

Business Development Incentives Overview

Types of Incentives

Statutory

- Company must meet "Eligible Business" definition
- Must meet minimum requirements defined by each program
- If company meets all criteria as defined by law, application will be approved
- Not all programs can be used for the same project



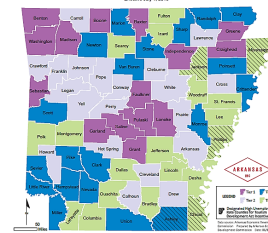
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Discretionary

- Company must meet "Eligible Business" definition
- Must meet minimum requirements defined by each program
- Programs must be approved by Executive Director and/or Governor and be offered by the AEDC in an Incentives Proposal
- Not all programs can be used for the same project

TIER MAP

Arkansas Incentive Tier Map



	DISCRETIONARY INCENTIVES		CREATE REBATE		OFFERED	
	Payroll Threshold	Benefit % of Payroll	Payroll Threshold	Benefit % of Payroll	Minimum Investment (State's 10% of Investment)	Minimum Payroll
TIER 1	\$100,000	3%	\$100,000	3.9-5%	\$1,000,000	\$1,000,000
TIER 2	\$100,000	2%	\$100,000	4.25%	\$1,750,000	\$1,750,000
TIER 3	\$100,000	1%	\$100,000	7.5%	\$2,500,000	\$2,500,000
TIER 4	\$250,000	4%	\$250,000	5.5%	\$1,000,000	\$800,000

Business Development Incentives Overview

Statutory Incentives

Advantage Arkansas

- Provides an income tax credit to eligible companies
- Credit is based on percentage of payroll of the new employees hired
- Credit is earned annually for a period of 5 years
- Company can offset 50% of its income tax liability
- Unused credits may be carried forward for 9 years

Tax Back

- Provides a refund of sales and use tax paid on qualified expenditures (building materials; machinery and equipment exempt)
- Refund will consist of city, county and state taxes paid less 1% (1/8%-Conservation; 7/8%-Education)
- Currently the state sales tax is 6.5%; therefore the refund of state taxes will be 5.5% of the eligible taxable purchases
- Company must spend at least \$100,000 to qualify and obtain city and county resolutions authorizing refund
- The Tax Back program must be combined with Advantage Arkansas

Business Development Incentives Overview

Discretionary Incentives

Create Rebate

- Offered from 1–10 years
- Provides annual cash payments based on a percentage (3.9-5%) of a company's payroll for new employees
- Company must create at least \$2,000,000 in new annual payroll to be eligible

Upfront Cash Grants

- Governor's Quick Action Closing Fund or Community Development Block Grant (CDBG)
- AEDC grants help assist companies with the cost of infrastructure and equipment, which can include but is not limited to site preparation, industrial access roads, sewer and water improvements, rail spurs, parking lots and necessary improvements to the facility/site.
- The amount of assistance is dependent upon the strength of the company, number of jobs, average wage, project investment and costs associated with the expansion.

Business Development Incentives Overview

Discretionary Incentives

ArkPlus

- Provides a state income tax credit equal to 10% of the total investment in the project
- Requires both minimum payroll and minimum investment, based on tiers (see Tier Map)
- Credits may be used to offset 50% of company's income tax liability
- Unused credits may be carried forward for 9 years

Property Tax Abatement

- Cities and Counties are authorized to issue Industrial Revenue Bonds (IRBs) based on the financial strength of the company / bonds can be tax exempt
- Provides access to property tax reduction of up to 65% for the life of the bond

Business Development Incentives Overview

Financing

Bond Guaranty

- AEDC and ADFA can "guarantee" timely payment of principal and interest of up to \$11M / guaranty provides a more attractive bond rating which lowers the effective interest rate to the company

Community Development Block Grants

- Funds may be loaned to manufacturers for fixed-asset financing on projects that create jobs for low-to-moderate income families / 7-15 year terms with competitive rates

TRAINING

AEDC Business & Industry Training Grants

- Customized Training Grants are flexible and highly customizable, providing reimbursement for both on and off-site training for newly created positions related to an expansion or new location. Pre-employment training, new employee orientation, on-the-job training, and/or skills upgrades for new positions qualify under this program.

Examples of eligible training expenses can include, but are not limited to the following:

- Trainer wages or fees
- Training materials
- Training facilities
- Trainer or trainee travel costs
- Curriculum development, and
- Other costs which are pre-approved by both the company and the AEDC

TRAINING

Ongoing Supportive Training Grants

Office of Skills Development (OSD) is a Division of the Department of Career Education. Grants are available to support training that falls into the following categories:

- Grow Your Own** — Available to HQ's in Arkansas with 250 or fewer employees.
- Skills Gap** — Addresses critical gaps in workforce skills, typically demanded by a regional or industry-wide need, not a single organization.
- Customized Technical** — Typically associated with highly technical training that is specific to or customized for a certain industry, skill or equipment.
- Professional Development** — Typically classroom training associated with soft skills or core academic skills, as would be applicable to a large set of employees. Primary examples include those related to Microsoft Office products as well as Leadership Supervision, Conflict Resolution and Safety.

WHY ARKANSAS?

1st in CNBC Lowest Cost of Doing Business

2nd Lowest Cost of Living Index

40% of the US Population Within a Day's Drive

3.9% union membership rate – Right-to-work state

7th Ranked in Quality of Life

9th Highest % of Workforce in Manufacturing

Income Tax Cut Signed in 2015 & 2017

Balanced Budget Since 1945

Opportunity Zone Overview



Arkansas Economic Development Commission
Little Rock, Arkansas
2019

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Opportunity Zone Tax Benefit

- Signed into federal law as part of the Tax Cuts and Jobs Act of 2017
- Investors currently hold over \$2.3 trillion in unrealized capital gains and the Program has no appropriations cap.
- Encourages long-term equity investments into targeted low-income communities through Opportunity Funds, incentives are tied to the longevity of the investment.

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Opportunity Zone Tax Benefit

Taxpayers can get capital gains tax deferral (& more)



for making timely investments in

Qualified Opportunity Funds (QOFs)



which invest in

Qualified Projects located in Opportunity Zones

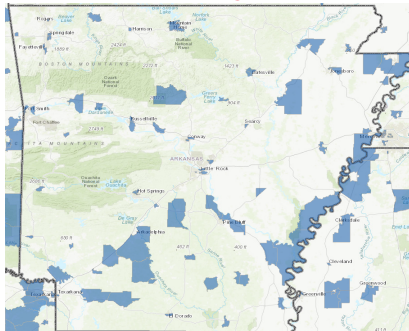


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Arkansas Opportunity Zones



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Opportunity Fund Investors

- Any individual, corporation, or trust, whether foreign or domestic
- Can defer an unlimited amount of capital gain from the sale or exchange of any property (stock, business assets, personal assets, or any other property) to an unrelated person
- by investing part or all of the proceeds from such sale or exchange in a "qualified opportunity fund," during the 180-day period beginning on the date of the sale or exchange
- Only capital gains realized in sales or exchanges on or before December 31, 2026, can be deferred under this program

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What are Opportunity Funds?

Any corporation or partnership organized for the purpose of investing in qualified opportunity zone property

Opportunity Fund self certifies (no approval or action by the IRS is required.) by completing a form and attaches that form to the taxpayer's federal income tax return for the taxable year.

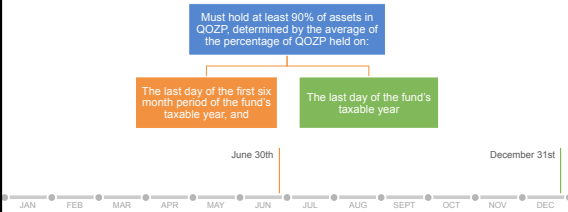
Fund must invests at least 90% of its assets into eligible Opportunity Zone property. Financial penalties for not meeting 90% test

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Qualified Opportunity Fund – Asset Test



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Investment in Opportunity Zones



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Opportunity Zone Business

- To qualify as an Opportunity Zone Business:
 - substantially all of the tangible assets (70%) of the business must be used in an Opportunity Zone
 - at least 50% of the gross income earned by the business must be from the active conduct of a business in the Opportunity Zone
 - and the business can hold only a limited amount of investment assets

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Ineligible Opportunity Zone Business

- Apart from the exclusion of a few "sin" businesses, the activities and projects Opportunity Funds can finance are broad.
- A Qualified Opportunity Zone Business cannot engage in any of the following "sin" businesses: any private or commercial golf course, country club, massage parlor, hot tub facility, suntan facility, racetrack or other facility used for gambling, or any store the principal business of which is the sale of alcoholic beverages for consumption off premises.
- *Note: It is also assumed by many third party professionals that medial marijuana related facilities would be included in this definition.*

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Qualified Opportunity Zone Property

- Tangible property used in a trade or business if such property
- (i) was acquired by purchase after December 31, 2017
- (ii) the original use of such property in the QO Zone commences with the QO Fund or the QO Fund substantially improves the property
- (iii) substantially all of the use of such property was in a QO Zone during substantially all of the QO Fund's holding period for the property. QOZBP will be treated as substantially improved by a QO Fund only if during the 30 month period beginning after the date of acquisition, the additions to the basis of such property in the hands of the QO Fund exceed the adjusted basis of such property at the beginning of the 30 month period

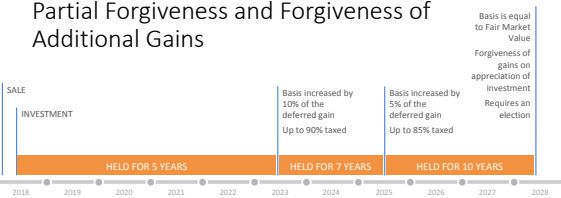
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Opportunity Zone Business

Partial Forgiveness and Forgiveness of Additional Gains



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Sample Investment

Jan. 2, 2018
Taxpayer enters into a sale that generates \$1M of capital gain

June 30, 2018
(Within 180 days), Taxpayer contributes entire \$1M of capital gain to a Qualified Opportunity Fund

- Taxpayer is deemed to have a \$0 basis in its QOF investment
- QOF invests the \$1MM in Qualified Opportunity Zone Property

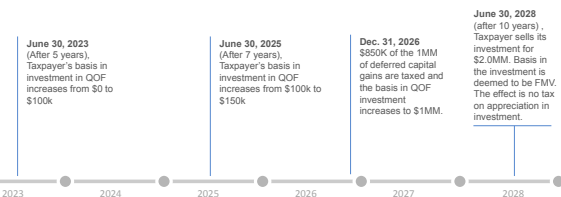


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Sample Investment



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State Tax Implications

- Opportunity Zone benefits increase if states conform to the Federal Law
- Some states piggy-back off of the current Federal Law but could decouple from OZs
 - New York decided not to decouple
 - Hawaii decided to decouple
 - North Carolina released a draft bill that would decouple
- Some states do not conform to Federal Law but could add OZs at the state level
 - Colorado is considering a bill to add the OZ benefit at the state level
- Some states do not have a state income tax (e.g. Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming)
- State Tax Implications of an single OZ transaction may include multiple states
 - State where original gain was realized
 - State (s) where the opportunity fund has nexus
- Some states are tying other State incentives to opportunity zones
 - Missouri proposed increased cap for state historic credits for properties in OZs
 - California introduced a bill to exempt projects in OZs from the CA Environmental Quality Act

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