

Arkansas Economic Development Commission Summary of Major Economic Development Incentives

The following summary outlines major economic development incentives available from the State of Arkansas. The Economic Development Commission considers a variety of factors including business/industrial capital investment, payroll, workforce development, and community support in preparing incentive proposals.

We encourage local community development organizations to be knowledgeable about Arkansas' potential incentives, but advise against negotiations on specific state incentives at the local level.

Our staff works with each expansion or new industry project to develop a specific incentive package for each project.

Arkansas' various incentives are nationally competitive, understandable and easy to use. The Arkansas Economic Development Commission will focus on your business's specific needs, conduct a cost-benefit analysis and design a tailored incentive package.

The **Consolidated Incentive Act of 2003** provides various incentives programs to assist eligible companies that locate or expand in Arkansas. The programs included in the Consolidated Incentive Act of 2003 are available to the following companies:

- A. Manufacturers classified in sectors 31-33 in the North American Industrial Classification System, as in effect January 1, 2003;
- B. Businesses primarily engaged in the design and development of prepackaged software, digital content production and preservation, computer processing and data preparation services, or information retrieval services.
All businesses in this group shall derive at least seventy-five percent (75%) of their revenue from out-of-state sales;
- C. Businesses primarily engaged in motion picture productions.
All businesses in this group shall derive at least seventy-five percent (75%) of their revenue from out of state sales;
- D. A distribution center or intermodal facilities.
All businesses in this group shall derive at least seventy-five percent (75%) of their revenue from out of state sales;
- E. An office sector business;
All businesses in this group shall derive at least seventy-five percent (75%) of their revenue from out of state sales;
- F. A national or regional corporate headquarters North American Industrial Classification System code 551114, as in effect January 1, 2007;
- G. Firms primarily engaged in commercial, physical and biological research as classified in the North American Industrial Classification System code 541710, as in effect January 1, 2007; and

- H. Scientific and technical services business.
 - (i) All businesses in this group shall derive at least seventy-five percent (75%) of their revenue from out-of-state sales; and
 - (ii) The average hourly wages paid by businesses in this group shall exceed one hundred fifty percent (150%) of the county or state average hourly wage, whichever is less.
- I. The Director may classify a non-retail business as eligible if the following conditions exist:
 - (i) The business must derive at least seventy-five percent (75%) of its revenue from out of state; and
 - (ii) The business proposes to pay wages in excess of one hundred ten percent (110%) of the county or state average hourly wage, whichever is less.

“Targeted businesses” means:

- A. A grouping of growing business sectors, the businesses of which:
 - (i) Have been operating in the state for less than five (5) years;
 - (ii) Pay at least one hundred and fifty percent (150%) of the lesser of the county or state average wage; and
 - (iii) That have been selected to receive special benefits.
- B. Those groupings, not to exceed six (6), include the following:
 - (i) Advanced materials and manufacturing systems;
 - (ii) Agriculture, food and environmental sciences;
 - (iii) Biotechnology, bioengineering and life sciences;
 - (iv) Information technology;
 - (v) Transportation logistics; and
 - (vi) Bio-based products.

The benefits and eligibility thresholds under the incentive programs of the Consolidated Incentive Act are determined in relation to the tier in which the business locates or expands. The State is segmented into four (4) tiers based on poverty rate, population growth, per capita income and unemployment rate with Tier 1 counties being the most prosperous and Tier 4 counties being the least prosperous. The tiers are assigned annually, based on the previous year's statistics.

You may download the current tier map from the Commission's website at:

www.ArkansasEDC.com

The following incentive programs are provided in the Consolidated Incentive Act of 2003 Arkansas Code §15-4-2701 et seq:

Advantage Arkansas

The Advantage Arkansas program offers a state income tax credit for job creation based on the payroll of the new employees hired as a result of the project.

The benefits under this program are determined in relation to the tier in which the business locates. The annual payroll thresholds of the new employees must be met within twenty-four (24) months following the date the financial incentive agreement is signed by the Commission.

Tier	Payroll Threshold	Benefit
1	\$125,000	1% of payroll of new permanent employees.
2	\$100,000	2% of payroll of new permanent employees.
3	\$75,000	3% of payroll of new permanent employees.
4	\$50,000	4% of payroll of new permanent employees.

The income tax credit is earned each tax year for a period of five (5) years. The income tax credit cannot offset more than 50% of a business' income tax liability in any one year and may be carried forward for nine (9) years beyond the tax year in which the credit was first earned.

Tax Back

The Tax Back program provides sales and use tax refunds on the purchase of building materials and machinery and equipment in conjunction with the Advantage Arkansas program.

To qualify for the Tax Back program, a business must obtain an endorsement resolution from the local governing authority (city and/or county) that authorizes the refund of its local taxes and be approved by the Arkansas Economic Development Commission.

Eligibility Requirements:

Minimum investment of one hundred thousand dollars (\$100,000).

The business must sign a job creation financial incentive within twenty-four (24) months of signing the Tax Back agreement.

InvestArk

The InvestArk program provides sales/use tax credit incentives in an effort to stimulate the expansion and modernization of existing eligible Arkansas businesses.

Eligibility Requirements:

- Continuous operation for at least two (2) years.
- Invest a minimum of at least five million dollars (\$5,000,000) in a construction, expansion or modernization project.
- Obtain a Direct-Pay sales and use tax permit from the State of Arkansas.

The credit earned is a percentage of reported eligible project cost and is calculated based upon one-half percent (1/2%) above the sales and use tax rate in effect at the time of application. The credit may be used to offset up to fifty percent (50%) of the business' sales and use tax liability on taxable purchases in any given year.

The credit is earned in the year the eligible expenditure is made and can be applied against the business's state direct-pay sales and use tax liability in the year following the year of expenditure. Any unused credits may be carried forward for a period of up to five (5) years. Total project expenditures must be incurred within four (4) years of the date the project is approved by the Commission.

Create Rebate

The Create Rebate Program was developed to enable Arkansas to compete with another state's incentives in highly competitive situations. Create Rebate may only be offered at the discretion of the Director. This incentive requires a minimum payroll of \$2,000,000 for the new permanent employees and provides a financial incentive payment based upon a percentage of the company's annual payroll of the new permanent employees for a period determined by the Director.

The benefits under this program are determined in relation to tier in which the business locates. The annual payroll threshold of the new employees must be met within twenty-four (24) months following the date the financial incentive agreement is signed by the Commission.

The benefit received is dependent upon the tier in which the business locates:

Tier	Benefit
1	3.9% of payroll of new permanent employees.
2	4.25% of payroll of new permanent employees.
3	4.5% of payroll of new permanent employees.
4	5.0% of payroll of new permanent employees.

ArkPlus

This incentive is awarded only at the discretion of the Director. In order to qualify, the business must apply to the Commission and be approved by the Director and meet both the investment and payroll thresholds for the tier in which it locates.

Tier	Investment Threshold	Payroll Threshold
1	\$5,000,000	\$2,000,000
2	\$3,750,000	\$1,500,000
3	\$3,000,000	\$1,200,000
4	\$2,000,000	\$800,000

The benefit is the same regardless of the tier in which the business locates. The benefit is an income tax credit equal to ten percent (10%) of the investment in land, buildings, equipment and costs relating to licensing and protecting intellectual property (which would include license fees, patent fees and attorney fees to maintain or enhance the patent's or trademark's application). The business must reach the investment threshold for the tier in which it is located within four years from the date of the signing of the financial incentive agreement.

Targeted Business Incentives

The Consolidated Incentive Act also provides special incentives for new and expanding eligible businesses referred to as "targeted businesses". The targeted incentives are offered only at the discretion of the Director. Targeted businesses are found within six growing business sectors that include:

- (i) Advanced materials and manufacturing systems.
- (ii) Agriculture, food and environmental sciences.
- (iii) Biotechnology, bioengineering and life sciences.
- (iv) Information technology.
- (v) Transportation logistics.
- (vi) Bio-based products.

To qualify as a targeted business, the Commission must determine that the business falls within one of the six categories noted above, the business must have been in operation for five years or less and must pay, at minimum, 150% of the lesser of the state or county average wage. In addition, the targeted business must have an annual payroll of at least \$100,000 but no more than \$1,000,000 and demonstrate evidence of an equity investment in the targeted business of at least \$400,000.

Targeted Business Sales and Use Tax Refund (Targeted Tax Back)

This incentive program extends the benefits of the Tax Back sales and use tax refund incentive to new and expanding eligible businesses referred to as "targeted businesses". This incentive program grants a sales and use tax refund on the purchases of the material used in the construction of a

building or buildings or any addition, modernization or improvement to a new or expanding eligible business and machinery and equipment associated with the building or project.

This incentive is not available unless the business has applied for and signed a financial incentive agreement under the Targeted Business Payroll Income Tax Credit incentive program. The targeted payroll income tax credit financial incentive agreement must be signed within 24 months of signing a financial incentive agreement for the sales and use tax refund.

Targeted Business Payroll Income Tax Credit

The income tax credit for targeted businesses is offered to assist with the start-up of businesses in targeted sectors that pay significantly more than the state or county average wage of the county in which the business locates.

The benefit for a targeted business is an income tax credit based on 10% of its annual payroll, with a cap of \$100,000 per year in earned income tax credits for a business that qualifies and is approved for this incentive. The incentive may be offered for a period not to exceed five years.

A unique feature of this incentive is the ability of the eligible business to sell the credits upon the approval by the Commission.

Targeted Business Payroll Rebate (Targeted Create Rebate)

The payroll rebate incentive payment for targeted businesses is equal to five percent (5%) of the payroll of the new full time permanent employees for a period not to exceed ten (10) years provided that the following conditions are met:

- (i) The average hourly wage of the new full-time permanent employees must be at least one hundred seventy-five percent (175%) of the state or county average hourly wage, whichever is less, and
- (ii) The payroll of the new full-time permanent employees exceed two hundred fifty thousand dollars (\$250,000).

Targeted Business Investment Tax Credit (Targeted ArkPlus)

The Targeted ArkPlus program provides an income tax credit or a sales and use tax credit based upon new investment. The targeted business must:

- A. Invest a minimum of two hundred fifty thousand dollars (\$250,000) within four (4) years of the effective date of the financial incentive agreement;
- B. Create a new payroll of at least two hundred fifty thousand dollars (\$250,000); and
- C. Pay wages that are at least one hundred seventy-five percent (175%) of the state or county average hourly wage, whichever is less.

The credit earned by the targeted business shall be based upon a percentage of the investment ranging from two percent (2%) up to eight percent (8%) depending on the amount of the investment.

Prior to the execution of the financial incentive agreement, the targeted business must elect to receive the tax credits as sales and use tax credits or income tax credits.

The percentage of the targeted business' tax liability that may be offset is determined by the average hourly wage paid to the new full time permanent employees.

Research and Development Incentives

The Research and Development incentives are intended to provide incentives for university-based research, in-house research, and research and development in start-up, technology-based enterprises.

University Based Research and Development

An eligible business that contracts with one or more Arkansas colleges or universities in performing research may qualify for a 33% income tax credit for qualified research expenditures.

In-House Research and Development

New and existing eligible businesses that conduct "in-house" research within a research facility that is operated by the business that qualifies for federal research and development tax credits may qualify for in-house research income tax credits.

The credit allowed for approved in-house research is ten percent (20%) of qualified expenditures that exceed the base year, for a period of three (3) years and the incremental increase in qualified research and expenditures for the succeeding two (2) years.

The income tax credit earned for in-house research and development may be used to offset 100% of the businesses' stat income tax liability. Any unused credit may be carried forward for a period of nine (9) years.

In-house Research - Targeted Business

Businesses deemed by the Commission to fit within the six business sectors classified as "targeted businesses" may enter into a financial incentive agreement for income tax credits based on qualified research and development expenditures.

An eligible business may be approved for an income tax credit each year equal to 33% of the qualified research and development expenditures incurred each year for the first five (5) years of the financial incentive agreement. This incentive is only offered at the discretion of the Director.

The targeted business applying for in-house research and development income tax credits shall comply with all of the qualifications required of targeted businesses:

- A. In operation for less than five years;
- B. Annual payroll of not less than \$100,000 or more than one million (\$1,000,000);
- C. An equity investment of at least \$400,000; and

- D. Pay at least one hundred and fifty percent (150%) of the lesser of the county or state average wage.

As with the payroll income tax credits for targeted businesses, the income tax credit for research and development earned by targeted businesses may be sold upon approval by the Commission.

Research and Development in Area of Strategic Value

The Strategic Value Research and Development incentives are for qualifying businesses that invest in: 1) in-house research in an area of strategic value; or 2) a research and development project offered by the Arkansas Science and Technology Authority. Research in an area of strategic value means research in fields having long-term economic or commercial value to the state, and that have been identified in the research and development plan approved from time to time by the Board of Directors of the Arkansas Science and Technology Authority.

The income tax credit is equal to 33% of qualified research expenditures. The maximum tax credit that may be claimed by a taxpayer under this program is \$50,000 per tax year. Any unused credit may be carried forward for nine (9) years beyond the tax year in which it was earned.

In addition to the incentives available under the Consolidated Incentive Act of 2003, the State of Arkansas also provides the following incentives for companies that plan to locate or expand in Arkansas.

Non-Profit Incentive Act of 2005

The Non-Profit Incentive program is a discretionary incentive and is targeted toward non-profit organizations that have a new payroll of at least one million dollars (\$1,000,000). If offered, this program provides an incentive payment (payroll rebate) equal to four percent (4%) of the payroll of the new full-time permanent employees for a period of up to five years. In addition to the payroll rebate, this program also provides a sales and use tax refund for eligible projects that invest a minimum of five hundred thousand dollars (\$500,000). The refund is eligible for taxes paid on construction materials, and machinery and equipment associated with the approved project.

Equity Investment Tax Credit

The Equity Investment Incentive Program is a discretionary incentive and is targeted toward new, technology-based businesses that pay wages in excess of the state or county average wage. If offered, this program allows an approved business to offer an income tax credit to investors purchasing an equity investment in the business.

The income tax credits issued under this program are equal to thirty-three and one-third percent (33 1/3%) of the approved amount invested by an investor in an eligible business. Any unused credit may be carried forward for nine (9) years.

Capital Gains Exclusion

Capital gains derived from venture capital investments made after January 1, 2001 and held for at least five years are exempt from the Arkansas personal income tax. "Venture capital" means equity financing, broadly defined, including early stage research, development, commercialization, seed capital for startup enterprises, and other risk capital for expansion of entrepreneurial enterprises doing business in Arkansas that are qualified technology-based enterprises doing business in Arkansas, qualified biotechnology enterprises doing business in Arkansas, or qualified technology incubator clients doing business in Arkansas. (Act 857 of 2003).

Free Port Law

Arkansas has a free port law that exempts from property tax those finished goods and raw materials in transit or awaiting shipment to out-of-state customers.

Arkansas Child Care Facility Incentive Program

Arkansas offers a tax incentive for businesses that provide childcare for their employees.

The business may choose from the following income tax credit options: 1) a credit of 3.9 percent of the total annual payroll of the child care facility employees; or 2) a one-time \$5,000 income tax credit for the first year it provides child care for its employees. The credit may be carried forward for two years or until exhausted, whichever occurs first.

Additionally, businesses can receive sales and use tax refunds on the initial cost of construction materials and furnishings purchased to build and equip an approved childcare facility.

Training

The Arkansas Economic Development Commission's Customized Training Incentive Program provides intensive pre-employment training for Arkansas workers to meet the increasing technical employment needs of the state's new and expanding businesses.

Additionally, the Existing Workforce Training Program (EWTP) provides financial assistance to Arkansas' existing businesses and eligible consortia of businesses for delivering customized, industry specific training. The primary objective of the training is to upgrade the knowledge and skills of the existing workforce and to increase the capacity of state-supported educational institutions to supply the on-going training needs of Arkansas companies.

Financial assistance is available in the form of a grant or an income tax credit. The amount of support is the lesser of:

- a) One-half (1/2) of the amount paid by the company/consortia to the state supported educational institution for the training, or;

- b) Eighty dollars (\$80) per instructional hour, times the number of instructional hours and at least fifty percent (50%) of the participants completing each course must be from eligible companies.
- c) Thirty-five dollars (\$35) per instructional hour, times the number of instructional hours for safety-related training.
- d) Thirty-five dollars (\$35) per instructional hour, times the number of instructional hours for all courses if less than fifty percent (50%) of the participants completing each course are from eligible companies.

For companies that use their own employees or company-paid consultants to deliver classroom training to their employees, the amount of the Arkansas income tax credit, set by the governing council, shall not exceed twenty-five dollars (\$25) per instructional hour.

The maximum support any one company may receive is \$50,000 per calendar year.

The tax credit must be used for the tax year in which the credit is earned. There is no carry-forward for the credit.

Tourism Development

The Arkansas Tourism Development Act provides state sales tax credits and income tax credits to eligible tourism attractions meeting the following criteria:

- \$1,000,000 minimum investment in project costs or \$500,000 in high-unemployment counties.

Sales Tax Credits:

- The sales tax credit is determined by total approved project costs. The credit is equal to fifteen percent (15%) of the eligible project cost. In high unemployment counties, the credit is equal to twenty-five percent (25%) of the eligible project cost.
- The sales tax credit may be used to offset one hundred percent (100%) of the increased sales tax liability incurred as a result of the project.
- Other review criteria requested by the Arkansas Economic Development Commission may be requested to determine whether the tourism attraction project will further the purposes of the act.

Income Tax Credits:

- Eligible tourism attractions (excluding lodging facilities) may receive a state income tax credit equal to four percent (4%) of the payroll of the new full-time permanent employee working at the approved tourism project.
- The credits are earned in the tax year in which the new employees are hired.
- Any unused credit may be applied against corporate income tax for the succeeding nine years.

Recycling Equipment Tax Credit

Act 654 of 1993 allows Arkansas taxpayers to receive income tax credits for the purchase of equipment used exclusively for reduction, reuse, or recycling of solid waste material for commercial purposes, whether or not for profit, and the cost of installation of such equipment by outside contractors. Such equipment must be used in the collection, separation, processing, modification, conversion, treatment, or manufacturing of products containing at least 50 percent recovered materials of which at least ten percent is post-consumer waste.

The amount of the tax credit shall equal 30 percent of the cost of eligible* equipment and installation costs. Credits may be carried over a maximum of three consecutive years following the taxable year in which the credits accrued.

* Eligibility is determined by the Arkansas Department of Environmental Quality.

Taxpayers receiving credit under this Act for the purchase of machinery and equipment shall not be entitled to any other state or local tax credit or deduction based on the purchase of the machinery or equipment, except normal depreciation.

Tuition Reimbursement Act

This act provides a 30 percent income tax credit to eligible businesses for the costs they incur in reimbursing or paying for an employees' tuition, books, and fees for training or courses at accredited Arkansas post secondary educational institutions to improve job skills. A business' tax credit cannot offset more than 25 percent of their income tax liability in any year. An employee must be a permanent full-time employee to qualify.

Eligible businesses include:

- manufacturers classified in sectors 31-33 in the North American Industrial Classification System;
- eligible computer businesses with no retail public sales that derive at least seventy-five percent (75%) percent of their revenue from out-of-state sales;
- businesses primarily engaged in motion picture production with no retail public sales that derive at least seventy-five percent (75%) of their revenue from out-of-state sales;
- distribution centers;
- office sector businesses;
- national or regional corporate headquarters;
- firms primarily engaged in commercial, physical and biological research; and
- scientific and technical service businesses paying wages exceeding one hundred fifty percent (150%) of the lesser of the state or county average and deriving at least seventy-five percent (75%) percent of their revenue from out-of-state sales.

Arkansas Public Roads Improvement Credit Act

This act provides an income tax credit up to thirty-three percent (33%) to any individual, fiduciary, or corporation subject to Arkansas state income tax that contributes to the Public

Roads Incentive Fund of the Economic Development Commission. Each taxpayer that contributes to the Fund may make a general contribution or may designate a project for which the contribution is earmarked. The credit allowed by this act shall not exceed 50 percent of the taxpayer's net Arkansas income tax after all credits and reductions have been applied, however, amounts over 50 percent can be carried forward up to three years.

Small Business Loan Program

This program stimulates small business by providing up to one-half (½) of the amount of participation loans referred by approved lenders. A small business is one with fewer than 50 full-time employees and less than \$1 million in annual gross sales, excluding agricultural production. The Commission's share cannot exceed 50 percent of the total loan amount and cannot be less than \$2,500 or more than \$40,000. The business must provide the lender with a sound business plan, proof of credit worthiness, collateral and a demonstrated need. Proceeds may be used to purchase machinery and equipment, to stabilize working capital and/or to purchase, construct or renovate commercial real estate.

Additional Incentives

- Reduced sales and use tax rate on energy consumed in manufacturing.
- Sales and use tax exemptions for machinery and equipment used directly in manufacturing, and; air and water pollution control equipment; and, 1-800 calls.
- Sales and use tax exemptions for catalysts, chemicals, reagents, and solutions consumed or used in producing, manufacturing, fabricating, processing, or finishing articles of commerce at manufacturing or processing plants or facilities and/or to prevent or reduce air, water, and other contamination.
- Arkansas has one of the most progressive workers' compensation programs in the nation, with more than 300 insurance underwriters.
- Arkansas is constitutionally a right-to-work state. Right-to-work states prohibit making union membership a condition of employment.
- Arkansas' pro-business climate was enhanced in 1999 with passage of the Capital Gains Tax Reduction Act. This Act allows for a 30 percent capital gains exemption after January 1, 1999 for all taxpayers with capital gains liability.
- Favorable unemployment insurance and corporate income tax rate structures.
- Availability of state Economic Infrastructure and Federal Community Development Block Grant Funds.
- "Act 9" Industrial Revenue Bonds for tax-exempt, below-market financing
- For businesses that have a financial history but are unable to sell industrial revenue bonds to the public, the Arkansas Economic Development Commission can assure bond holders of repayment by guaranteeing up to \$5 million of the bond issue. The state's guarantee allows the bonds to be sold at a higher credit rating, therefore lowering the effective interest rate for the business. The Commission charges a five percent fee for guaranteeing these issues.

More detail on the incentives administered by the Arkansas Economic Development Commission can be viewed at the Commission's web site www.ArkansasEDC.com.