



US Inbound Corner | Navigating complexity

Utilizing credits and incentives to increase ROI and align with organizational initiatives

When a company is evaluating which location is best suited to invest capital for hiring initiatives, research and innovation, or sustainability initiatives, credits and incentives ("C and I") may be a top consideration. However, C and I is often overlooked or is an afterthought that consequently yields a lower benefit or no benefit at all.

By evaluating locations where C and I is available at the local, state, and federal levels, a company may enhance its return on investment ("ROI") for the project or initiative. Often, companies need to implement a process that coordinates and connects its business activities across

multiple functions to potential C and I opportunities. A seamless integration of such process creates various efficiencies, including, but not limited to, the following:

- Streamlining resources to collect data and analytics
- Establishing working groups of key internal stakeholders
- Utilizing a shared technology platform
- Increasing technical accuracy due to interplay among credits

U.S. – Federal credits and incentives

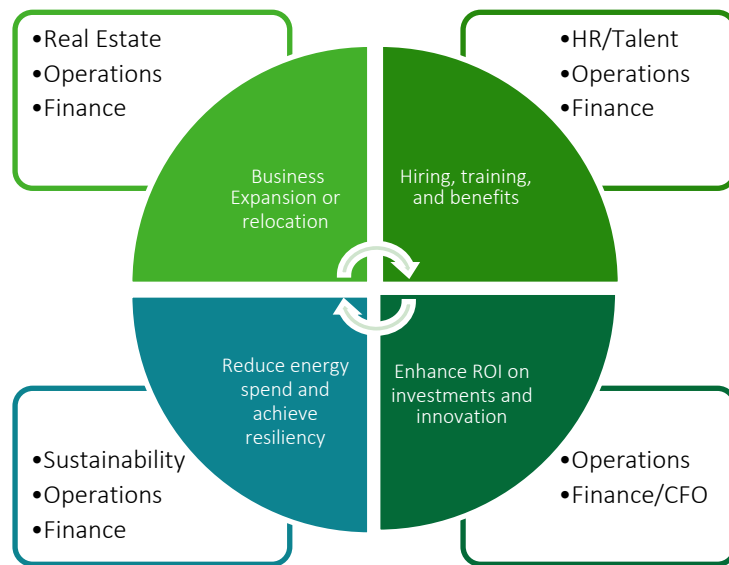
The onset of the coronavirus disease 2019 ("COVID-19") pandemic, social issues, and the beginning of a new presidential administration may lead several companies

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to reevaluate upcoming capital investments that may be incentivized by a local, state, and federal C and I program. Some of the top US federal programs of current interest are described below:

Employment

- **COVID-19 Employee Retention Credit 2020:** A tax credit equal to 50% of qualified wages paid to employees with respect to the period beginning March 13, 2020 and ending December 31, 2020. The maximum amount of qualified wages paid to each employee is \$10,000 per calendar year, resulting in a maximum credit of \$5,000 per employee.
- **COVID-19 Employee Retention Credit 2021:** A tax credit equal to 70% of qualified wages paid to employees with respect to the period beginning January 1, 2021 and ending December 31, 2021. The maximum amount of qualified wages paid to each employee is \$10,000 per calendar quarter with a maximum credit amount of \$7,000 per calendar quarter, resulting in a maximum credit per employee of \$28,000 for the 2021 calendar year.

Sustainability

- **Investment Tax Credits ("ITC"):** The ITC is a general business credit that, based on the type of energy property installed, ranges from 10% to 30% of the costs incurred to place in service certain qualified energy property (i.e., solar, fuel cell, stationary microturbine, geothermal heat pump, small wind, combined heat and power, waste energy systems, and geothermal). The ITC is available in the taxable year that the energy property is placed in service. A taxpayer may also elect to claim the ITC in lieu of the Production Tax Credit ("PTC") for PTC-eligible technologies, such as wind, biomass, and hydroelectric projects.
- **Carbon Sequestration:** Provides a tax credit based on the amount of qualified carbon oxides ("CO/CO₂") captured from a qualified facility that would otherwise be emitted into the atmosphere over a 12-year period. The credit amount is up to \$50 per metric ton ("MT") of qualified CO/CO₂ that is captured and disposed of in secure geological storage. Alternatively, the credit amount is up to \$35 per MT of qualified CO/CO₂ that is (i) captured and utilized as a tertiary injectant in an enhanced oil

recovery or natural gas recovery project, and disposed of in secure geological storage; or (ii) utilized for any other purpose for which a commercial market exists. In certain circumstances, the credit may be transferred from the taxpayer that owns the carbon capture equipment to the taxpayer that disposes of, injects, or utilizes the qualified CO/CO₂.

Location

- **Qualified Opportunity Zones:** Taxpayers may defer and partially reduce capital gains tax due on the sale or exchange of an asset where gains are reinvested in a Qualified Opportunity Zone ("QOZ") through a Qualified Opportunity Fund ("QOF") during the 180-day period beginning on the date of the sale (some exceptions apply). The QOF may directly or indirectly invest such funds in a variety of industries, including real estate and most operating businesses. In return for investing capital gains in a QOF, a taxpayer may receive a permanent reduction of the deferred gain originally realized equal to 10% (if the QOF is held at least 5 years before December 31, 2026). If the investment in the QOF is for a period of at least 10 years, then the investor may elect to receive a permanent exclusion of the appreciation on the QOF investment.
- **New Markets Tax Credit ("NMTC"):** NMTC provides upfront cash (not tax credits) to qualifying catalytic-impact expansion projects in low-income communities in the form of a low-rate, interest-only loan for 7 years, which is forgiven after the 7-year period. Taxpayers can receive approximately \$2.5 million in a "forgivable" loan for every \$10 million of capital expenditures in certain low-income or rural areas. The maximum cash benefit is typically \$7-\$15 million. Due to the unique nature of the NMTC benefit (i.e., forgivable debt vs. tax credit), it is one of the few federal incentives that can benefit a taxpayer with large NOL carryforwards.

Research and Development

- **R&D:** The R&D tax credit is a permanent tax credit available to companies investing in new products, new processes, new software, new technologies, and the improvement of existing products and processes. The type of qualified research expenditures ("QREs") eligible toward the tax credit include wages, supplies, contract research expenses, and basic research payments. The R&D activities and expenditures for such activities must occur in the United States. Note that many states may also offer R&D incentives.

Conclusion

By involving tax at the outset, a company may be able to benefit from a broad-based approach regarding its capital investments, increasing head count, or implementing environmental, social, and governance initiatives that simultaneously align the priorities of the organization while also increasing a project's ROI.

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