**<u>The Case for Tax Credits and Incentives</u>.**

<u>Why do tax credit and incentives exist?</u>

Tax Credits are a tool used by states to encourage the type of behavior that they would like to see from corporations.
For example: Today we are in Bibb, a tier 2 County, you can get twice as much for creating a job here from the jobs tax credit than if you created the same job in Cobb county.

Georgia has a lot to offer already with its location, Hartsfield Jackson Airport, the great Ports etc. It also has a fairly good selection of tax credits on offer for companies who qualify. *(See attached for tax credit listing)*

I have attached a copy of a letter from Governor Purdue on the increased investment in Georgia over the past year. New projects invested $3.75 Billion in communities around the state and created 19,462 new jobs. *(Also found at: http://www.georgia.org/Press/Pages/NewsItem.aspx?newsid=598)*

The Georgia Department of Economic Development does a phenomenal job in attracting business to Georgia, aided by the availability of incentives which they tout clearly on their web site.

<u>However we have Competition.</u>

At last count there were over 2,500 different tax incentives nationwide. Our immediate neighbors NC, SC, and TN are some of the most aggressive.

In addition, other states are trying to lure our companies away:

- The Florida Department of Economic Development will be here in September for their annual "road caravan". They spend several days here visiting area businesses in attempts to lure them to relocate or expand in Florida.

- The Indiana Department of Commerce is also here in September recruiting Georgia businesses for their state – their tour kicks off with skybox evening at Turner Field inviting CEO's and CFOs of Georgia Businesses.

- Mississippi's Economic Development is also visiting Georgia and is very aggressive in recruiting for projects into Mississippi.

Every year **Area Development Magazine** conducts a nationwide industry survey on how companies choose where to locate. I have included this for reference to back up everything I have said here today.

Area Development – Site and Facility Planning Magazine. *(Attached)*

*(Also found at: http://www.areadevelopment.com/laborEducation/july2010/labor-trumps-factors-location-decision7893.shtml)*

**The #1 reason a location is selected is "Labor Costs"** – Therefore anything Georgia can do to reduce the effective labor cost through tax credits, is a very positive move.

**"Skilled Labor Availability" is ranked sixth.** Great programs like Quickstart and the Georgia Retaining Tax Credit insure that employees here receive regular training.

My company had the privilege of working with Guardian Automotive in La Grange, and they invested heavily in employee training because of the **Georgia Retraining Tax Credit**. With the auto industry not doing well they shut down, however the vast majority of the workforce picked up and walked right over to KIA and the surrounding KIA related supplier companies and got hired as they were equipped with transferable skills.

Yesterday Whirlpool announced that they would not build their new plant overseas but instead build it here in the United States. A win for the USA, but the plant is in Tennessee not Georgia. Why not Georgia?

We will not win every bid, but we must be competitive.

**Can We Afford Tax Credits?**

| | |
|---|---|
| Georgia budget 2011 | $18,000,000,000 |
| Tax credits used by C- Corps | $90,000,000 |
| Tax credits carried forward by C- Corps | $245,000,000 |

| | |
|---|---|
| Tax credits used as a percentage of the overall budget | 0.50% |
| Tax credits carried forward as a percentage of the overall budget | 1.36% |

The Return on Investment of tax credits to the Georgia Economy is outstanding. Again I'll refer to the attached announcement by Governor Purdue that new projects invested $3.75 Billion in communities around the state and created 19,462 new jobs in the past year alone.

**<u>A Pro-Growth Proposal</u>**

**<u>Tax Credits – Why not for everyone?</u>**

Today, the value of most tax credits depends on how much state income tax liability a corporation has generated.

Some tax credits can reduce up to 50% of the liability and some up to 100%. The limiting economic development factor is that only corporations with a state tax liability can take advantage of the incentives.

Two recently introduced exceptions to this, were the State has got very serious about winning certain types of business, are the <u>Quality Jobs Tax Credit</u> and the <u>Film Production Tax Credit</u>. Both of these can be used against withholding, for a reason. It's a huge incentive that can be used immediately so long as the corporation has a workforce in Georgia.

My proposal is: **<u>That ALL tax incentives are allowed to be taken not only against a company's state income tax liability but also against their state withholding, or combine the two, if they elect to do so.</u>**

State withholding is typically 6% of a person's salary that is withheld from their paycheck and paid in by the employer monthly on their behalf. In a withholding tax credit situation the employer gets to keep the state withholding payment in the amount of the credit. Typically for the first 5 years.

<u>Who does not pay state taxes?</u>

- Companies who have operating losses and are struggling to survive.
- Technology startups – may not show taxable income for years.
- The Biotech startups that we are so greatly trying to attract.
- New Green Industries – Loads of R&D costs, but no taxes = no tax incentives.
- Insurance Companies – large workforce, high salaries, but no tax credits.
- Non Profit Organizations – Hospitals, Research Centers etc.

For all of these listed above - tax credits in Georgia are of no use to them. However they do provide and partake in all of the activities and behaviors the State wants to encourage in all businesses.

This proposal allows the State to incentivize companies who are here now and already using tax credits to do even more of the type of activities we would like to see staying here in Georgia and not have those growth activities going to other states.

**<u>Georgia would be the only State in the USA to do this</u>**. Decision makers domestically and internationally in large corporations would notice very quickly and the positive growth would follow rapidly, just like what has happened with our Film Production Tax Credit, but now with all industries.

**<u>How does this proposal fit with the committee's Basic Principles of a Sound Tax Policy?</u>**

**<u>Growth Enhancing</u>**

- It fosters economic growth and job creation.
- It provides a tax structure that encourages investment in human, physical and technological advances.
- It help's Georgia's competitiveness on job creation, development of new businesses, and retention and expansion of existing businesses.

**<u>Efficient:</u>**

- It will minimize the distortion of household economic choices as they are not affected.
- It will not impose costs on others. - If the jobs were never attracted to Georgia the held back withholding payment would not exist. On retaining and investments, the economic value of the increase in number of companies coming to Georgia would offset the lost withholding payments.

**<u>Stable</u>**:

- Changes in state revenue would occur in line with changes in general level of economic activity.

**<u>Clear</u>**:

- The incentives are already laid out and have been clear and in place for years.
- This would keep as low as possible the cost of compliance, collection and enforcement as the systems are already operational.

**<u>Fair and Equitable:</u>**

- This proposal would make incentives Fair, meaning equals are treated the same.
  This is not the case today as company A who hires 100 GA workers gets to take advantage of the incentives but the Company B does not due to long standing operating losses or lack of profits due to start up costs or nonprofit status.

**<u>Concurrence:</u>**

- Create a broader tax base by attracting more businesses to Georgia.
- Few Exemptions = all companies in all industries can qualify
- Keeps taxes low

**<u>Properly Developed</u>**

- Currently the extremely complex tax credit compliance guidelines are already in place, they just needs an added line item expansion to include allowing all current tax credits to be taken against state withholding.

AREA DEVELOPMENT
SITE AND FACILITY PLANNING
ONLINE

# Labor Trumps Other Factors in the Location Decision

**Labor costs, availability, and skills are of paramount concern when considering locations for new or expanded manufacturing operations.**

Matt Jackson, Strategic Consulting, Jones Lang LaSalle and Matt Highfield and Scott Redabaugh, Strategic Consulting, Jones Lang LaSalle (June/July 10)

The *Area Development* 2009 Corporate Survey again illustrated the importance corporations place on labor when making location decisions. Of the 26 factors measured by *Area Development*, **labor costs were rated the single most important consideration and skilled labor availability was ranked sixth in importance.**

Such ratings are consistent with Jones Lang LaSalle's experience when helping guide companies to location decisions. **Labor is typically rated highly for a number of reasons, including the significance of labor as one of the largest geographically variable costs, the impact of labor quality on plant productivity and output, and the constraints imposed on operations should labor not be available in appropriate volume and/or skill.** These and other considerations are discussed below.

These are the top-ranked site selection factors from our 24th Annual Corporate Survey of our readers conducted in the fall of 2009. To read the survey in its entirety, click here.

**Corporate Survey 2009**

Site Selection Factors

| Ranking | Ranking |
|---|---|
| 1. Labor costs | 6. Availability of skilled labor |
| 2. Highway accessibility | 7. Occupancy or construction costs |
| 3. Tax exemptions | 8. State and local incentives |
| 4. Energy availability and costs | 9. Advanced ICT services |
| 5. Corporate tax rate | 10. Inbound/outbound shipping costs |

Roll over factor for related articles

**Composition of Operating Costs**

Labor is often one of the more notable operating costs for manufacturing operations and, as stated, one of the most significant geographically variable costs. While the contribution to the total cost of operations varies by industry and type of manufacturing operation (i.e., capital/process-intensive versus labor-intensive), labor often represents the second-largest geographically variable cost. The variable nature of labor costs makes it a key consideration when determining where to locate facilities.

As a general rule, the financial dimension of location optimization can commonly be reduced to a trade-off between labor and supply-chain costs, where a company often seeks to achieve significantly reduced labor costs for nominally incremental supply-chain costs. This paradigm can be seen in North America, where companies install operations in Mexico to serve the U.S. market, and in Europe, where the candidacy of Eastern European countries for direct investment is tied to the tolerance of the supply chain in supporting the revenue markets in Western Europe.

The contribution of labor to the before-tax (before "income" tax) operating cost of a manufacturing facility for hypothetical companies in the chemicals and in the medical device industries. **(It should be noted that income tax has a notable bearing on the selection of locations in the medical device industry and has a notable impact on the overall cost profile when viewed from an after-tax perspective.)** The importance of labor to the ongoing cost of operations is evident in both examples, with labor representing 21 percent of before-tax operating costs for the chemical company and 44 percent for the medical device company.

**Labor Cost Differentials**

Despite escalations in the cost of labor in some of the world's emerging economies, there remains a notable difference in the cost of labor between the U.S. and emerging economies. At a country level, differentials can be attributed to the level of development and industrialization, labor regulations, and prevailing employee benefits practices. Within a country, the differences are often attributed to city size, composition of the economic base, and prevalence of unions. These factors combine to create a highly variable labor environment across political borders at the country, state/provincial, and municipal levels.

Within the United States, the difference in the cost of labor between high- and low-cost locations can easily range from 10 percent to 25 percent, a figure of relevance to a location decision. Labor differentials, however, are best highlighted when comparing high- and low-cost countries.

The impact of the difference can be seen in the number of companies with products represented by high labor content electing to install manufacturing capacity in such low-cost Asian locations. In an era of significant margin and cost containment pressures, the case for considering locations with low-cost foreign labor is compelling and will likely remain so until fuel costs increase to such a level that the costs of transporting materials and finished product erode the desirability of manufacturing locations that are geographically distant from where sales are generated.

**Labor Composition**

**Costs for direct labor are particularly important to location decisions and typically receive a lot of attention from manufacturing companies when seeking sites for new or expanded operations.** This is because direct labor categories (i.e., unskilled, semi-skilled, and skilled labor) typically comprise the largest number of workers in a manufacturing facility. While the exact composition of an operation varies by industry, most headcount is represented in the direct labor groups, with the number of employees declining sharply with climbing skill grade to the maintenance, engineering, and professional-level employee.

**Labor Availability**

The availability of labor is also a significant consideration in a location decision. **If the growth, concentration, and volume of labor skills and target work force are not sufficient to support the scale of a new operation, a location that might otherwise demonstrate merit as a candidate for a facility might in reality prove to be an incorrect choice.** The size of an operation must be aligned with the market's ability to provide talent (supply) and competition for the talent (demand).

**Management**

Another key consideration when locating a facility is finding management-level talent to run operations. Sometimes an investigation of management availability does not receive a comparable level of effort as expended on the investigation of the direct-labor categories because the number of management positions that need to be filled is notably lower.

Management talent, however, can be very difficult to source and companies tend to have significant difficulties finding qualified production, quality-control, and supply-chain professionals. If a company also requires that candidates possess an industry specialization, the number of individuals able to meet job requirements can quickly decline.

**Labor Investigative Process**

Accurate data on labor costs, availability, and quality is challenging to acquire and calibrate when making comparisons across geographic areas. During the location selection effort, the assessment of labor considerations evolves and becomes more focused on micro-market considerations as the investigation moves through each phase of the analytical process.

1. Identification: Locations are subjected to a filtering exercise to identify a list of candidates that appear to align with the broader objectives of the investment. In this step, labor analysis would likely be conducted on the desktop using published and survey data with a focus on measurements of cost and supply.

2. Validation: Locations are commonly subjected to primary in-market research to obtain a detailed understanding of labor supply and demand characteristics, competitive compensation strategy, and market-entry strategy.

3. Negotiation: The investigation migrates to developing an understanding for how labor conditions might be influenced by **utilizing economic development incentive programs**. The investigation will focus on how statutory or discretionary incentive programs can support the relocation, **recruitment, and training** of potential employees.

A successful outcome of the process can be summarized as finding a location with the appropriate costs, labor supply, skills, government support, and the ability to successfully sustain operations for an extended period.

### In Sum

Given the importance of labor to the cost of operations — and its position as one of the most significant geographically variable costs — labor costs will likely remain one of the most important considerations when selecting a location for new manufacturing operations. The geographic variability in costs, skills, supply, and regulation further support the need for robust labor analytics.

STATE OF GEORGIA

*OFFICE OF THE GOVERNOR*

**ATLANTA, August 12, 2010** – Governor Sonny Perdue announced today that both jobs and corporate investment increased in Georgia during the state's fiscal year 2010 as a result of the marketing activities of the Georgia Department of Economic Development (GDEcD). Companies invested $3.75 billion in communities around the state, a 46.7 percent increase from FY09, and created 19,462 jobs, an increase of 14.7 percent.

"The job and investment growth we have seen this year gives us faith that our economy is beginning to turn the corner," said Governor Perdue. "However, these projects are only a beginning; there is still a great deal of work to do. We will continue to scour the globe to bring jobs to Georgia and cultivate our business environment to grow jobs with companies that are already here."

The number of projects worked by GDEcD's Global Commerce division also increased in FY10, from 327 to 335. Expansions of existing Georgia businesses accounted for 224 of these projects (67 percent) and created 70 percent of the total number of jobs and 66 percent of the total investment. Start-up companies and those investing in Georgia for the first time made up the other one-third of these projects.

Fifty-seven percent of GDEcD's projects were located outside Georgia's major metro areas of Atlanta, Macon, Savannah, Augusta and Columbus, and accounted for 51 percent of all new jobs announced. Sixty-nine investments, or 21 percent, were made by international companies, who created 4,424 jobs – 23 percent of the total – and $698 million in investment. Typically, foreign direct investment (fdi) projects create more jobs and investment. Twelve projects representing 1,356 jobs and $723 million in investment were announced as a result of the department's FY10 missions.

The Department of Economic Development's regional project managers and industry teams collaborate on projects with multiple public and private partners. As a result of these partnerships, major companies like Pilgrim's Pride, operated by JBS SA of Brazil, brought 1,400 food-processing jobs to Coffee County; Dendreon opened a 550-job pharmaceutical manufacturing plant in Union City; Mitsubishi Power Systems sited a $320-million turbine facility on the state's megasite in Pooler; and GE Energy is hiring 400 workers for its new smart grid facility in Cobb County.

Georgia's Centers of Innovation play a key role in moving innovative small start-up companies onto a high-growth track. By the end of FY10, these centers had transitioned 84 of these companies, which typically create high-paying jobs, into viable, active projects, and had almost 200 more in the pipeline. These companies have the potential to create more than 30,000 jobs and invest $5.5 billion.

GDEcD's International Trade Division reported an increase of seven percent in the trade deals it assisted, with a total of 235 deals in 50 countries valued at $21.3 million. The division served 832 companies, up 12 percent from FY09. Eighty-two percent of those companies have 100 employees or less, signifying the critical role trade plays in the growth of small- and medium-sized businesses. Sixty percent of these trade deals were assisted by the state's 10 international offices, which also facilitate fdi and tourism for Georgia.

The department's Film, Music and Digital Entertainment division had a banner year, thanks to the impact of 2008's Georgia Entertainment Industry Investment Act, which catapulted the state into the nation's top five for film production. Movies like "The Last Song," "The Conspirator," "Hall Pass" and "The Lottery Ticket" and hit TV shows such as "Drop Dead Diva," "Vampire Diaries" and "The Mo'Nique Show" used Georgia as their primary filming location during fiscal year 2010.

The total number of productions (a combined total of features, independent, and TV/episodic film, commercials, music videos and video game development) was 330 in FY10, with combined production budgets increasing from $647.6 million in FY09 to $744.3 million in FY10. Up to 70 percent of a feature film's budget is typically spent in the jurisdiction in which it is filmed. In addition, production activity kept more than 5,000 crew members and technicians working in 50-plus counties throughout the state. Altogether, the industry's economic impact in the state in FY10 came in at $1.33 billion, up from $1.1 billion the previous year.

As the fifth largest employer in the state, the travel industry plays a vital role within the state of Georgia. In 2009, tourism generated 212,200 jobs and $1.36 billion in state and local tax revenue. The state attracted 689,000 international visitors, nine percent more than the previous year and in contrast to a national decline of six percent, ranking Georgia second in the nation in international visitor growth. At the close of the fiscal year 2010, hotel/motel occupancy in Georgia was up 4.2 percent from the year before, room revenues were up 4.3 percent, and room demand was up 7.6 percent.

Georgia's 11 visitor information centers registered 10.96 million visitors in FY10 and made more than 28,000 room reservations resulting in hotel/motel revenues of $1.98 million. The state's consumer travel web site, ExploreGeorgia.org, experienced a record traffic month in June 2010, recording 132,561 visits; 116,417 unique visitors; and 786,300 page views.

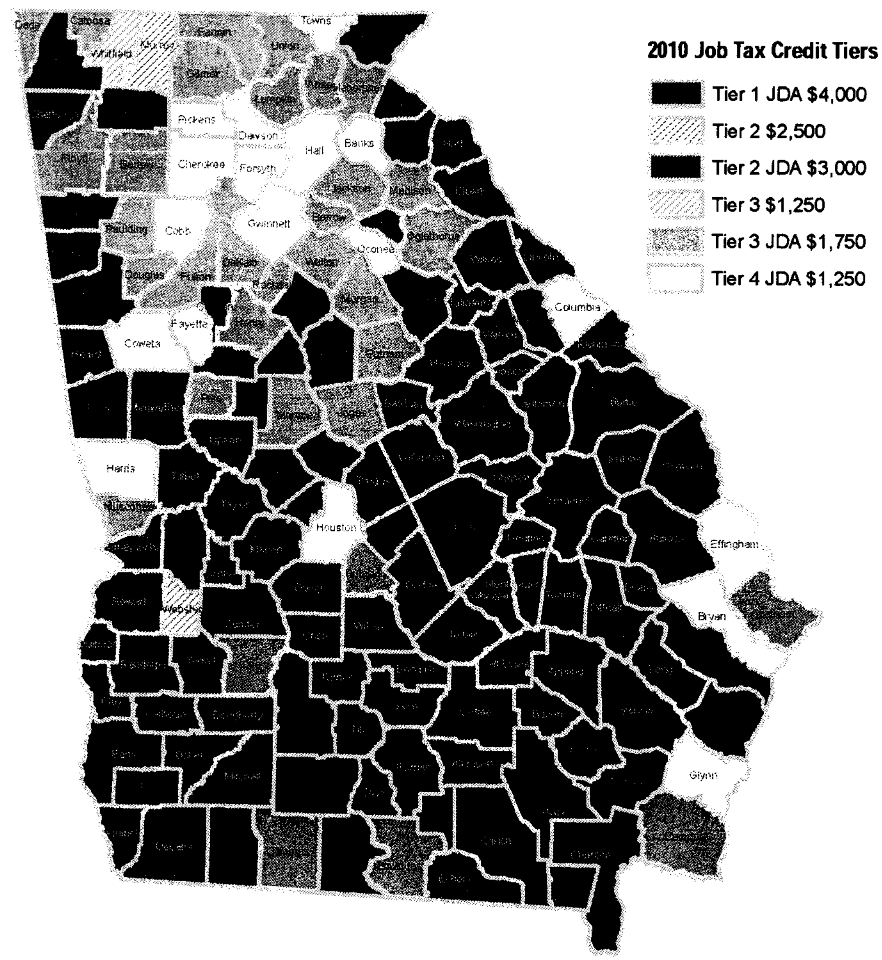
The Georgia Department of Economic Development (GDEcD) is the state's sales and marketing arm, the lead agency for attracting new business investment, encouraging the expansion of existing industry and small businesses, locating new markets for Georgia products, attracting tourists to Georgia, and promoting the state as a location for film, music and digital entertainment projects, as well as planning and mobilizing state resources for economic development. For more information, visit www.georgia.org.

# Georgia's County Tier System and Tax Credits

## 2010 Tier Designation and Business Tax Credit Summary

Businesses expanding or newly arriving in Georgia are often eligible for a variety of tax credits. The table below lists major statutory tax credits potentially available to qualifying companies. A description of each program follows a summary of credit compatibility and Georgia's county tier system.

| | Type of Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Mfg. & Light Assembly | Warehouse / Dist. | Large Office | Customer Service Center | Data Center | R&D Firm | Tourism | New or Existing Business |
| Job Tax Credit | X | X | X | X | X | X | X | BOTH |
| Job Tax Credit Bonus | X | X | X | X | X | X | X | EXISTING |
| Investment Tax Credit | X | | | | | | | EXISTING |
| Optional Investment Tax Credit | X | | | | | | | EXISTING |
| Port Activity Job Tax Credit | X | X | X | | | | | BOTH |
| Quality Job Creation Tax Credit | X | X | X | X | X | X | X | BOTH |
| "Mega Project" Tax Credit | X | X | X | X | X | X | X | BOTH |
| Retraining Tax Credit | X | X | X | X | X | X | X | BOTH |
| Education Tax Credit | X | X | X | X | X | X | X | BOTH |
| Small Business Growth Tax Credit | X | X | X | X | X | X | X | EXISTING |
| Research and Development Tax Credit | X | X | X | X | X | X | X | BOTH |
| Child Care Tax Credit | X | X | X | X | X | X | X | BOTH |
| Qualified Child Care Property Tax Credit | X | X | X | X | X | X | X | BOTH |
| Teleworking Tax Credit | X | X | X | X | X | X | X | BOTH |




Georgia Power has been helping companies locate in our state for more than 80 years. We offer full array of products and services available to you at no cost. To access these and receive confidential, proven assistance, please contact our experienced professionals.

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