

Survey Date: 2018-08-29

Topic: Incentives as Taxable Income

BPAB

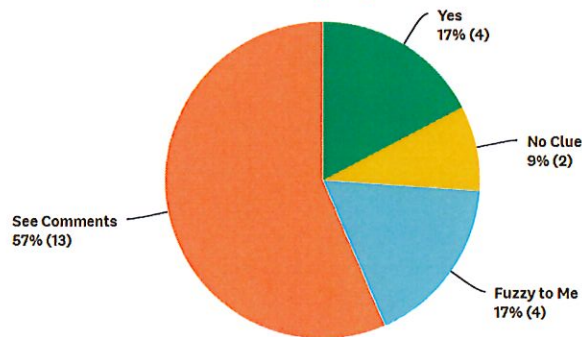
BPAP Distribution & Response: The question was distributed to 44 BPAB members and 17 executed the survey for a 39% response rate.

**Best Practices
Advisory Board**

Following are results of questions asked, and additional comments, if any.

[BACK TO TOP](#)

Are cash grants and / or job creation incentives taxable as income to a company?



- It depends on the incentive. Cash grants, equipment and other tangible assets are considered taxable income per the Tax Reform Act. Tax credits, abatement and reductions are generally not considered income.
- Based on the Tax Advisor article it appears that any cash grant incentive provided to a project with the possible exception of the cash incentive going towards infrastructure improvements would be taxable as income to the company. Tax Abatement and Chapter 380 and 381 incentives would be allowed tax free according to the article. I would suggest consulting with your CPA since this is such new legislation before going forward with a firm commitment.
- It all depends on where the accountants place/handle the payments and I am not an accountant.
- I read the article linked to your question. I assume you want us to study and be more "armed" with information so we can better serve our clients and customers. From what I gathered in reading the article, it depends on what type incentives, how they are distributed and structured. All in all, basically, companies now need a tax attorney to sift through the process and give good advice. Exactly in the end of the location process, one would wonder if receiving incentives are worth the trouble.
- It depends upon the use of grants and how good their accountant is. If the cash grant is a cap-x / infrastructure reimbursement I would say no. If it is a cash grant with no strings attached (illegal) then yes. However if it is a forgivable like an then would also need to be carried as a liability for term of clawbacks.... Fuzzy, yes
- I would think this is cash income into a company if it is a cash-per-job incentive. If it is a rebate back on taxes (Chapter 380/381) it seems that it would be offsetting revenue to the tax expense. So maybe that is handled differently. And then, maybe I am just Fuzzy as listed above.
- A cash grant would be taxable. However, there are many ways to give the same incentive without just writing them a check. Credit on lease payments and debt forgiveness are a couple of examples.
- I suggest that the entity receiving the cash grant hire a tax expert that is familiar with the following: 1) type of entity (LLC, LP, S-Corp, etc.), 2) the state tax code and 3) the federal tax code. These three are important to understand as the grant source may be local, state, federal or combination. In my experience, we indicate that our cash grants come from our general fund via local sales tax or property tax, via Section 380 of the Texas local government code, AND should be treated by the entity as a source of income. Also, there are organizations out there that will acquire an economic incentive, whereby the entity can monetize reimbursement agreements (term based grant over a period of time) adding liquidity to their project. Once such group is called District Investments LLC (www.districtinvestmentsllc.com). This group may have some knowledge on the taxable status of grants.
- Based upon the article you shared, the answer clearly appears to be "YES" for cash grants. If "job creation incentives" are in the form of cash grants, tax rebates/refunds, or a donation of land, the answer appears to be "YES". If "job creation incentives", however, are in the form of tax abatement, tax credits (that are not later refunded), tax exemptions, reduction in a tax liability, infrastructure improvements, or loans that must be re-paid, the answer appears to be "NO". Very interesting article, so thank you for sharing it!
- I'm giving a "no answer, answer". From what I can uncover, it looks like "most" incentive monies will be taxable to a business. As a caution to the business, I would highly recommend that they visit with their CPA on the issue.
- Fuzzy now that I read the article you included. Wow - this is at the very heart of ED and this point should be crystal clear. I'm embarrassed I don't know more about this!
- I believe the new tax change makes the grants taxable income to companies.
- IRS Section 118 says Govt contributions cannot be excluded from income with some exceptions.

Additional resources provided:

- <https://www.thetaxadviser.com/issues/2018/jun/federal-tax-reform-not-encouraging-state-local-incentives.html>



[BACK TO TOP](#)

2018-10-15

Best Practices Advisory Board

www.EDPBestPractices.com - Page 4

Taxable Income

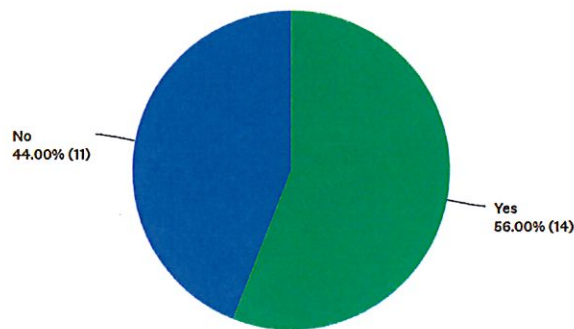
Incentives

BPAP Distribution & Response: The survey was distributed to 46 BPAB members and 25 executed the survey for a 54% response rate.

Following are results of questions asked, and additional comments, if any.

[BACK TO TOP](#)

Do you currently have a formal or informal Succession Plan for your Board?



What recommendations do you have for Board succession planning?

- We are now requiring anyone interested in serving on a board to go through Citizen's Government Academy.
 - Utilize programs like "Citizens University" and partner with the local Chamber of Commerce to fill the pipeline for prospective Board positions.
 - Rotating member replacement with term limits for board members. We have 3 - 2 year terms for board members. One or two rotate off each year.
 - Approximately a year before we know a board member will rotate off, we begin asking board members and the Mayor for names of people who would be good candidates for the position and meet the criteria for membership that is in our by-laws.
 - Succession Plans have a regular performance evaluation process; Develop a key task list by function; Annual calendar; "Where is everything?"; List outside critical relationships; Update donor lists; Document institutional memory/knowledge; Appreciation rituals; Get the board on board—form succession committee for board succession and for management
 - Identify business leaders who want to be engaged in shaping ED program and processes. Plan to have all board members attend the TEDC sales tax training. Encourage creating working committees to have all of the board members engaged in the process in introducing or reshaping certain programs of work.
 - Be mindful of diversity, including thought diversity; that represents the community, membership or constituent base. Don't wake up one day only to realize the board is not at all representative.
 - We have a prepared list of potential Board member candidates. Recently we have recommended that our board pre-meet with all the candidates on the list to make sure they understand the commitment it takes to be on the Board and that they are focused and believe in our mission. Our Bylaws state that our EDC makes the Board member nomination recommendations to the City for their final approval or decline.
 - If at all possible, ask the City Council to approve board member replacement recommendations made by your board. Never allow the majority of your board to be City officials or staff.
- My board represents 12-counties with 27 members and 5 ex-officio. I would like to see someone from each county mentoring a young and upcoming leader to be considered for the board.
 - Generally we move from Board Sec to VP to President. However, the Pres of the board does not have term limits so the Sec and VP keep changing without taking a position in the rotation.
 - Officers actively participate and interact with the Board seats above them so as to fully understand the role prior to taking that office.
 - Identify and encourage leaders in the community to engage with your program. Start by having them head special committees or initiatives. Utilize community leadership programs if possible to educate about ED.
 - Our board members attend the sales tax training put on by TEDC as well as hold memberships in TEDC and IEDC so they receive educational information. We invite them to attend events and keep them up to date on key information. Each board members' attendance record and involvement is noted and from this, they are promoted to voting members as then elevated to officer positions on the board. We have 5 ex-officio positions as well as 5 voting positions.
 - Keep a list of qualified and interested potential board candidates which can be referenced when needed.
 - Rotate offices held among the Board members
 - Have Vice-Chair involved in meetings with Chair / Exec