

**Abstract:** It's a challenging time to grow a business. So, any help a business owner can get in the form of tax credits, tax exemptions and other incentives can make a big difference. Unfortunately, these incentives often go unclaimed. This article explains two types of tax incentives: statutory and discretionary. A brief sidebar explores the availability of states' sales tax exemptions.

## **Are you aware of the business credits available?**

It's a challenging time for businesses. Therefore, any help you can get — such as tax credits, tax exemptions and other incentives — can make a big difference. Unfortunately, these incentives often go unclaimed because businesses don't know about them.

Here's a look at two types of incentives available and an outline of some potential benefits.

### **1. Statutory incentives**

Some credits are available “as of right.” That is, if your business meets the specified requirements, you just need to claim the benefit on a timely filed tax return to receive it.

State and federal tax credits and exemptions are designed as incentives for businesses to engage in certain activities or invest in specific economically distressed areas. Here are a few:

***Work Opportunity Tax Credit (WOTC).*** The WOTC is a federal credit, ranging from \$2,400 to \$9,600 per eligible new hire from certain disadvantaged groups. Examples include convicted felons, welfare recipients, veterans and workers with disabilities. Other steps must also be taken, such as completing paperwork.

***State and federal research and development (R&D) tax credits.*** These credits may be available to an eligible business that invests in developing new products or techniques, improving processes, or developing software for internal use, regardless of size. The federal “increasing research activities” credit is equal to 20% of the amount by which the business increases qualified research expenditures, compared to a base amount.

The R&D credit is available even to businesses with no income tax liability and may be carried forward to offset taxable income in future years. If eligible, a start-up company can claim the federal R&D credit against up to \$500,000 in employer-paid payroll taxes.

***Empowerment zone incentives.*** Certain tax breaks are available to companies that operate in federally designated, economically distressed “empowerment zones.” Tax credits may be worth up to \$3,000 for each eligible employee.

***Industry-based and investment credits.*** Many states and other jurisdictions offer tax credits and other incentives to attract certain types of businesses, such as manufacturing or film and television production. Jurisdictions may also offer investment tax credits for capital investments within their borders.

### **2. Discretionary incentives**

Discretionary tax breaks must be negotiated with government representatives. Typically, these incentives are intended to persuade a business to stay in, or relocate to, a certain state or locality.

To secure these incentives, a business must show it'll bring benefits to the jurisdiction, such as job creation and revenue generation. Discretionary incentives may include income and payroll tax credits, property tax abatements and utility rate reductions.

### **Don't miss these opportunities**

Every year, a vast amount of these tax credits and incentives aren't claimed because businesses are unaware of them or erroneously believe they're ineligible. Many more examples exist. Your tax advisors can help ensure that your business receives all the tax breaks it deserves.

### **Sidebar: Sales tax exemptions**

States with sales taxes provide exemptions for some purchases. Common exemptions include purchases by:

- Retailers for the purpose of resale,
- Manufacturers of equipment, raw materials or components used in the manufacturing process,
- Specific tax-exempt entities, and
- Agricultural businesses that buy such items as farming equipment and fuel, feed, seeds, fertilizer, and chemical sprays.

Businesses should familiarize themselves with the exemptions available where they do business, and what it takes to qualify. For example, they may need to prove to the sellers that they have a resale or exemption certificate.