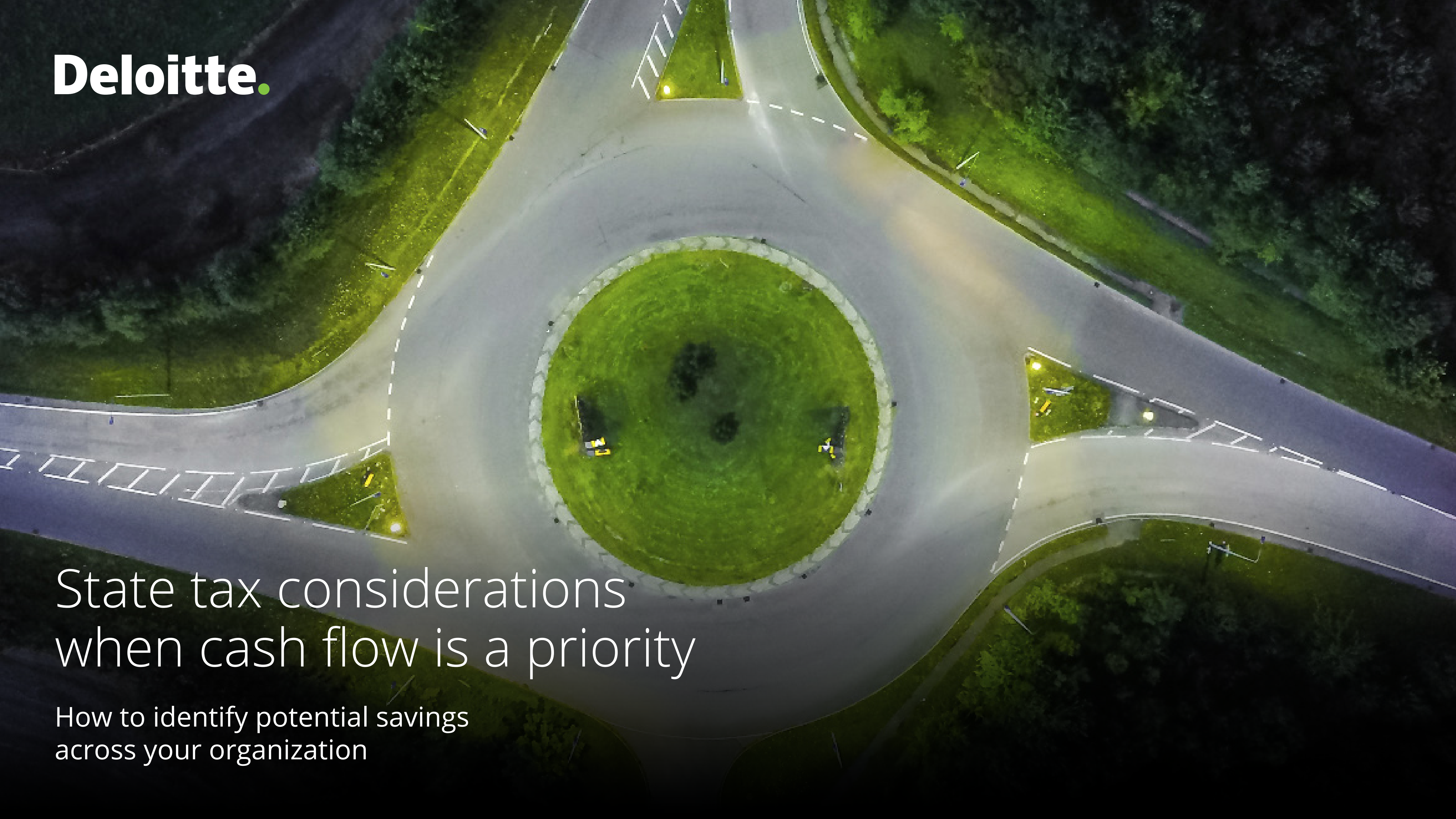
Deloitte.



State tax considerations when cash flow is a priority

How to identify potential savings across your organization

Table of contents

Overview

Strong economic growth. Global pandemic. Inflation. Over the past two years, the business environment has been unpredictable. Now, your organization may need to address the rising costs of goods and talent that may be, in part, the result of these challenges.

Enhanced cash flow is the expectation. Planning for an efficient tax footprint can contribute to meeting that goal.

It's important to understand how a variety of tax planning considerations may ultimately impact enterprise value in what might otherwise be tactical maneuvers. Organizations should complete a broad-based assessment of their current and future tax situation in three key areas: income tax, indirect tax, and credits and incentives. Then organizations may more easily focus on tax considerations that aid enhanced cash flow initiatives while meeting the overarching business objectives of the organization.

Income tax

A first step in exploring potential opportunities to increase cash tax savings in the area of state income tax requires a landscape assessment of an organization's income tax situation. This assessment should include an understanding of the impacts of ongoing federal and state tax reforms, completed and planned merger and acquisition (M&A) initiatives, changes to your business models, and risk mitigation strategies. Once the assessment is complete, it may be used to rank cash flow priorities, including those offering quick wins and those presenting long-term considerations for efficiencies.

Considerations

One income tax consideration is legal entity rationalization. This can help determine whether the legal structure and business operations are functionally aligned and assess whether the existing or proposed structure is tax efficient. Another is structural simplification—streamlining an organization to reduce administrative costs, tax filings, tax liabilities, and overall complexity. Transactional-related structuring can reduce not only tax impacts while mitigating risk but also the need for reserves and potential future cash outlays.

Due to evolving state laws, tax regulations, and tax guidance (market-based sales factor sourcing, GILTI inclusions, etc.), an organization might also consider its filing positions on amended and current returns. This could include the following:

- Tax reform-related adjustments due to conformity or disconformity GILTI, 163j, NOLs)
- Transaction-related gains taxation and apportionment impacts
- Alternative apportionment options to more clearly reflect business operations in a given state

Indirect tax

Understanding an organization's indirect tax life cycles—both for transaction and property taxes—and the risks and areas to generate value within them is vital when looking for enhanced cash flow. Evaluating all the aspects of these life cycles can help determine if there are options for correction or automation that could spur retroactive and/or prospective savings or mitigate existing risks.

Considerations

Indirect taxes offer several potential considerations for reducing taxes to increase cash flow.

Unbundling software: Determine value of unbundled software and software maintenance, and confirm that all items are properly classified taxable or nontaxable. View the taxable items to determine if they are accurately sourced. For example, analyze how many remote employees are using the software in jurisdictions other than the one in which the organization is headquartered. This software may be exempt, excluded from tax, or taxed at a lower rate.

Bad debt write-offs: In many states, sales tax is not due on sales subsequently written off as bad debt.

Property tax: Potential property tax considerations include vacancy issues and/or obsolescence. It may be worth analyzing properties to determine if steps could be taken to reduce the organization's property valuations:

- Compare tax assessor data with portfolio data to identify and isolate discrepancies
- Determine which approach or approaches to value the assessor is using
- Work proactively to correctly value property to stay ahead of reevaluations
- Support and defend valuation appeals with reliable and relevant data

Other indirect tax considerations

- Exemptions related to environment- and sustainability-related purchases
- Data center exemptions
- Fleet refund considerations
- Commercial rent tax refunds
- Research and development exemption

Credits and incentives

Many tax credits and incentives may be available simply by engaging in regular, day-to-day business activities. This includes activities such as investments in certain business locations and facilities, capital equipment investment, personnel additions or retention, new products, research and development (R&D), M&A, technology investments, outsourcing, and energy efficiency programs.

To benefit from credits and incentives, both hindsight and foresight are crucial. An organization should answer questions about and provide metrics for the following items:

- Operational expenditures past and future plans
- Capital investments past and future plans
- Office locations, expansions, closures, and reductions
- Job creation and force reduction by location
- Tax incentive agreements of organizations that may have been acquired through a M&A event
- Environmental, sustainability, and governance (ESG) investments past and present

Once this information is gathered, then explore tax credits and incentives that may be available, and determine which to pursue—and how.

Considerations

Many common business activities offer opportunities to claim cash flow–enhancing tax credits and incentives. These include:

- Accelerated employee growth plans and rehiring plans
- Migration of employees and business operations to new jurisdictions
- Remote and hybrid workplaces
- Investments in technology and R&D
- Real estate rationalization
- Employee training and retraining
- Capital investments in distressed areas
- Global expansions
- Renewable energy capital investments
- ESG programs

Credits and incentives (cont.)

Once activities that may apply to the organization have been assessed, then determine which ones may pair with existing credits and incentives programs. Most states and local governments offer tax incentives programs that can provide tax and financial benefits for qualifying investments and projects. In some instances, the overall cost of an investment and project can be offset by these benefits.

Examples of some federal and state credits and incentives programs:

- Federal Work Opportunity Tax Credit
- Federal Investment Tax Credit and Production Tax Credit
- Federal New Markets Tax Credit
- Georgia Investment Tax Credit—manufacturing and telecommunications
- Georgia Job Tax Credit and Quality Jobs Tax Credit
- New York State Excelsior Jobs Program incentive
- New York City Relocation and Employee Assistance Program (REAP)
- New York State Qualified Emerging Technology Company (QETC) tax benefits/credits
- New Jersey Emerge incentive and Angel Investor credits
- California Competes Tax Credit
- Texas Enterprise Zone Program
- Illinois Economic Development for a Growing Economy Tax Credit Program (EDGE)
- North Carolina Job Development Investment Grant (JDIG)

Ready to learn what's possible?

Two years ago, few of us would have predicted that we would be living through a historic inflationary period featuring global supply chain disruption, rising wages, and labor shortages.

With this dramatic change in the business environment often comes the need for enhanced cash flow to ensure flexibility. Efforts to enhance an organization's cash position may be effective if cash planning is developed in tandem with tax planning.

Ready to learn more? Reach out to Deloitte's Multistate Tax team and start the conversation.

Kirsten Gulotta
Principal
Deloitte Tax LLP
kgulotta@deloitte.com

Irene Manos
Principal
Deloitte Tax LLP
imanos@deloitte.com

Sarah Murray
Principal
Deloitte Tax LLP
sarmurray@deloitte.com

Philip Trampe
Partner
Deloitte Tax LLP
ptrampe@deloitte.com