects – 2
- Number of taxpayers claiming credit – Less than 10 (first year for claims)
- Value of credits claimed - \$81,250

HISTORICAL INFORMATION

- Number of applications – 78
- Completed projects – 2
- Number of taxpayers claiming credit – Less than 10
- Value of credits claimed - \$81,250
- No carry forward of credits allowed

Apprenticeship Tax Credit (ATC)

Alabama Act No. 2016-314, Alabama Act No. 2019-506

Tax credit against financial institutions excise or income tax provided for employers that employ an apprentice for at least seven full months for the prior taxable year

Credit equal to \$1,250 per qualifying apprentice, not to exceed ten apprentices employed (Act 2019-506 change, was \$1,000 per qualifying apprentice, not to exceed five apprentices)

Annual number of credits shall not exceed \$7.5 million

Non-refundable, not transferable, cannot be carried forward

Effective for tax years 2017 through 2025

Administered by the Department of Commerce and Alabama Office of Apprenticeship

2020 Report Statistics for Apprenticeship Credit

2019 CALENDAR YEAR

- Capped at \$1,000 per apprentice with a limit of 5 apprentices

HISTORICAL INFORMATION

- Number of employers claiming credit - 27
- Value of credits claimed - \$101,000
- No carry forward of credits allowed

Certified Capital Company Program(CAPCO)

Alabama Acts No. 2002-429 and 2007-472

Provides insurance premium tax credits to insurance companies that invest in start up enterprises

Total allowable amount of insurance premium credits for all years is \$200 million - \$100 million from Program 1 (all credits taken) and \$100 million for Program 2 (credits allocated, but not fully utilized)

Certified investors may take credits of up to 100% of their investment, and up to 17.5% of the tax credit may be taken each year

Qualified companies must be based in Alabama, have less than 100 employees, and cannot be in retail sales, real estate, insurance, banking, or provide professional services.

Not transferable and can be carried forward

Administered by the Department of Commerce



2020 Report Statistics for CAPCO

2019 CALENDAR YEAR

- New applications – None (all credits allocated)
- Number of taxpayers claiming credit – 51
- Value of credits claimed - \$15,593,175

HISTORICAL INFORMATION

- Number of applications/qualifications – 52
- Value of credits claimed - \$97,589,085
- Any unused credits may be carried forward, with no limitation of time

Investment Credit (Alabama Jobs Act)

Alabama Act No. 2015-27, Alabama Act No. 2016-321, Alabama Act No. 2017-442

Investment credit to certain businesses for approved projects that create new jobs in Alabama.

The credit is 1.5% of qualified capital investment annually for 10 years – up to 15 years for companies locating in a targeted county (<25,000 in population)

Applied against the income tax, the financial institution excise tax, the insurance premium tax, and utility taxes.

May be claimed as a credit against taxes paid with a carryforward for earned but unused amounts to the extent allowed in the project agreement.

Transferable at 85% or more of face value for three years

Unused portion of this credit may be carried forward for up to five years.

Administered by the Department of Commerce



2020 Report Statistics for Investment Credit

2019 CALENDAR YEAR

- New applications/qualifications – 48
- Number of taxpayers claiming credit – Less than 10 (first year taxpayers claimed incentive)
- Value of credits claimed:
 - \$648,515 against income tax liability
 - \$99,303 against utility tax liability

HISTORICAL INFORMATION

- Number of applications/qualifications – 235
- Number of taxpayers claiming credit – Less than 10
- Value of credits claimed
 - \$648,515 against income tax liability
 - \$99,303 against utility tax liability
- May be carried forward for 5 years

Growing Alabama Credit

Alabama Act No. 2016-102, Alabama Act No. 2019-392

Authorizes an income tax credit to corporations and individuals that make cash contributions to local economic development organizations approved by the Renewal of Alabama Commission.

Credit is amount of cash contribution made, not to exceed 50% of the tax liability for the current year.

Annual credit limit of \$5 million for FY 2016 and \$10 million for fiscal years 2017 through 2020

Does not flow through to owners of pass-through entities and is not transferable.

May be carried forward for up to five years.

Repealed following fiscal year 2020.

Administered by the Department of Commerce



2020 Report Statistics for Growing Alabama Credit

2019 CALENDAR YEAR

- New EDO applications/qualifications – 5
- Value of credits claimed - \$7,513,835

HISTORICAL INFORMATION

- Number of EDO applications/qualifications – 10
- Value of credits claimed - \$7,513,835
- The amount of incentive exceeding 50% of the taxpayer's tax liability may be carried forward for 5 years

Incentives for Film Production

Alabama Act No. 2009-144, Alabama Act No. 2011-695, Alabama Act No. 2012-212

Entertainment Industry Incentive Act of 2009.

Qualified production company receives 25% rebate of all state certified expenditures and 35% of all payroll paid to residents of Alabama

Production expenditures for a project must equal or exceed \$500,000 but must not exceed \$20,000,000

Aggregate cap of incentives for all qualified production companies equal to \$20 million

Administered by the Department of Commerce



2020 Report Statistics for Film Production

2019 CALENDAR YEAR

- Number of taxpayers claiming incentives – 13
- Value of incentives claimed:
 - Credit rebate - \$10,892,794
 - Tax Exemptions
 - Sales taxes - \$17,715
 - Lodgings tax - \$68,281

HISTORICAL INFORMATION

- Number of taxpayers claiming credit – 85
- Value of incentives claimed:
 - Credit rebate - \$65,822,985
 - Sales taxes - \$78,223
 - Lodgings tax - \$164,473
- No carry forward of incentives allowed

Enterprise Zone Credit/Exemption

Alabama Act 1987, No. 87-573, Alabama Act No. 2016-321, Alabama Act No. 2018-152,

Originally enacted in 1987

Amended in 2016 to define an Enterprise Zone in the same manner as targeted counties eligible Jobs Act credits (25,000 or less)

There are 26 Enterprise Zones

Maximum credit available to any employer locating in an Enterprise Zone is \$2,500 per new permanent employee hired

Choice of incentives:

- Income or Privilege Tax credit for taxes due from zone operation
- Income or Privilege Tax credit for new investments in zone improvements
- Income or Privilege Tax credit of up to \$1,000 per new permanent employee for training expenses

Other benefits allowed if contract entered into with eligible company

Administered by Economic and Community Affairs



2020 Report Statistics for Enterprise Zone Credit/Exemption

No report filed in 2019 or 2020

No incentives claimed in either year



Irrigation Equipment Tax Credit

Alabama Act No. 2012-391, Alabama Act No. 2013-66, Alabama Act No. 2017-352, Alabama Act No. 2018-468

Tax credit of 20% of the cost of the purchase and installation of and certain conversion costs related to irrigation systems or the development of irrigation reservoirs and water wells

Not to exceed \$10,000 in any tax year or the taxpayer's Alabama income tax liability computed without the irrigation tax credit

Credit may be carried forward for five years

Taxpayers may claim one credit during tax years 2011-2017 and one during tax years 2018-2022

Administered by Agriculture and Industries



2020 Report Statistics for Irrigation Equipment Tax Credit

2018 TAX YEAR

- Number of taxpayers claiming credit – 21
- Value of credits claimed - \$55,751

HISTORICAL INFORMATION

- Number of taxpayers claiming credit – 399
- Value of credits claimed - \$1,834,235

Jobs Credit (Alabama Jobs Act)

Alabama Act No.2015-27, Alabama Act No. 2016-321, Alabama Act No. 2017-314, Alabama Act No. 2017-442, Alabama Act No. 2019-392

Tax incentive is a cash rebate of up to 3% annually of previous year's gross payroll for eligible employees for up to 10 years

Incentive can be increased as follows:

- Companies located in targeted county (population less than 25,000) can receive up to an additional 1% rebate
- Companies employing at least 12% veterans in their eligible workforce can receive up to an additional 0.5% rebate on the wages of veterans
- Companies locating within a former active-duty military base that was closed by BRAC can receive up to an additional 0.5% rebate

Technology companies that qualify by relocating their company headquarters, executive officers, and at least 75% of their employees can receive an additional 2% rebate

Outstanding Jobs Act incentives not exceed an annualized balance \$300 million

Administered by the Department of Commerce



2020 Report Statistics for Jobs Credit (Alabama Jobs Act)

2019 CALENDAR YEAR

- New applications/qualifications – 52
- Number of taxpayers claiming credit – Less than 10
- Value of credits claimed - \$1,006,634 as cash rebates

HISTORICAL INFORMATION

- Number of applications/qualifications – 254
- Number of taxpayers claiming credit – Less than 10
- Value of credits claimed - \$1,256,587 as cash rebates
- Since this is a cash rebate, no carry forward allowed

New Markets Tax Credit

Alabama Act No. 2012-483

State income, financial institution excise, and premium tax credits for qualified equity investments in impoverished and low-income communities

Modeled after the Federal New Market Tax Credit Program

Tax incentive to the taxpayer is as follows:

- 50% of taxpayers' investment
- No credit claimed 1st year
- For years 2-7 8.33% can be claimed
- Max Tax Incentive is \$120,000,000
- Limited to \$20,000,000 per year
- Tax incentive may be carried forward to subsequent tax years, with no limitation of time

All credits allocated in 2012 and 2013

Administered by the Department of Commerce



2020 Report Statistics for New Markets Tax Credit

2019 CALENDAR YEAR

- New applications – None (all credits allocated)
- Number of taxpayers claiming credit – 22
- Value of credits claimed - \$15,718,529

HISTORICAL INFORMATION

- Number of applications/qualifications – 28
- Value of credits claimed - \$81,743,533
- Any unused credits may be carried forward, with no limitation of time

Port Credit

Alabama Act No. 2016-102

Establishes a tax credit for businesses that utilize Alabama's port facilities. The port credit allowable is an amount equal to \$50 per TEU, \$3 per net ton, or \$0.04 per kilogram for air freight.

New distribution or warehouse shippers investing at least \$20 million and creating at least 75 net new jobs are eligible to receive up to \$100 per TEU over a three-year period if entering into a project agreement with the State.

\$12 million tax incentive cap for the life of the program

\$5 million cap in any year

No carryforward allowed for more than 5 years

Administered by the Department of Commerce



2020 Report Statistics for Port Credit

2019 CALENDAR YEAR

- New applications/qualifications – 2
- Number of taxpayers claiming credit – Less than 10
- Value of credits claimed - \$96,739

HISTORICAL INFORMATION

- Number of applications/qualifications – 8
- Number of taxpayers claiming credit – Less than 10
- Value of credits claimed - \$104,750
- May be carried forward for up to 5 years

Reinvestment and Abatements Act

Alabama Act No. 2015-24

Promotes capital reinvestment by existing industry in Alabama

Consists of three benefits:

State Property Tax Abatement for up to 20 years of the non-educational portion of the incremental property tax increases

Utility tax abatement for increased utility services for up to 10 years

AIDT training for new or current employees to operate new and replacement equipment

The tax incentive may not be carried forward or transferred

Administered by the Department of Commerce



2020 Report Statistics for Reinvestment and Abatements Act

2019 CALENDAR YEAR

- New applications/qualifications – 1
- Number of taxpayers claiming abatements – Less than 10
- Value of abatements claimed:
 - Utility tax - \$135,250
 - Property tax - \$152,475
 - Sales tax – Unknown (not granted by Commerce and DOR is unable to provide amount claimed)

HISTORICAL INFORMATION

- Number of applications/qualifications – 16
- Number of taxpayers claiming abatements – Less than 10
- Value of abatements claimed:
 - Utility tax - \$361,481
 - Property tax - \$152,475
 - Sales tax – Unknown (not granted by Commerce and DOR is unable to provide amount claimed)

End of 2020 Information

2021 Schedule of Tax Incentives Subject to Reporting

2013 Historic Rehabilitation Tax Credit

2017 Historic Rehabilitation Tax Credit

Apprenticeship Tax Credit

CAPCO

Enterprise Zone Tax Credit/Exemption

Film Incentive

Growing Alabama Credit

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Jobs Credit (Jobs Act)

New Markets Tax Credit

Port Credit

Rail Credit

State Property Tax Abatements

Utility Tax Abatement

Discussion Points



Additional Concepts

1. Current reporting of incentives, not ALL tax expenditures
2. Self Reporting vs. Independent Evaluation
 - Outside experts (Similar to 2017 Contracted Evaluations)
 - State/Legislative Agency
 - Legislative Committee (Recommendation of Joint Task Force on Budget Reform)
 - Determining criteria for evaluation/type of evaluation
3. Design of Incentive Programs
 - Principles of designing incentives:
 - a) Sunset provisions
 - b) Cost limitations
 - c) Carry forward of credits
 - d) Cash grants vs. refundable/transferable credits
 - Procedures for considering proposed tax incentives
 - Up front analysis of proposed tax incentives



State Tax Credits Without a Sunset or Aggregate Cap



Income Tax Credits Corporate & Individual

Tax Credits & Incentives	Agency	Values Reported per 2020 Expenditure Report
Alabama Accountability Act - SGO Donation Credit	ADOR	\$18,762,092
Alabama Accountability Act - Parent Tax Credit (refundable)	ADOR	\$454,263
Basic Skills Credit	EDUCATION	\$0
Coal Credit	ADOR	\$641,046
Dual Enrollment Credit	ADOR	\$871
Enterprise Zone Credit/Exemption	ADECA	\$0
Film Credit**	COMMERCE	\$13,081,934
Foreign Tax Credit	ADOR	\$10,521,373
Full Employment Act of 2011	ADOR	\$338,831
Heroes for Hire Credit	VETERAN'S AFFAIRS	\$1,600
Heroes for Hire Credit Start-up Expenses	VETERAN'S AFFAIRS	\$13,216
Irrigation/Reservoir Equipment Tax Credit	ADOR	\$58,499
Job Development Fees (carryforwards being claimed)	ADOR	\$1,457,018
Rural Physician Credit	ADOR	\$389,466

** Indicates value with an aggregate cap



Other Credits

Tax Credits & Incentives	Agency	Values Reported per 2020 Expenditure Report
Financial Institutions Excise Tax Credits		
Full Employment Act of 2011	ADOR	\$0
Heroes for Hire Credit – Hiring Credit	VETERAN'S AFFAIRS	\$0
Credit for Sales and Use Taxes Paid by a Financial Institution	ADOR	\$16,839,692
Insurance Premium Tax Credits		
Captive Insurance Companies Credit (Real Property Investment)	INSURANCE	\$30,429,026
Coastal Premium (Wind Pool) Tax Credit	INSURANCE	\$0
Insurance Office Facilities Credit	INSURANCE	\$17,367,907*
Sales and Use and Lodgings Tax Rebate		
Film Credit**	COMMERCE	\$89,086

* Indicates value based on 2018 data

** Indicates value with an aggregate cap



Q & A

