TAX CREDITS FOR GROWING BUSINESSES ACT
2011 REPORT

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State of North Carolina
Department of Commerce

Secretary J. Keith Crisco

POLICY & RESEARCH Strategic Planning
A Division of
The North Carolina Department of Commerce

THRIVE in NORTH CAROLINA

* Distribution of Article 3J Tax Credits by Industry section was updated September, 2012.

TABLE OF CONTENTS

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EXECUTIVE SUMMARY

In 2007, the North Carolina General Assembly enacted the Tax Credits for Growing Businesses Act, also known as Article 3J. Article 3J offers several types of tax credits to eligible taxpayers that undertake qualifying activities. Article 3J offers credits for:

- Creating jobs – Companies that meet a minimum threshold of new full-time jobs created during the taxable year may claim a credit.
- Investing in business property – Companies can claim a credit based on a percentage of the cost of capitalized, tangible personal property that is placed in service during the taxable year.
- Investment in real property – Companies located in a Tier 1 county that invest at least $10 million in real property within a three-year period and create at least 200 new jobs within two years are allowed a credit equal to 30 percent of the eligible investment.

These credits may be used to offset up to 50 percent of the taxpayer's state income tax, franchise tax, or gross premium tax liability. Companies must apply to receive the tax credits and provide specific financial information to the North Carolina Department of Revenue. Not all companies that are eligible for tax credits will claim them, nor will companies who are eligible claim all of their credits.

As part of the Article 3J Act, every year the Department of Commerce ranks each county based on economic well-being and assigns it to one of three tiers. The rankings reflect the counties' relative economic status based on four factors: 12-month unemployment rate, median household income, 36-month population growth rate, and per capita adjusted assessed property value. The 40 most distressed counties are designated as Tier 1, the next 40 are Tier 2, and the 20 least distressed are Tier 3. The tier designation of a county impacts the value of a company's eligible credits; the more distressed a county, the larger the eligible amount of the credit for the specified activity. This tier system is incorporated into various state programs in addition to Article 3J credits.

ABOUT THIS REPORT

As required by G.S. 105-129.82, this report analyzes the Article 3J tax credit program. The report also describes the development tier designation factors, Department of Commerce business expansion-related and recruitment efforts, and the use of incentives in other states.

The report contains two major components required by statute: an Equity Study and an Impact Study. The Equity Study reviews:

1. The tier designation formula including alternative measures for more equitable treatment of counties in similar economic circumstances;
2. Assignment of tiers and whether the applicable thresholds are equitable for smaller counties; and
3. Data on whether expanding North Carolina businesses receive fewer benefits than out-of-state businesses that locate to North Carolina.

The Impact Study analyzes the:

1. Distribution of Article 3J tax credits across new and expanding businesses and the distribution of Article 3J tax credits across industries;
2. Direct costs and benefits of the Article 3J tax credits;

3. Department of Commerce’s assigned and announced business recruitment and expansion-related activities since 2005 by county, industry, investment, and jobs; and
4. Use of incentives by other states.

This report is based on tax returns from Process Years 2008 - 2010 by the North Carolina Department of Revenue and announced business recruitment and expansion-related data from the Department of Commerce’s Business and Industry Division. These data cover three years of the Article 3J program because, while tax credits were generated in 2007, businesses were not allowed to start claiming credits until 2008.

EQUITY STUDY FINDINGS

- Current tier designation criteria mix both short and long term indicators of economic distress. As a result, there are several counties that perform poorly in Development Factor categories but are not among the most distressed counties.
- Potential alternative criteria reviewed in this report focus more on long term economic distress:
    - Lengthening the unemployment rate measurement to a 24-month average;
    - Inclusion of poverty rates; and
    - Use of standardized scores in the determination of a county’s Development Factor.
- The low population adjustments that are a component of a county’s Development Factor do meet the intent of the statute. However, there are counties that are very close to meeting these criteria that do not receive the benefit of a lower tier designation.
- Based on available data, new businesses do not receive more Article 3J benefits than existing businesses.

IMPACT STUDY FINDINGS

- The majority of businesses generating Article 3J tax credits are existing businesses, not new businesses recently relocated to North Carolina.
- The manufacturing sector accounted for 67 percent of Article 3J related business property investment, 47 percent of real property investment, and 62 percent of jobs created between Process Year 2008-2010.
- Between Process Years 2008 - 2010, 12,689 jobs were created by companies claiming Article 3J credits. Over $3.3 billion was invested in business and real property related to Article 3J credits.
- Businesses in the most distressed counties are generating the most Article 3J job creation tax credits in terms of dollar value.
- Between 2005 and 2010, the N.C. Department of Commerce announced 998 projects with over $19.8 billion investment and over 107,000 jobs. The manufacturing sector accounted for 75 percent of announced investment and 62 percent of announced job creation for that period. The majority of investment and job announcements resulted from expansion-related activity of existing North Carolina businesses.
- In 2010, for Department of Commerce projects, businesses announced investment totaling $3.99 billion and 17,380 jobs.
- The use of discretionary and statutory economic development tools is widespread. A recent survey by *Area Develo*pment magazine indicated that state and local incentives are becoming more important in site selection decision making.

INTRODUCTION

As required by G.S. 105-129.82, this report analyzes the Article 3J tax credit program, describes the development tier designation factors, analyzes the Department of Commerce's business expansion-related and recruitment efforts, and identifies the use of incentives in other states.

The report contains two major components required by statute: an Equity Study and an Impact Study. The Equity Study reviews:

1. The tier designation formula, including alternative measures for more equitable treatment of counties in similar economic circumstances;
2. Assignment of tiers and whether the applicable thresholds are equitable for smaller counties; and
3. Data on whether expanding North Carolina businesses receive fewer benefits than out-of-state businesses that locate to North Carolina.

The Impact Study analyzes:

1. Distribution of Article 3J tax credits across new and expanding businesses and the distribution of Article 3J tax credits across industries;
2. Direct costs and benefits of the Article 3J tax credits;
3. Department of Commerce's assigned and announced business recruitment and expansion-related activities since 2005 by county, industry, investment, and job; and
4. Use of incentives by other states.

This report is based on tax returns from Process Years 2008 - 2010 by the North Carolina Department of Revenue and announced business recruitment and expansion-related data from the Department of Commerce's Business and Industry Division. These data cover three years of the Article 3J program because, while tax credits were generated in 2007, businesses were not allowed to start claiming credits until 2008.

ARTICLE 3J TAX CREDITS FOR GROWING BUSINESSES: PROGRAM OVERVIEW

The Article 3J Tax Credits for Growing Businesses program went into effect on January 1, 2007. The General Assembly found (G.S. 105-129.80):

1. It is the policy of the State of North Carolina to stimulate economic activity and to create new jobs for the citizens of the State by encouraging and promoting the expansion of existing business and industry within the State and by recruiting and attracting new business and industry to the State.
2. Both short-term and long-term economic trends at the State, national, and international levels have made the successful implementation of the State's economic development policy and programs both more critical and more challenging, and the decline in the State's traditional industries, and the resulting adverse impact upon the State and its citizens, have been exacerbated in recent years by adverse national and State economic trends that contribute to the reduction in the State's industrial base and that inhibit the State's ability to sustain or attract new and expanding businesses.
3. The economic condition of the State is not static, and recent changes in the State's economic condition have created economic distress that requires a reevaluation of certain existing State programs and the enactment of a new program as provided in this Article that is designed to stimulate new economic activity and to create new jobs within the State.
4. The enactment of this Article is necessary to stimulate the economy and create new jobs in North Carolina, and this Article will promote the general welfare and confer, as its primary purpose and effect, benefits on citizens throughout the State through the creation of new

jobs, an enlargement of the overall tax base, an expansion and diversification of the State's industrial base, and an increase in revenue to the State and its political subdivisions.

5. The purpose of this Article is to stimulate economic activity and to create new jobs within the State.
6. The State is in need of a focused tax credit program that encourages and facilitates economic growth and development within the State.
7. The resources of the State are not evenly distributed throughout the State and different communities have different abilities and needs in attracting and maintaining new and expanding business and industry.

Tax credits are awarded to eligible taxpayers that undertake qualifying activities in North Carolina: job creation; investment in business property; and investment in real property. Additional tax credits may be earned for projects in Urban Progress and Agrarian Growth Zones.[1] These credits may be combined to offset up to 50 percent of the taxpayer's state income, franchise, or gross premium tax liability.

Following is a brief summary of the Article 3J program's eligibility requirements and eligible activities, tier assignments, and Urban Progress and Agrarian Growth Zones.

Eligibility

To qualify for Article 3J Credits, the following eligibility requirements must be met (G.S. 105-129.83):

1. The primary activity at the business establishment must be an eligible type of business, which includes:
    a) aircraft maintenance and repair;
    b) air courier services hub;
    c) company headquarters that creates at least 75 new headquarters jobs;
    d) customer service call centers;
    e) electronic shopping and mail order houses;
    f) information technology and services;
    g) manufacturing;
    h) motorsports facilities and motorsports racing teams;
    i) research and development; and
    j) warehousing and wholesale trade.
2. The average wage of all full-time workers employed by the taxpayer at the establishment during the taxable year must meet or exceed the applicable wage standard of the county in which the establishment is located. There is no wage standard in Tier 1 counties.
3. The taxpayer must offer qualifying health insurance for all full-time positions at the establishment and pay at least 50 percent of employee premiums.
4. The taxpayer certifies that, at the time the taxpayer claims the credit, there has not been a final determination unfavorable to the taxpayer with respect to an environmental disqualifying event.
5. The taxpayer certifies that, as of the time the taxpayer claims the credit at the establishment with respect to which the credit is claimed, the taxpayer has no citations under the Occupational Safety and Health Act that have become a final order within the past three years for willful serious violations or for failing to abate serious violations.
6. The taxpayer may not have overdue taxes.

County Tier Designations

[1] Municipalities with a population of at least 10,000 have the ability to define qualifying areas of poverty as Urban Progress Zones.

General Statue 143B-437.08 requires that the Department of Commerce annually ranks the state's 100 counties based on economic well-being and assigns a tier designation to each. The development factor is based on 12-month average unemployment rate, median household income, 36-month population growth rate, and per capita adjusted assessed property value. These tier designations affect the financial value of the Article 3J tax credits.

The 40 most distressed counties are designated as Tier 1, the next 40 are Tier 2, and the 20 least distressed are Tier 3. There are several caveats in the statute that affect tier designation. Any county that has a population of fewer than 12,000 people is automatically designated as a Tier 1 county. Any county with a population of fewer than 50,000 is automatically ranked one of the 80 most distressed counties. Any county with a population fewer than 50,000 people, and with more than 19 percent of its population below the federal poverty level, according to the most recent Federal decennial census, is automatically designated a Tier 1 county. Any county designated as a development Tier 1 area is automatically ranked one of the 40 most distressed counties until it has been a development Tier 1 area for at least two consecutive years.

Urban Progress Zones (UPZ) and Agrarian Growth Zones (AGZ)

As part of North Carolina's Article 3J tax credits program, the Agrarian Growth Zone and the Urban Progress Zones provide economic incentives to stimulate new investment and job creation in economically distressed areas. Municipalities with a population of at least 10,000 have the ability to define qualifying areas of poverty as Urban Progress Zones (G.S. 143B-437.09). Counties that do not have a municipality with a population of at least 10,000 have the ability to define qualifying areas of poverty as Agrarian Growth Zones (G.S. 143B-437.010). Business development projects located within these zones receive enhanced Article 3J credits.

Credit for Creating Jobs

Eligible taxpayers that meet a minimum threshold of new full-time jobs created during the taxable year may claim a credit for each new job created. The credit is taken in equal installments over four years following the year the jobs are created. The job threshold and the credit amount per job are determined by the tier designation of the county in which the jobs are created. When jobs are created in Urban Progress Zones or Agrarian Growth Zones, the credit is increased by $1,000. If a resident of a zone or a long-term unemployed person[2] is hired, the company is eligible for an additional $2,000 credit.

Table 1. Article 3J Job Creation Tax Credit Tier Designations

	Tier 1	Tier 2	Tier 3	UPZ / AGZ
Job Threshold	5	10	15	5
Credit per Job	$12,500	$5,000	$750	+ $1,000

Source: General Statue 105.129.87

Credit for Investing in Business Property

Eligible taxpayers may claim a credit based on a percentage of the cost of capitalized business property that is placed in service during the taxable year in excess of an applicable threshold. This credit is taken in equal installments over four years beginning the year after the property is first placed in service. The credit percentage and threshold are based on the tier designation of the county where the property is placed in service.

[2] A long-term unemployed worker is an individual who has been totally unemployed for at least the preceding 26 consecutive weeks as defined by the N.C. Employment Security Commission.

Table 2. County Tier Designation and Investment Threshold for Business Property Tax Credit

	Tier 1	Tier 2	Tier 3	UPZ / AGZ
Threshold	$0	$1 million	$2 million	$0
Credit %	7%	5%	3.5%	7%

Source: General Statue 105.129.88

Credit for Investment in Real Property

Eligible taxpayers that invest at least $10 million in real property within a three-year period and create at least 200 new jobs within two years at an establishment located in a Tier 1 county are allowed a credit equal to 30 percent of the eligible real property investment (G.S. 105-129.89). This credit is taken in equal installments over seven years beginning the year after the property is used by an eligible business. To qualify for this credit, the taxpayer must obtain a written determination from the Department of Commerce.

EQUITY STUDY

PART 1: TIER DESIGNATION CRITERIA AND ALTERNATIVE MEASURES

Part 1 analyzes the data collected for the most recent (2011) tier designations. Explanations of each criterion are provided along with a rationale for its use in the Development Factor formula. Counties with one of the 40 most distressed rankings for each of the four Development Factor criteria are identified as a starting point for determining which counties are in similar economic circumstances. These rankings are then compared with the same counties' Development Factor rankings.

This section analyzes the relationships among the criteria and highlights patterns in these relationships when notable. The findings seek to identify what may cause counties with similar economic circumstances to be ranked differently according to Development Factors. Alternative criteria and methodologies are also presented for consideration.

TIER DESIGNATION CRITERIA

Each November, the Department of Commerce must release updated county tier designations for the following calendar year. These rankings are based on economic criteria specifically required by the statute.

G.S. 143B-437.08 defines the Development Factor as the sum of rankings across four economic criteria:

1. **12-Month Average Unemployment Rate** – Counties are ranked by average rate of unemployment from lowest to highest for the most recent 12 months for which data are available.
2. **Median Household Income** – Counties are ranked by median household income from highest to lowest for the most recent 12 months for which data are available.
3. **36-Month Population Growth Rates** – Counties are ranked by percentage growth in population from highest to lowest for the most recent 36 months for which data are available. For the purposes of this section, population statistics do not include people incarcerated in federal or state prisons.
4. **Per Capita Adjusted Assessed Property Value –** Counties are ranked by adjusted assessed property value per capita as published by the Department of Public Instruction, from highest to lowest, for the most recent taxable year.

12-Month Average Unemployment Rate – An unemployment rate represents the percentage of people in an area's labor force (people currently working or seeking work) who are not employed. The unemployment rate is a lagged variable, meaning that it reflects changes that have occurred in the economy in the previous two or three quarters. The relatively short measurement period (one year) means that mass layoffs, new job creation, or downturns in specific industries have a large impact on a county's ranking.

Findings from analysis of 12-Month Average Unemployment Rate data:

- 12-Month Average Unemployment Rates calculated for the 2011 tier designations vary widely across the state—ranging from 6.4 percent to 16.2 percent with a median of 10.9 percent. The range for the counties with the 40 highest 12-Month Average Unemployment Rates is from 11.3 percent to 16.2 percent.
- There are 12 counties with one of the 40 highest unemployment rates and a Development Factor that ranks outside of the 40 most distressed counties. Of these 12 counties, 10 are designated Tier 2 and two are designated Tier 3 for 2011.

Median Household Income – This criterion measures the midpoint of all household incomes in a county. The Median Household Income data used for tier designations comes from the U.S. Census Small Area Income and Poverty Estimates. For the 2011 tier designations, 2008 was the most recent data available. Compared to Average Income, Median Household Income is the midpoint income value where 50 percent of average incomes are above and 50 percent are below. Median Household Income is a good barometer of economic distress.

Findings from analysis of Median Household Income data:

- Median Household Incomes across all 100 counties range from $29,043 to $65,487 with a midpoint in the distribution of $40,547. The range for the counties with one of the 40 lowest Median Household Incomes is $29,043 to $38,641.
- There are seven counties with one of the 40 lowest Median Household Incomes and a Development Factor that ranks outside of the 40 most distressed counties. Of these seven counties, four are designated Tier 2 and three are designated Tier 3 for 2011. Three of these four Tier 2 counties are also among the 40 counties with the highest poverty rates (2000 decennial census).

36-Month Population Growth Rates – This criterion measures the rate of change in a county's population based on the most recent applicable data and the same data three years prior (July 2009 and July 2006 for the 2011 tier designations).[3] The population data are provided by the North Carolina Office of State Budget and Management.

This criterion approximates important factors of economic distress. First, population growth may signal the degree of economic opportunities within a county (and/or the surrounding areas via commuting). Second, population growth is an employment driver for many retail and service industries because these industries tend to locate near large populations. Population growth can have positive or negative fiscal impacts for local and state governments depending on how much revenue the new population adds to the community (versus the amount governments must spend to provide services).

The 36-Month Population Growth Rates vary widely from county to county especially among the counties with fast-growing populations.

Findings from analysis of 36-Month Population Growth Rate data:

- 36-Month Population Growth Rates across all 100 counties range from -9.4 percent to 16.0 percent with a median of 2.0 percent. The range for the counties with the 40 lowest 36-Month Population Growth Rates is -9.4 percent to 1.5 percent.
- Eight counties had greater than 10 percent growth; 24 counties had negative growth rates.
- There are nine counties with one of the 40 smallest 36-Month Population Growth Rates and a Development Factor that ranks outside of the 40 most distressed counties. Of these nine counties, seven are designated Tier 2 and two are designated Tier 3 for 2011.

Adjusted Assessed Property Value Per Capita – This criterion is used to estimate the ability of counties to pay for public services. It accounts for each county's tax base from real property, agricultural property, utility property and personal property. The most recent fiscal year data (FY 2009-2010 for the 2011 tier designations) is provided by the Department of Public Instruction via the Low Wealth Supplemental Funding Formula. This figure is divided by population to create a per capita measure.

One of the objectives of the Article 3J program is the "enlargement of the overall tax base." The Development Factor represents a county's ability to pay for services and infrastructure through the Adjusted Assessed Property Value Per Capita figure. This value varies widely from county to county, but changes relatively slowly over time, making it a good measure of long-term development.

[3] For the purpose of the tier designation, state and federal prison populations are subtracted from each county's total population.

Findings from analysis of Adjusted Assessed Property Value Per Capita data:

- The Adjusted Assessed Property Value Per Capita figure, across all 100 counties, ranges from $46,494 to $542,272 with a median of $96,400. The range for the 40 counties with the lowest AAPV value is $46,494 to $80,538.
- There are 13 counties that are among the lowest 40 for Adjusted Assessed Property Value Per Capita, but are not among the 40 most distressed counties by Development Factor sum. Of these, ten are designated Tier 2, one is designated Tier 1 due to low population, and two are designated Tier 3.
- Adjusted Assessed Property Value Per Capita and 36-Month Population Growth Rate exhibit a large average difference between each county's rankings for the two criteria. This typically occurs in counties where a declining population artificially "boosts" the factor -- fewer people and a steady tax base means higher value per person. A review of the data shows that all but 20 of the largest differences occur in counties with a slow or declining population growth and high property values per capita.

Development Factor – The 12-Month Average Unemployment Rate, Median Household Income, 36-Month Population Growth Rate, and Adjusted Assessed Property Value Per Capita are combined to create a county Development Factor. This measure uses equal weighting of all four criteria and represents the initial ordering of counties for tier designations (before "Adjustments for Certain Small Counties" and "Adjustments for Development Tier 1 Areas" are applied). The Development Factor provides a methodology for including multiple criteria in quantifying and comparing the relative economic distress of counties.

Findings from analysis of relationships among criteria:

- Rankings can obscure the degree of difference between two closely ranked counties. The differences between criteria values for two closely ranked counties are often greatest at the top and bottom of the distribution. For example, the highest Adjusted Assessed Property Value Per Capita value is 40.7 percent greater than the second highest value, while the second highest value is 17.3 percent higher than the third highest value.
- There are seven counties with a Development Factor that ranks in the 40 most distressed counties that are designated Tier 2. Two are tied at the 40th rank for Development Factor.
- There are 13 counties that rank in the 40 most distressed counties for two criteria, but are designated Tier 2. Of these, six have a Development Factor that ranks as one of the 40 most distressed counties. Two are tied at the 40th rank for Development Factor.
- The criterion with the largest variation is Adjusted Assessed Property Value Per Capita. In particular, there are 12 counties that have a variation of 70 ranking positions or greater between Adjusted Assessed Property Value Per Capita and one of the remaining three criteria. Five of these counties have this level of variation in two comparisons with Adjusted Assessed Property Value Per Capita. In the three comparisons that do not involve Adjusted Assessed Property Value Per Capita there are only five cases where the variation exceeds 70 ranking positions.

Alternative Measures and Methodologies

State statute specifies which data are used in determining the development criteria, however other data are also available that could be used. This section presents alternative measures and methodologies for the Development Factor.

Lengthen the Unemployment Rate Measurement to a 24-month Average – Extending the period of measurement for the unemployment rate will reduce the impact on tier ranks of singular events like plant closings while keeping the Development Factor responsive to those events. This will differentiate counties with chronic unemployment from those that suffer a short-term shock.

Include Most Recent Poverty Rates – The percentage of a county's residents living in poverty is a key measure of individual economic conditions. Adding poverty rates to the tier ranking formula would provide an important additional measurement of the county's economic distress. The most recent measurement by the American Community Survey can be used to reflect current conditions by county, with the decennial census as a benchmark.

Use Standardized Scores Instead of Rankings to Determine Distressed County Sum – As mentioned earlier, rankings can obscure the degree of difference between two closely ranked counties. Adding together standardized scores instead of rankings for each Development Factor would allow the distressed county sum to better reflect a county's status in the State compared to other counties without making a significant change to the tiers process. Also, since standardized scores are based on county values, they would be more sensitive to current county conditions than rankings.

In addition to these alternative measures, a decision to measure long-term and/or short-term economic distress could impact potential measures and tier ranking methodology. At present, the Article 3J Development Factor components are divided between long-term and short-term measures of economic distress. The authors note that in the tier designations, these two outlooks occasionally conflict.

PART 2: TIER DESIGNATIONS & COUNTIES WITH LOW POPULATIONS

The second section of the Equity Study examines whether tier designations are equitable for counties with small populations. G.S. 143B-437.08 provides special provision for small counties via the section "Adjustment for Certain Small Counties," which reads:

> Regardless of the actual development factor, any county that has a population of less than 12,000 shall automatically be ranked one of the 40 highest counties, any county that has a population of less than 50,000 shall automatically be ranked one of the 80 highest counties, and any county that has a population of less than 50,000 and more than nineteen percent (19%) of its population below the federal poverty level according to the most recent federal decennial census shall automatically be ranked one of the 40 highest counties.

In the calculations for the 2011 economic development tiers, there are 48 counties that qualify for these adjustments (note: some counties that qualify for the top 80 and top 40 conditions also qualified for Tier 1 based on the Development Factor). Of the 40 counties with fewer than 50,000 in population, but greater than 12,000, 20 are designated Tier 1 and 20 are designated Tier 2 for 2011. All eight counties with fewer than 12,000 in population are designated Tier 1 for 2011.

Based on the adjustments outlined above, the breakdown by condition is as follows:[4]

- Fewer than 50,000 population (top 80) = 27 counties
- Fewer than 50,000 population and greater than 19 percent poverty (top 40) = 13 counties
- Fewer than 12,000 population (top 40) = 8 counties

[4] Regardless of poverty rate, all counties with fewer than 12,000 individuals are designated as Tier 1.

PART 3: EXISTING BUSINESS VERSES NEW BUSINESSES

Part 3 examines the distribution of Article 3J tax credits between new and existing taxpayers to determine if new taxpayers are favored or receive more benefit.

Article 3J tax credits are awarded to North Carolina companies based on their hiring and investment decisions. There is no implicit bias toward or against one type of company over another because any company meeting the specific program eligibility criteria may apply for the tax credits.

There is no requirement on N.C. Department of Revenue forms to distinguish companies as either "new businesses" or as "existing businesses." To determine if a taxpayer was either a "new business" or an "existing business" for the time period, the authors cross-referenced multiple datasets. If the taxpayer had an establishment date the year immediately prior to generating the tax credit, the business was considered new. Based on this methodology, 40 percent of companies' establishment dates were identified out of all businesses that generated Article 3J tax credits during DOR Process Years 2008, 2009, and 2010. Of this 40 percent, 7 percent were identified as "new businesses" and 93 percent were identified as "existing businesses."

IMPACT STUDY

Part 1: Distribution of Tax Credits Across New and Existing Businesses and Industries

Part 1 provides information on the distribution of Article 3J tax credits by new and existing businesses as well as industries.

Distribution of Article 3J Tax Credits Across New and Existing Businesses

Article 3J tax credits are awarded to North Carolina companies based on their hiring and investment decisions. There is no implicit bias toward or against one type of company over another because any company meeting the specific program eligibility criteria may apply for the tax credits.

There is no requirement on N.C. Department of Revenue forms to distinguish companies as either "new businesses" or as "existing businesses." To determine if a taxpayer was either a "new business" or an "existing business" for the time period, the authors cross-referenced multiple datasets. If the taxpayer had an establishment date the year immediately prior to generating the tax credit, the business was considered new. Based on this methodology, 40 percent of companies' establishment dates were identified out of all businesses that generated Article 3J tax credits during DOR Process Years 2008, 2009, and 2010. Of this 40 percent, 7 percent were identified as "new businesses" and 93 percent were identified as "existing businesses."

Distribution of Article 3J Tax Credits by Industry [5]

For Process Years 2008-2010, just 53 percent of Article 3J tax credits were generated by taxpayers that reported a North American Industry Classification System (NAICS) code on their tax form.[6] Table 3 provides a summary of business and real property investment, jobs created and credits generated by industry. Highlights include:

- Article 3J eligible companies in the Chemical Manufacturing industry invested nearly $650 million in business property while Primary Metal Manufacturing companies and Air Transportation companies invested over $208 million and $127 million, respectively.
- Professional, Scientific, & Technical Services companies created 1,313 jobs related to Article 3J credits. Chemical Manufacturing companies also created a large number of jobs—over 830. The Food Manufacturing industry created 571 jobs during the three process years.
- Of all industry sectors, the manufacturing sector most used the Article 3J tax credits. The manufacturing sectors—industry NAICS codes from 311 to 339 in Table 3—accounted for 46 percent of Article 3J related business property investment, 45 percent of real property investment, and 35 percent of jobs created. In total, the manufacturing sector generated 41 percent of all credits generated between PY 2008 and PY 2010.

[5] This section, along with Table 3, was updated in September, 2012.
[6] The North American Industry Classification System (NAICS) is the standard used by Federal statistical agencies to classify business establishments for the purpose of collecting, analyzing and publishing statistical data related to the U.S. business economy.

Table 3. Business and Real Property Investment, Jobs Created, and Credits Generated by Industry

Article 3J Business & Real Property Investment, Jobs Created and Credits Generated by NAICS Code, PY 2008-2010								
		Investment			***Credits Generated***			
NAICS Code	**Industry**	*Business Property*	*Real Property*	*Jobs*	*Business Property*	*Real Property*	*Jobs*	*TOTAL*
111	Crop Production	$ 144,200	$ -	-	$ 10,094	$ -	-	$ 10,094
212	Mining (except Oil & Gas)	$ 597,838	$ -	-	$ 29,892	$ -	-	$ 29,892
238	Specialty Trade Contractors	$ 144,554	$ -	58	$ 10,119	$ -	725,000	$ 735,119
311	Food Manufacturing	$ 64,649,789	$ -	571	$ 3,782,070	$ -	6,490,000	$ 10,272,070
312	Beverage & Tobacco Product Manufacturing	$ 75,978,953	$ -	102	$ 3,852,641	$ -	76,500	$ 3,929,141
313	Textile Mills	$ 7,916,010	$ -	39	$ 428,364	$ -	195,000	$ 623,364
314	Textile Product Mills	$ 5,948,209	$ -	18	$ 213,454	$ -	13,500	$ 226,954
315	Apparel Manufacturing	$ 4,782,269	$ -	-	$ 334,759	$ -	-	$ 334,759
321	Wood Product Manufacturing	$ 6,257,367	$ -	13	$ 396,831	$ -	162,500	$ 559,331
322	Paper Manufacturing	$ 75,961,338	$ -	209	$ 2,964,555	$ -	908,750	$ 3,873,305
323	Printing & Related Support Activities	$ 3,791,339	$ -	-	$ 265,384	$ -	-	$ 265,384
325	Chemical Manufacturing	$ 641,092,585	$ -	831	$ 30,313,845	$ -	2,070,625	$ 32,384,470
326	Plastics & Rubber Products Manufacturing	$ 93,883,478	$ -	447	$ 3,988,787	$ -	1,753,750	$ 5,742,537
327	Nonmetallic Mineral Product Manufacturing	$ 10,712,995	$ -	8	$ 687,599	$ -	100,000	$ 787,599
331	Primary Metal Manufacturing	$ 208,588,288	$ -	15	$ 7,350,358	$ -	187,500	$ 7,537,858
332	Fabricated Metal Product Manufacturing	$ 52,067,168	$ 3,656,244	197	$ 2,336,434	$ 1,096,873	1,578,500	$ 5,011,807
333	Machinery Manufacturing	$ 20,047,264	$ -	427	$ 1,222,232	$ -	1,475,000	$ 2,697,232
334	Computer & Electronic Product Manufacturing	$ 59,214,701	$ -	185	$ 2,113,120	$ -	138,750	$ 2,251,870
335	Electrical Equipment, Appliance, & Component Manufacturing	$ 37,620,091	$ -	486	$ 2,633,407	$ -	4,124,500	$ 6,757,907
336	Transportation Equipment Manufacturing	$ 99,533,297	$ -	357	$ 5,752,274	$ -	1,168,500	$ 6,920,774
337	Furniture & Related Product Manufacturing	$ 217,450	$ -	294	$ 15,222	$ -	1,852,500	$ 1,867,722
339	Miscellaneous Manufacturing	$ 49,525,042	$ -	207	$ 2,408,410	$ -	1,567,250	$ 3,975,660
421	Wholesale Trade, Durable Goods	$ 14,012,201	$ -	-	$ 517,179	$ -	-	$ 517,179
423	Merchant Wholesalers, Durable Goods	$ 23,104,774	$ -	57	$ 1,124,544	$ -	512,750	$ 1,637,294
424	Merchant Wholesalers, Nondurable Goods	$ 14,284,269	$ -	80	$ 999,899	$ -	447,750	$ 1,447,649
454	Nonstore Retailers	$ 1,346,197	$ -	-	$ 94,233	$ -	-	$ 94,233
481	Air Transportation	$ 127,426,838	$ -	-	$ 4,459,939	$ -	-	$ 4,459,939
493	Warehousing & Storage	$ 10,211,291	$ -	61	$ 692,769	$ -	575,000	$ 1,267,769
511	Publishing Industries	$ 30,904,490	$ -	227	$ 1,081,658	$ -	170,250	$ 1,251,908
514	Motion Picture & Sound Recording Industries	$ 9,581,445	$ 4,046,266	257	$ 670,701	$ 1,213,880	3,212,500	$ 5,097,081
518	Internet Service Providers, Web Search Portals, & Data Processing Services	$ -	$ -	284	$ 2,517	$ -	3,256,572	$ 3,259,089
519	Other Information Services	$ -	$ -	64		$ -	48,000	$ 48,000
524	Insurance Carriers & Related Activities	$ -	$ -	1		$ -	2,000	$ 2,000
541	Professional, Scientific, & Technical Services	$ 42,069,066	$ -	1,313	$ 1,608,118	$ -	1,768,500	$ 3,376,618
551	Management of Companies & Enterprises	$ 33,242,206	$ -	328	$ 2,167,302	$ -	346,000	$ 2,513,302
621	Ambulatory Health Care Services	$ 32,673	$ -	-	$ 2,287	$ -	-	$ 2,287
713	Amusement, Gambling, & Recreation Industries	$ 505,895	$ -	-	$ 17,706	$ -	-	$ 17,706
811	Repair & Maintenance	$ -	$ -	36	$ -	$ -	27,000	$ 27,000
-	Unknown	$ 1,493,221,553	$ 474,354	5,389	$ 77,571,589	$ 142,307	32,187,750	$ 109,901,646
	TOTAL	**$3,321,615,740**	**$8,176,864**	**12,689**	**$162,225,243**	**$2,453,060**	**$67,238,197**	**$231,916,500**

PART 2: DIRECT COSTS AND BENEFITS OF ARTICLE 3J

Part 2 provides an overview of the jobs and investment created and credits generated by the Article 3J Tax Credits for Growing Businesses Program. At the time of this report, the N.C. Department of Revenue had three years worth of Article 3J data available—Process Years 2008 – 2010.

The summary information provided here is not intended to be a comprehensive cost-benefit analysis as only direct costs and benefits are described. A summary of the dollar value of credits generated and taken by qualifying activity is presented as well as the associated jobs and investment created. While Article 3J is not entirely or solely responsible for these impacts, economic development tools such as Article 3J tax credits can incentivize business expansion and recruitment.

SUMMARY OF CREDITS AND BENEFITS BY QUALIFYING ACTIVITY[7]

Over the three year period from PY 2008 – PY 2010, Article 3J tax credits contributed to the creation of 12,689 jobs, over $3.3 billion in business property investment[8], and over $8.1 million in real property investment.[9] This activity generated nearly $232 million in tax credits for eligible taxpayers. During this time period a total of $19.7 million of credits were taken by taxpayers.

There is an important distinction between credits generated and credits taken. Credits generated are the maximum amount of credit earned by a taxpayer's eligible spending activity during a specific reporting period. Credits taken represent only that amount which a particular taxpayer may take in a given tax year based on business profitability, tax liability, and required installment schedules. The Article 3J tax credits limit credits taken each year to 50 percent of the amount of tax against which it is claimed, reduced by the sum of all other tax credits allowed against that tax. In addition, credits for job creation and business property investment must be taken in equal installments over four years while credits for investing in real property must be taken in equal installments over seven years provided the taxpayer has sufficient tax liability to take the full amount of the installment. Unused credits may be carried forward for five to fifteen years.

CREDIT FOR CREATING JOBS

During PY 2008 – 2010, a total of 12,689 jobs were created by companies that applied for Article 3J tax credits, including 941 jobs that were created in Urban Progress Zones or Agrarian Growth Zones [Table 4]. This activity generated $67.2 million in tax credits for businesses. The majority of credits were generated in those counties identified as most distressed—Tier 1 counties. Job creation activity in Tier 2 counties generated $9.5 million in credits. Tier 3 counties generated $7.9 million in tax credits.

Table 4. Article 3J Jobs Created and Credits Generated by Tier Designation, PY 2008-2010

	Total Jobs Created	UPZ/AGZ Jobs Created	Credits Generated
Tier 1	3,979	174	$49,769,000
Tier 2	1,884	73	$9,493,000
Tier 3	6,826	694	$7,976,197
TOTAL	**12,689**	**941**	**$67,238,197**

Source: N.C. Department of Revenue

[7] For a full description of the Article 3J tax credits including thresholds and requirements, please see the Introduction on p. 5.
[8] In excess of applicable thresholds.
[9] Only investments of at least $10 million creating 200 new jobs in Tier 1 counties are eligible for real property investment tax credits in Article 3J.

Article 3J Credit for Creating Jobs: PY 2008

In PY 2008, a total of 3,448 jobs were created by companies that applied for Article 3J tax credits. A total of 954 jobs were created in Tier 1 counties, including 23 jobs in Urban Progress or Agrarian Growth Zones [Table 5]. In Tier 2 counties, 599 jobs were created. Most of the job creation for PY 2008 occurred in Tier 3 counties—1,895 jobs including 195 jobs created in Urban Progress or Agrarian Growth Zones.

Table 5. Article 3J Jobs Created and Credits Generated, PY 2008

	Total Jobs Created	UPZ/AGZ Jobs Created	Credits Generated
Tier 1	954	23	$11,948,000
Tier 2	599	0	$2,995,000
Tier 3	1,895	195	$1,636,572
TOTAL	**3,448**	**218**	**$16,579,572**

Source: N.C. Department of Revenue

Article 3J Credit for Creating Jobs: PY 2009

A total of 6,372 jobs were created by companies that applied for Article 3J tax credits in PY 2009 [Table 6]. Activity in Tier 1 counties created 2,284 jobs. In Tier 2 counties 839 jobs were created, while 3,249 jobs were created in Tier 3 counties.

Table 6. Article 3J Jobs Created and Credits Generated, PY 2009

	Total Jobs Created	UPZ/AGZ Jobs Created	Credits Generated
Tier 1	2,284	142	$28,550,000
Tier 2	839	58	$4,253,000
Tier 3	3,249	183	$2,637,875
TOTAL	**6,372**	**383**	**$35,440,875**

Source: N.C. Department of Revenue

Article 3J Credit for Creating Jobs: PY 2010

In PY 2010, 2,869 jobs were created by companies that applied for Article 3J tax credits [Table 7]. Of these, 741 were in Tier 1 counties, 446 in Tier 2 counties, and 1,682 were in Tier 3 counties.

Table 7. Article 3J Jobs Created and Credits Generated, PY 2010

	Total Jobs Created	UPZ/AGZ Jobs Created	Credits Generated
Tier 1	741	9	$9,271,000
Tier 2	446	15	$2,245,000
Tier 3	1,682	316	$3,701,750
TOTAL	**2,869**	**340**	**$15,217,750**

Source: N.C. Department of Revenue

Job Creation by Population

Table 8 provides insight into Article 3J job creation per 10,000 residents. When adjusting for population, more jobs were created in Tier 1 than Tier 3.

Table 8. Article 3J Job Creation by Average Population, PY 2008-2010

	Total Jobs Created	Jobs Created per 10,000 People
Tier 1	3,979	7.3
Tier 2	1,884	2.4
Tier 3	6,826	5.0
TOTAL	**12,689**	**4.7**

Source: N.C. Department of Revenue; N.C. Department of Commerce

CREDIT FOR INVESTING IN BUSINESS PROPERTY

For the three years that data are available (PY 2008-2010), over $3.3 billion was invested in business property related to Article 3J tax credits in excess of the applicable threshold amounts [Table 9]. During this period, over $947 million was invested in Tier 1 counties. In Tier 2 counties, businesses investment totaled slightly over $406 million. Tier 3 counties accounted for nearly $2 billion of business investment.

The $3.3 billion of investment generated $162 million in tax credits for businesses. Tier 1 and Tier 3 counties generated similar amounts of credits—$69 million and $72 million, respectively. Tier 2 counties accounted for the remaining $20 million in tax credits.

Table 9. Article 3J Investment in Business Property Credits and Generated by Tier Designation, PY 2008-2010

	Total Investment	UPZ/AGZ Investment	Credits Generated
Tier 1	$947,734,438	$102,568,231	$69,552,734
Tier 2	$406,867,624	$10,107,373	$20,498,353
Tier 3	$1,967,013,678	$77,723,663	$72,174,156
TOTAL	**$3,321,615,740**	**$190,399,267**	**$162,225,243**

Source: N.C. Department of Revenue

Article 3J Credit for Investing in Business Property: PY 2008

In PY 2008, the total Article 3J eligible business property investment was nearly $527 million [Table 10].[10] Almost $130 million, or 25 percent of investment, occurred in Tier 1 counties. Tier 2 counties experienced a total of $96.5 million (18 percent of the state's total) in business property investment. Business property investment in Tier 3 counties accounted for 57 percent ($300 million) of the PY 2008 total. Business property investment in Tier 1 counties generated the majority (51 percent) of credits.

[10] For Article 3J Credits for Investment in Business Property, the amount of investment is the amount in excess of the applicable threshold amounts based on county tier designation.

Table 10. Article 3J Investment in Business Property and Credits Generated, PY 2008

	Total Investment	UPZ/AGZ Investment	Credits Generated
Tier 1	$129,785,722	$0	$16,582,426
Tier 2	$96,596,099	$1,396,866	$4,839,099
Tier 3	$300,235,920	$4,064,197	$11,286,354
TOTAL	**$526,617,741**	**$5,461,063**	**$32,707,879**

Source: N.C. Department of Revenue

Article 3J Credit for Investing in Business Property: PY 2009

The total investment in Article 3J eligible business property investment in PY 2009 was $1.3 billion [Table 11]. Of this total, Tier 1 counties accounted for $402 million or 31 percent of the total investment. Tier 2 counties experienced nearly $236 million in business property investment while Tier 3 counties accounted for 52 percent ($704 million) of total business property investment for PY 2009.

PY 2009 experienced a significant increase in business property investment and credits generated over PY 2008. Tier 1 counties generated $28 million in credits while Tier 2 counties generated $11.8 million. Activity in Tier 3 counties accounted for 48 percent of credits generated with $36.3 million.

Table 11. Article 3J Investment in Business Property and Credits Generated, PY 2009

	Total Investment	UPZ/AGZ Investment	Credits Generated
Tier 1	$402,168,157	$45,136,997	$28,095,346
Tier 2	$235,859,128	$3,610,750	$11,843,752
Tier 3	$703,924,546	$9,717,890	$36,273,286
TOTAL	**$1,341,951,831**	**$58,465,637**	**$76,212,384**

Source: N.C. Department of Revenue

Article 3J Credit for Investing in Business Property: PY 2010

In PY 2010, the total Article 3J related investment in business property was nearly $1.5 billion [Table 12]. Investment in Tier 1 counties accounted for 28 percent of the annual total or $415 million. Tier 2 counties experienced $74 million in investment, a significant decrease from PY 2009. Tier 3 counties accounted for the majority of business property investment for PY 2010 with nearly $1 billion (67 percent) of total investment.

Table 12. Article 3J Investment in Business Property and Credits Generated, PY 2010

	Total Investment	UPZ/AGZ Investment	Credits Generated
Tier 1	$415,780,559	$57,431,234	$24,936,428
Tier 2	$74,412,397	$5,099,757	$3,815,502
Tier 3	$998,712,776	$63,941,576	$37,165,361
TOTAL	**$1,488,905,732**	**$126,472,567**	**$65,917,291**

Source: N.C. Department of Revenue

Credit for Investing in Real Property

Only large investments in Tier 1 counties are eligible for the credit for investing in real property. The taxpayer must purchase and use at least $10 million of real property in an eligible business within a three-year period and create at least 200 new jobs within two years of the time the property is first used. The tax credit is 30 percent of the total investment amount and is claimed over a seven year period.

Table 13. Article 3J Investment in Real Property and Credits Generated, PY 2008-2010

	Total Investment	Credits Generated
PY 2008	$4,208,572	$1,262,572
PY 2009	$3,089,073	$926,722
PY 2010	$879,219	$263,766
TOTAL	**$8,176,864**	**$2,453,060**

Source: N.C. Department of Revenue

For Process Years 2008 – 2010, nearly $8.2 million of eligible investment in real property was made in Tier 1 counties, generating $2.4 million in credits [Table 13].

Article 3J Credits Taken

Credits taken represent only that amount which a particular taxpayer may take in a given tax year based on business profitability, tax liability, and required installment schedules. Article 3J limits credits taken each year to 50 percent of the amount of tax against which it is claimed, reduced by the sum of all other tax credits allowed against that tax. In addition, credits for job creation and business property investment must be taken in equal installments over four years while credits for investing in real property must be taken in equal installments over seven years provided the taxpayer has sufficient tax liability to take the full amount of the installment. Unused credits may be carried forward.

Data are only available for Article 3J credits taken for Process Years 2009 and 2010. Based on data available at the time of this report, taxpayers have taken $19,685,558 worth of $232 million of credits generated.

Table 14. Article 3J Credits Taken, PY 2008-2010

Year	Job Creation	Business Property Investment	Real Property Investment	TOTAL
PY 2009	$1,541,450	$3,860,202	$23,542	$5,425,194
PY 2010	$2,182,538	$11,352,905	$724,921	$14,260,364
TOTAL	**$3,723,988**	**$15,213,107**	**$748,463**	**$19,685,558**

Source: N.C. Department of Revenue

PART 3: BUSINESS RECRUITMENT AND EXPANSION-RELATED ACTIVITIES SINCE 2005

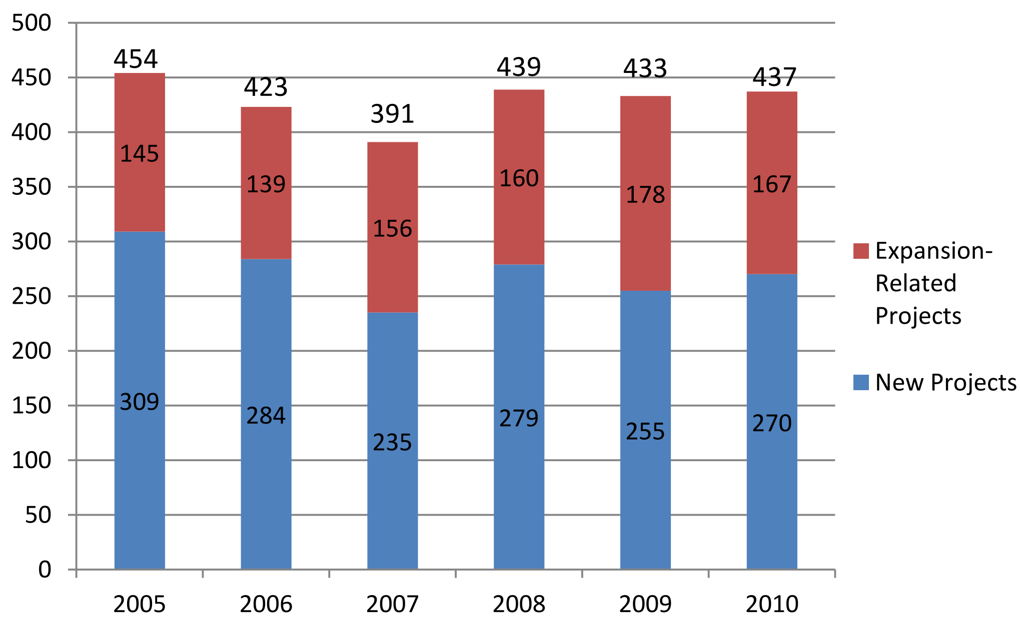
Part 3 assesses the Department of Commerce's assigned and announced business recruitment and expansion-related activities for 2005 through 2010 by county, industry type, investment, and job creation. The following review of economic development activities—which is broader than Article 3J tax credit activity—encompasses projects and companies tracked by the Business and Industry Division.

The Department of Commerce measures business recruitment and expansion-related activities in two ways. The first method tracks the number of projects assigned to business developers in any given year. Since business developers often work on individual projects for several years, the number of projects assigned annually is only a portion of their total activity. The second method tabulates announced capital investment and job creation for new and existing businesses.

ASSIGNED BUSINESS DEVELOPMENT PROJECTS

For the past three years, the total number of assigned business development projects has increased from a low of 391 projects in 2007 (Graph 1). A project is designated as "new" if the business does not currently have any operations in North Carolina. An "expansion-related" project is defined as growth in workforce or investment at an existing company in the State. Since 2005, companies new to North Carolina make up over half of all projects assigned to developers, ranging from 59 percent to 68 percent over the six year period.

Graph 1. Department of Commerce
North Carolina Assigned Business Projects by Type, 2005-2010

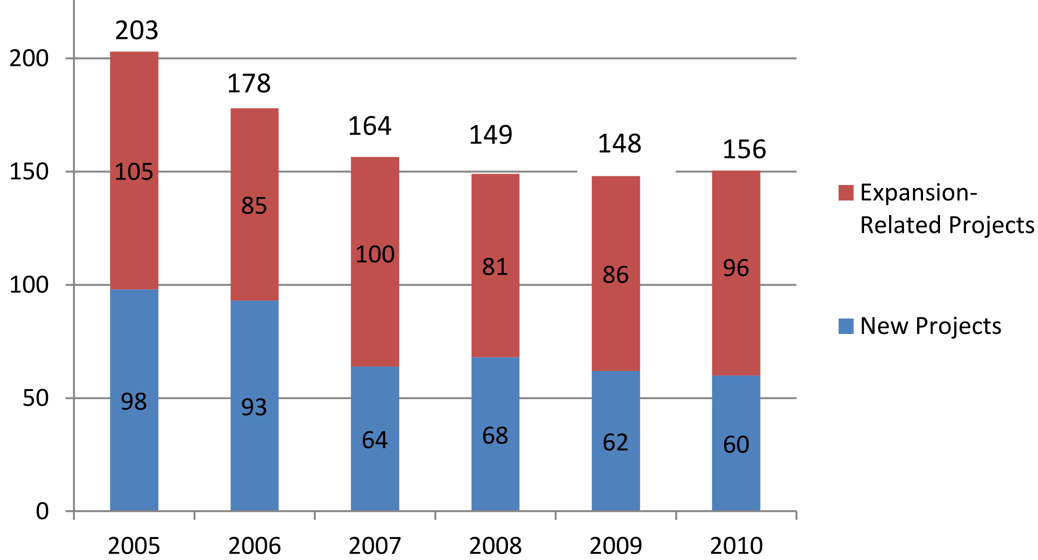


Source: North Carolina Department of Commerce, Business & Industry 2011

For the past three years, over two thirds of assigned business recruitment and expansion-related projects involve the manufacturing industry. Service and sales projects consistently are a distant second, accounting for approximately 10 percent to 12 percent of assigned projects.

Announced Business Development Projects
In 2010, the Department of Commerce announced 156 business projects (Graph 2). Over 60 percent of these announcements were expansions of existing businesses. Apart from 2006, expansion-related projects have consistently accounted for the majority of project announcements.

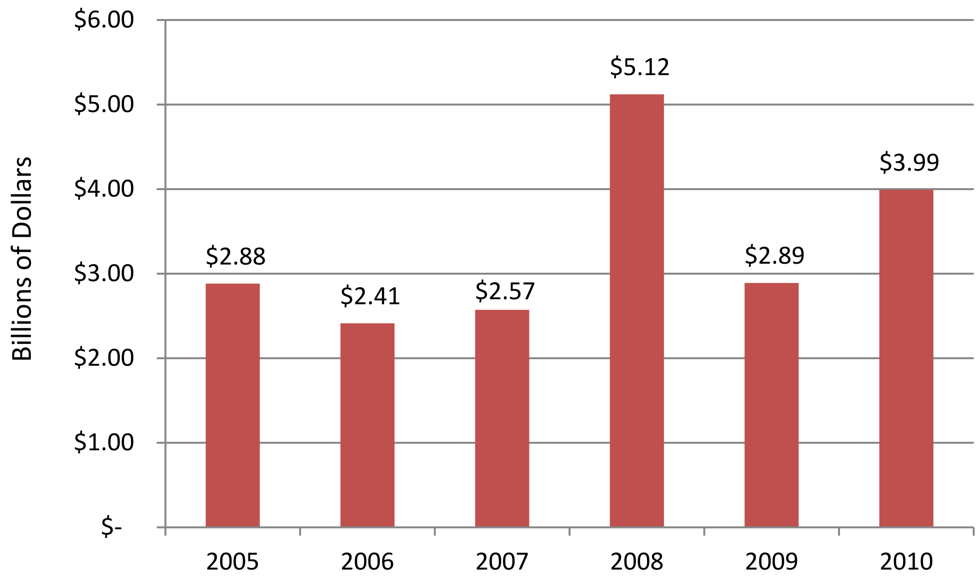
Graph 2. Department of Commerce
North Carolina Announced Business Projects by Type, 2005-2010



Source: North Carolina Department of Commerce, Business & Industry 2011

Announced business investment in 2010 totaled $3.99 billion (Graph 3), which is higher than prior years, except for 2008. Between 2005 and 2007, expansion-related projects within existing companies were responsible for the majority of announced investment. However, in 2008, new businesses accounted for over 70 percent of announced investment. Similarly, new businesses generated 61 percent of all announced investment in 2010. In 2009, the ratio of announced investment was equally divided between new and existing businesses.

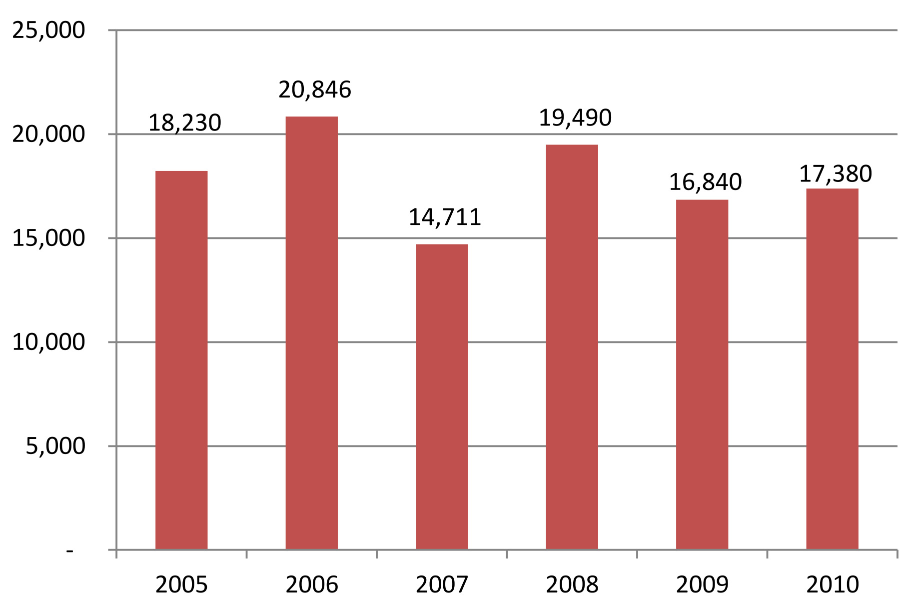
Graph 3. Department of Commerce
North Carolina Announced Business Investment by Year ($B)



Source: North Carolina Department of Commerce, Business & Industry 2011

Between 2005 and 2010, announced job creation was at its lowest in 2007. For 2009 and 2010, existing North Carolina businesses accounted for 65 percent and 68 percent, respectively, of announced job creation. In 2008, 67 percent of announced jobs were attributable to new businesses.

Graph 4. Department of Commerce
North Carolina Total Announced Jobs by Year (1,000s)



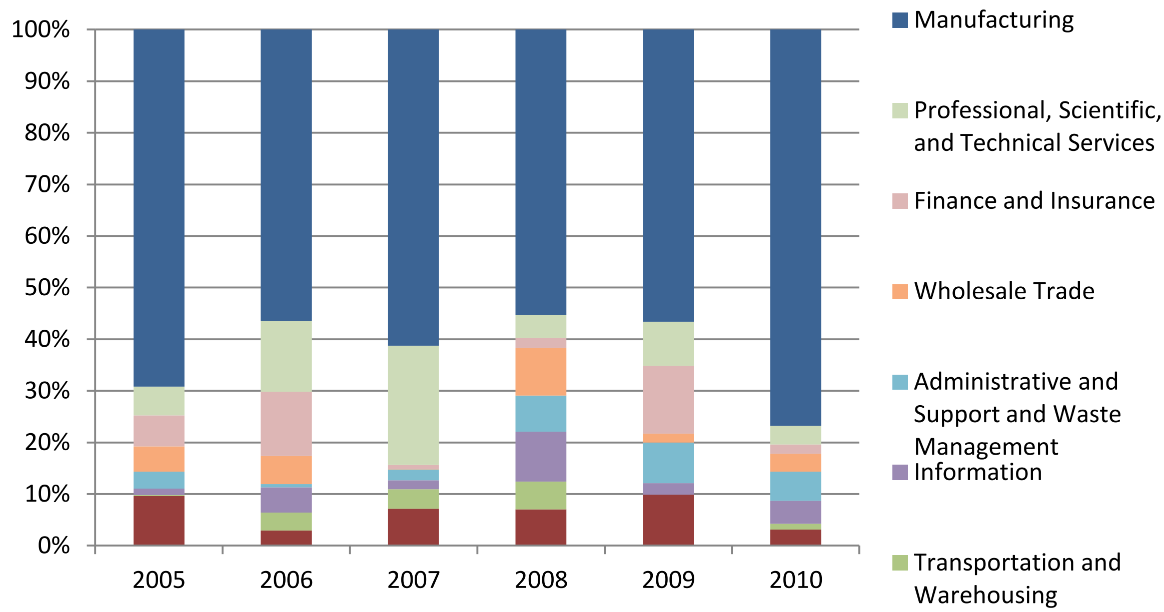
Source: North Carolina Department of Commerce, Business & Industry 2011

Announced Investment and Jobs by Industry

Over the past five years, the manufacturing sector accounted for 75 percent of announced investment and 62 percent of announced job creation. Between 2005 and 2010, the following sectors have also announced investments, but at much lower levels: Information (6 percent), Wholesale Trade (4 percent), Professional, Scientific, & Technical Services (4 percent), and Transportation & Warehousing (3 percent). Over the same time horizon, the following industries contributed to announced job creation: Professional, Scientific, & Technical Services (9 percent), Finance & Insurance (6 percent), Wholesale Trade (4 percent), Administrative & Support & Waste Management (4 percent), and Information (4 percent).

In 2010, 68 percent of announced investment and 77 percent of announced jobs originated from the manufacturing sector. Graph 5 illustrates the ratio of announced job creation by sector since 2005.

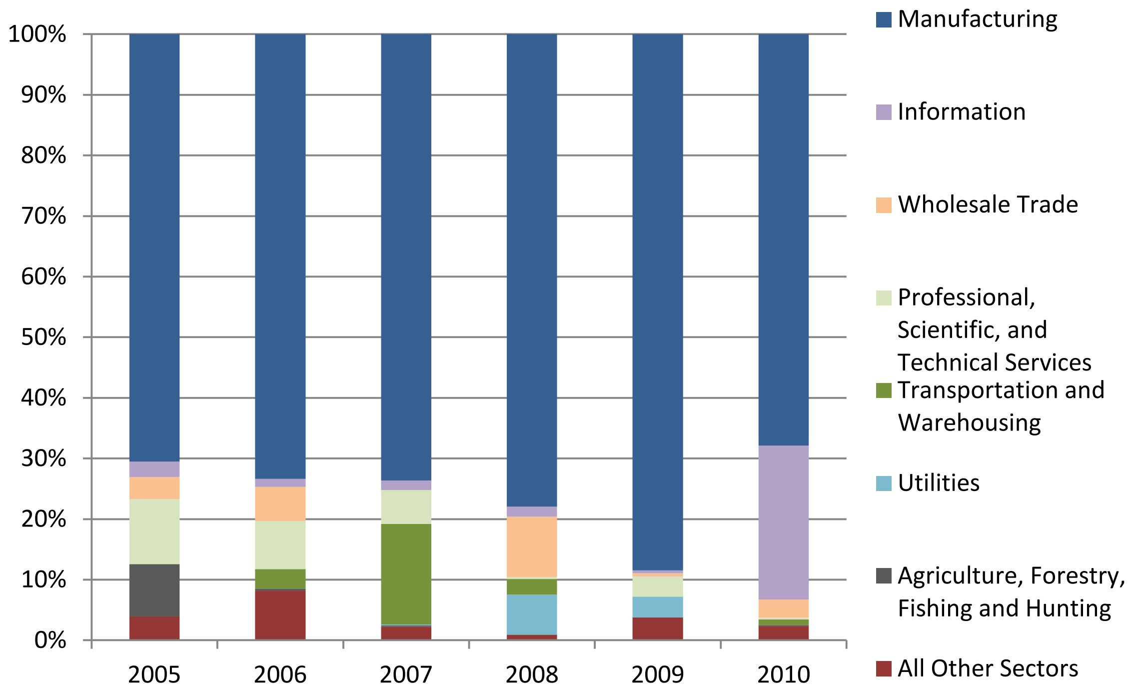
Graph 5. Department of Commerce
North Carolina Announced Job Creation by Industry and Year



Source: North Carolina Department of Commerce, Business & Industry 2011
* Industry list is prioritized by average job creation over the past five years.

Graph 6 illustrates the ratio of industry-announced investment by year. Manufacturing has consistently been the dominant industry for announced investment and job creation.

Graph 6. Department of Commerce
North Carolina Announced Investment by Industry and Year



Source: North Carolina Department of Commerce, Business & Industry 2011
* Industry list is prioritized by average sector investment over past five years.

Announced Investment and Jobs by County
Appendix A contains a table that illustrates announced investment and job creation by county. The counties with the largest populations and workforces consistently had the largest amounts of announced business activity. In all, the Department of Commerce worked with nearly 1,000 companies that announced capital investment and/or job creation in 89 counties across the state between 2005 and 2010.

PART 4: USE OF INCENTIVES BY OTHER STATES

State and local governments and regional and local economic development agencies have developed a variety of tools to support business expansion, aid small businesses and entrepreneurs, and recruit relocating firms. Statutory and discretionary tax incentives are among the most essential of those tools, and they are widely used by North Carolina and its neighboring states. Appendix B shows Southeast states with statutory incentives that are functionally equivalent to North Carolina's Article 3J.

This section compares North Carolina's three types of tax credits offered under the Article 3J program to those offered in other Southeast competitor states. It also describes the use of incentives in business development and posits that their importance in recruitment relocation and expansion decisions is increasing. This section notes that while the use of incentives as an economic development tool is commonplace, a broader set of strategies that includes business retention and small business support have also grown in importance. In addition to tax credits and grants, many states make use of local and state tax abatements, ports tax credits, workforce training tax credits, targeted rural economic development tools, technology development incentives and tax exemptions.

STATUTORY TAX INCENTIVE PROGRAMS WIDELY USED IN SOUTHEASTERN STATES

North Carolina's regional competitors for attracting new companies, investment, and jobs—Tennessee, Virginia, South Carolina, Georgia, Alabama, Texas, Mississippi, Louisiana and Florida – include statutory incentives in their economic development toolboxes.[11]

The types of tax credits Article 3J provides to eligible taxpayers in North Carolina—Credit for Job Creation, Credit for Investment in Business Property, and Credit for Real Property Investment—are similar to those offered in neighboring states:

> **Credit for Job Creation** - Most Southeastern states offer an incentive for job creation but the size, duration, and eligible industries vary. Florida's Qualified Target Industry Tax Refund is that state's most widely used job creation incentive. Georgia has two job credits: the Job Tax Credit for "strategic industries" only (distribution, technology, manufacturing, telecom, processing companies and headquarters operations) and the Quality Job Tax Credit for companies that create jobs that pay wages at least 110% of the county average.
>
> **Credit for Investment in Business Property** – These credits are offered to encourage firms to expand and/or purchase equipment. Across states, they differ in size and duration. Some restrictions include the length of time a company needs to exist before receiving the incentive. For example, the Louisiana Industrial Tax Exemption Program provides property tax abatement for up to 10 years on a manufacturer's new investment and annual capitalized additions. In Tennessee, the Industrial Machinery Tax Credit is three years, but may be expanded to five years for businesses investing less than $1 billion and to seven years for businesses investing $1 billion or more.
>
> **Credit for Investment in Real Property** - Several states provide incentives for real property investment which, in some cases, is tied to capital investment tax credits or offered only in an enterprise zone (or county tier) program. In Virginia, Florida and Louisiana, real property credits are associated with enterprise zones, which are specific, distressed geographic areas targeted for economic revitalization.

[11] North Carolina competes and is engaged in the global economy; however for the purposes of this section only Southeastern U.S. states are used for comparison.

Georgia, like North Carolina, uses a county tier system to rank its counties based on the level of economic distress to determine the size of incentive awards.

ROLE OF INCENTIVES IN THE ECONOMIC DEVELOPMENT PROCESS

In a presentation to the North Carolina General Assembly in February 2011, Department of Commerce Secretary Keith Crisco remarked, "Our competition is other Southeastern states, other United States, and other countries...the only way we will be successful in creating jobs for North Carolina is…to get the best tools for this competitive environment."

Other states recognize the competitive environment and North Carolina's leadership position. Governor of Virginia Bob McDonnell, in his 2011 State of the Commonwealth speech, said "…our 'Opportunity at Work' budget and legislative proposals [call] for $54 million in new state funding to help us better compete with Maryland and North Carolina, India and China." The "Opportunity at Work" proposal included a package of tax credits for research and development, job, and capital investment credits.

Indeed, tax incentives remain a key focus of economic development policy. *Area Development* magazine's *25th Annual Corporate Survey* and *7th Annual Consultant Survey* provides insight into which factors business executives and site selection consultants consider most important when making site location decisions.[12]

25th Annual Corporate Survey, Top 10 Site Selection Factors		7th Annual Consultant Survey, Top 10 Site Selection Factors	
Factor	**"Very Important" or "Important"**	**Factor**	**"Very Important" or Important**
1. Highway accessibility	97.3% (2)	1. Labor costs	96.8% (2)
2. Labor costs	91.0% (1)	T 1. State and local incentives	96.8% (5)
3. Tax exemptions	90.9% (3)	3. Highway accessibility	95.8% (1)
4. Occupancy or construction costs	89.8% (7)	4. Availability of skilled labor	92.6% (4)
5. State and local incentives	89.3% (8)	5. Energy availability and cost	91.5% (7)
6. Corporate tax rate	86.3% (5)	6. Proximity to major markets	90.5% (9)
7. Availability of skilled labor	85.9% (6)	7. Tax exemptions	88.4% (8)
8. Inbound/outbound shipping costs	84.0% (10)	8. Occupancy or construction costs	88.3% (3)
9. Energy availability and costs	82.1% (4)	9. Corporate tax rate	86.4% (10)
10. Availability of buildings	81.0% (12)	10. Availability of buildings	86.3% (17)

Source: 25th Annual Corporate Survey & 7th Annual Consultant Survey, Area Development
**Ranking from 24th Annual Corporate Survey and 6th Annual Consultant Survey in parentheses

State and local incentives rank high for executives and site selection consultants -- increasing in both survey rankings, between 2009 and 2010, from 8th to 5th in the corporate survey and from 5th to 1st in the consultant survey. Consultants likely rank incentives as the most important factor because incentive comparisons and negotiation are among their primary job responsibilities. Notably, more than 60 percent of corporate survey respondents said their companies had received some type of incentive; tax credits and exemptions were among the most significant. Consultants noted that incentives were more important to their clients now than in the past, especially grants and loans. Interestingly, a number of consultants said incentive closing funds -- often taking the form of discretionary, direct cash payments to firms -- were the factor they found most deficient in their recent evaluations for expansion and relocation projects.

[12] The surveys included 158 executives, the majority of whom represented manufacturing firms, and 110 site consultants.

In addition to statutory incentives like Article 3J, North Carolina has also made broad use of performance based discretionary incentives via the One North Carolina Fund and the Job Development Investment Grant program. Recent media suggests that discretionary incentives remain a highly relevant part of economic development decisions throughout the country. Some states issue large deal closing packages that result from special legislative sessions. These special sessions and the large economic development-related packages that result often supersede or greatly enhance both discretionary incentives and economic development tools that are in statute.

USE OF INCENTIVE INCREASING OR DECLINING

To determine if the use of incentives in other states is increasing or declining, states' incentive spending over a long time period would need to be compared. Despite the widespread use of incentives, gathering complete and reliable data from other states is prohibited by the lack of data availability. Incentives data is not considered public information in every state.

Stories from mainstream media, business journals and trade publications, however, suggest that there are more tax incentives offered today than ever. North Carolina is not alone in its use of discretionary economic development tools and statutory tax credits to support business expansion and recruitment. North Carolina Department of Commerce Secretary Keith Crisco and Governor Bev Perdue have frequently described the increased level of competition between states to land large employers and have indicated that robust incentive programs make a difference.

Although the rate of incentive spending in other states is not easily measureable, the Department of Commerce's Policy, Research and Strategic Planning division recently began comparing project announcement information from Alabama, Florida, Georgia, Louisiana, Mississippi, South Carolina, Tennessee, Texas and Virginia. In March 2011, the states combined had 75 total projects, $4.5 billion in investment and 9,700 announced jobs. In April, the combined project announcement total was 101, investment total $500 million, and job total 11,500. North Carolina competed for, but did not win, a handful of these projects. The volume of project and investment totals provides some indication of the scale of incentive packages that likely accompanied them.

The recession does not appear to have slowed the pace of incentive awards in Southern states, and according to governors' 2011 state of the state addresses, state executives have asked their legislatures for larger discretionary packages more than they have requested expansions of statutory incentives.[13] In 2011, the Governor of Florida requested $300 million in discretionary incentives.[14] In the 2011 session, the Virginia General Assembly adopted 17 measures granting new tax breaks worth at least $30 million a year, according to the Commonwealth Institute, a nonprofit group that analyzes state fiscal matters. Among them: Green Job Creation Tax Credit, the Recycling Equipment Tax Credit, Major Business Facility Tax Credit and Coal Employment and Production Incentive Tax Credit.[15]

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[13] Academic research on North Carolina's incentive programs would also suggest that discretionary incentives have higher efficacy than statutory incentive programs. In a report to the North Carolina General Assembly Joint Select Committee on Economic Development Incentives from the University of North Carolina Center for Competitive Economies, published in July 2009, incentives were found to be most effective when tailored to companies' specific priorities, used to strengthen existing industrial clusters and existing labor market availability and used proactively to target.

[14] *Palm Beach Post*, http://www.palmbeachpost.com/news/state/governor-rick-scotts-budget-proposal-pushes-business-vehicle-1241984.html?printArticle=y, Accessed 5/18/2011.

[15] *Washington Post*, http://www.washingtonpost.com/wp-dyn/content/article/2011/03/12/AR2011031205006.html, Accessed 5/17/2011.

APPENDICES

APPENDIX A

Announced Investment and Jobs by Year and County												
	2005		2006		2007		2008		2009		2010	
County	Investment	Jobs	Investment	Jobs	Investment	Jobs	Investment	Jobs	Investment	Jobs	Investment	Jobs
Alamance	$7,600,000	190	$9,700,000	159	$33,500,000	130	$86,500,000	81	$7,000,000	42	$12,200,000	381
Alexander	$12,000,000	65	$0	-	$0	-	$275,000	65	$13,900,000	168	$0	-
Alleghany	$0	46	$0	-	$0	-	$0	-	$0	-	$0	-
Anson	$0	-	$0	-	$0	-	$10,300,000	87	$5,500,000	115	$0	-
Ashe	$40,400,000	307	$0	-	$26,000,000	-	$0	-	$0	-	$0	-
Avery	$0	-	$0	-	$0	-	$0	-	$0	-	$0	-
Beaufort	$164,407,000	506	$5,500,000	65	$18,510,000	293	$14,000,000	270	$1,950,000	46	$9,650,000	738
Bertie	$500,000	3	$0	-	$0	-	$0	-	$500,000	7	$0	-
Bladen	$21,950,000	186	$81,300,000	251	$3,000,000	120	$1,500,000	79	$0	-	$0	-
Brunswick	$78,550,000	135	$12,000,000	34	$52,300,000	883	$0	-	$0	-	$4,800,000	8
Buncombe	$80,000,000	123	$30,000,000	264	$23,000,000	220	$1,700,000	50	$9,845,000	136	$195,200,000	780
Burke	$113,400,000	761	$14,050,000	102	$19,300,000	61	$33,400,000	243	$3,750,000	109	$7,920,000	348
Cabarrus	$200,000,000	-	$46,526,000	712	$2,150,000	50	$15,000,000	500	$0	-	$83,800,000	246
Caldwell	$0	380	$23,100,000	287	$15,000,000	509	$62,000,000	872	$14,385,000	127	$19,789,848	357
Camden	$0	-	$0	-	$6,600,000	60	$0	-	$0	-	$0	-
Carteret	$13,000,000	60	$0	-	$0	-	$0	-	$0	-	$0	-
Caswell	$0	-	$2,100,000	24	$500,000	50	$0	-	$0	-	$0	-
Catawba	$52,700,000	728	$121,125,000	745	$0	-	$10,940,000	1,848	$1,008,500,000	799	$24,750,000	613
Chatham	$25,500,000	65	$0	-	$1,000,000	14	$142,000,000	104	$1,000,000	24	$2,000,000	30
Cherokee	$1,000,000	25	$0	-	$19,050,000	99	$0	-	$2,000,000	40	$0	-
Chowan	$3,700,000	62	$0	-	$6,000,000	41	$0	-	$5,400,000	44	$1,500,000	15
Clay	$1,000,000	10	$0	-	$250,000	15	$450,000	12	$0	-	$0	-
Cleveland	$16,500,000	60	$71,240,000	956	$8,800,000	310	$29,350,000	222	$11,979,000	129	$342,700,000	362
Columbus	$10,200,000	158	$32,700,000	230	$66,800,000	74	$4,060,000	72	$4,400,000	92	$0	-
Craven	$24,000,000	123	$12,250,000	237	$5,000,000	50	$12,000,000	100	$53,000,000	6	$4,700,000	350
Cumberland	$81,100,000	15	$3,900,000	30	$200,000,000	50	$204,500,000	75	$117,748,000	784	$3,500,000	3
Currituck	$0	-	$0	-	$0	-	$0	-	$0	-	$0	-
Dare	$0	-	$0	-	$0	-	$0	-	$0	-	$0	-
Davidson	$12,500,000	80	$4,100,000	200	$32,700,000	788	$1,000,000	100	$12,000,000	328	$35,900,000	393
Davie	$27,000,000	40	$10,500,000	143	$0	-	$4,000,000	24	$850,000	128	$31,700,000	169
Duplin	$0	-	$0	-	$0	-	$0	-	$0	-	$18,406,500	94
Durham	$197,500,000	1,003	$342,871,680	1,518	$102,928,548	932	$653,450,000	493	$448,283,000	1,726	$248,600,000	1,483
Edgecombe	$0	-	$4,410,000	133	$7,000,000	100	$0	-	$5,650,000	155	$6,600,000	485
Forsyth	$86,950,000	139	$26,306,000	171	$25,000,000	24	$50,357,586	501	$65,150,000	322	$426,000,000	392
Franklin	$1,000,000	10	$5,500,000	-	$28,850,000	130	$3,300,000	10	$9,100,000	72	$0	-

Announced Investment and Jobs by Year and County, Continued												
	2005		2006		2007		2008		2009		2010	
County	Investment	Jobs	Investment	Jobs	Investment	Jobs	Investment	Jobs	Investment	Jobs	Investment	Jobs
Gaston	$209,000,000	700	$0	-	$0	-	$0	-	$0	-	$5,700,000	41
Gates	$0	-	$0	-	$0	-	$0	-	$0	-	$0	-
Graham	$150,000	2	$0	-	$0	-	$2,000,000	205	$0	-	$5,400,000	-
Granville	$18,000,000	180	$0	-	$50,000,000	-	$0	-	$17,000,000	42	$0	-
Greene	$0	-	$0	-	$6,465,000	89	$0	-	$0	-	$0	-
Guilford	$42,189,000	524	$117,100,000	1,165	$642,700,000	1,297	$155,425,000	1,893	$80,000,000	510	$479,250,000	542
Halifax	$14,100,000	116	$1,686,000	81	$7,000,000	65	$0	-	$9,000,000	124	$65,000,000	700
Harnett	$4,200,000	60	$0	-	$2,361,476	13	$0	-	$0	-	$0	-
Haywood	$6,030,000	82	$0	-	$0	-	$0	-	$0	-	$3,500,000	75
Henderson	$24,000,000	110	$5,000,000	50	$0	-	$700,000	30	$30,157,000	338	$0	-
Hertford	$0	-	$0	-	$0	-	$0	-	$0	-	$52,000,000	53
Hoke	$400,000	50	$20,700,000	67	$112,000,000	176	$800,000	27	$7,200,000	40	$0	-
Hyde	$56,078,000	125	$0	-	$0	-	$0	-	$3,000,000	12	$0	-
Iredell	$142,000,000	579	$8,500,000	150	$51,000,000	203	$213,428,000	337	$8,200,000	135	$42,000,000	237
Jackson	$0	-	$0	-	$0	-	$0	-	$16,691,301	61	$0	-
Johnston	$60,500,000	687	$7,600,000	118	$18,900,000	20	$0	-	$14,500,000	57	$198,400,000	465
Jones	$0	-	$2,000,000	25	$400,000	50	$0	-	$0	-	$0	-
Lee	$0	-	$28,000,000	484	$20,000,000	42	$7,000,000	10	$0	-	$70,891,500	780
Lenoir	$45,400,000	363	$4,250,000	37	$31,750,000	340	$1,035,764,000	3,063	$60,400,000	97	$12,400,000	344
Lincoln	$52,100,000	100	$20,000,000	181	$0	-	$19,500,000	45	$0	-	$16,300,000	50
Macon	$0	-	$0	-	$3,000,000	50	$2,600,000	32	$0	-	$0	-
Madison	$0	-	$0	-	$0	-	$0	-	$0	-	$0	-
Martin	$0	-	$600,000	65	$4,000,000	100	$4,630,000	310	$3,000,000	81	$0	-
Mc Dowell	$12,400,000	420	$1,200,000	25	$3,250,000	317	$4,350,000	58	$10,550,000	201	$4,910,000	171
Mecklenburg	$100,662,000	1,730	$110,850,000	1,253	$8,500,000	849	$180,590,001	2,123	$117,640,000	4,975	$453,430,001	3,133
Mitchell	$900,000	206	$0	-	$2,300,000	70	$0	-	$0	-	$0	-
Montgomery	$42,300,000	77	$0	-	$0	-	$5,500,000	23	$100,000,000	100	$0	-
Moore	$0	-	$11,662,000	240	$4,000,000	86	$0	-	$2,330,000	72	$2,700,000	98
Nash	$39,070,000	1,612	$73,100,000	622	$16,825,000	155	$3,350,000	108	$0	-	$0	-
New Hanover	$144,000,000	219	$136,000,000	857	$25,000,000	25	$1,174,500,000	1,097	$25,000,000	30	$0	-
Northampton	$6,169,000	43	$21,500,000	288	$0	-	$212,000,000	45	$100,000	-	$0	-
Onslow	$12,000,000	350	$0	600	$300,000	35	$0	-	$0	-	$1,250,000	30
Orange	$6,780,000	120	$1,250,000	15	$2,640,000	25	$0	-	$8,500,000	72	$0	-
Pamlico	$0	-	$0	-	$0	-	$0	-	$0	-	$0	-
Pasquotank	$0	-	$0	-	$6,000,000	124	$0	-	$10,000,000	100	$2,900,000	63
Pender	$4,800,000	55	$0	-	$5,000,000	55	$3,000,000	30	$0	-	$650,000	40
Perquimans	$0	-	$0	-	$0	-	$0	-	$0	-	$0	-
Person	$0	-	$7,850,000	130	$35,200,000	277	$0	-	$900,000	375	$191,700,000	312
Pitt	$55,000,000	310	$90,320,000	215	$7,500,000	165	$0	-	$5,700,000	40	$0	-
Polk	$0	-	$0	-	$820,000	28	$0	-	$0	-	$0	-

Announced Investment and Jobs by Year and County, Continued												
	2005		2006		2007		2008		2009		2010	
County	Investment	Jobs	Investment	Jobs	Investment	Jobs	Investment	Jobs	Investment	Jobs	Investment	Jobs
Randolph	$78,410,591	460	$104,000,000	171	$0	-	$28,000,000	222	$900,000	20	$169,300,000	530
Richmond	$5,000,000	67	$73,500,000	225	$45,000,000	212	$32,000,000	42	$5,125,000	189	$19,000,000	250
Robeson	$41,100,000	840	$37,250,000	463	$21,200,000	205	$13,500,000	187	$750,000	25	$30,785,916	306
Rockingham	$49,600,000	275	$35,800,000	267	$115,113,000	389	$5,400,000	37	$3,840,000	45	$42,200,000	245
Rowan	$2,000,000	135	$31,000,000	752	$82,000,000	45	$600,000	46	$49,224,000	529	$30,800,000	387
Rutherford	$8,900,000	97	$8,167,500	551	$27,155,000	254	$3,100,000	1,300	$5,000,000	55	$463,497,000	95
Sampson	$1,650,000	30	$775,000	10	$4,200,000	130	$200,000,000	100	$0	-	$12,511,000	65
Scotland	$23,125,000	58	$0	-	$0	-	$19,300,000	175	$13,200,000	133	$600,000	45
Stanly	$0	-	$9,000,000	87	$0	-	$21,400,000	182	$0	-	$11,300,000	74
Stokes	$0	-	$0	-	$71,000,000	65	$30,000,000	-	$0	-	$0	-
Surry	$34,500,000	238	$5,200,000	146	$0	-	$140,030,000	82	$10,895,000	351	$4,500,000	38
Swain	$0	-	$0	-	$0	-	$0	20	$0	-	$0	-
Transylvania	$20,000,000	110	$0	-	$0	-	$0	-	$0	-	$0	-
Tyrrell	$0	-	$0	-	$0	-	$0	-	$0	-	$0	-
Union	$0	-	$41,760,000	451	$267,900,000	347	$4,000,000	4	$600,000	5	$27,350,000	101
Vance	$9,300,000	220	$2,000,000	100	$1,750,000	18	$16,000,000	5	$2,313,603	345	$3,000,000	152
Wake	$218,440,000	1,037	$473,900,000	3,628	$143,700,000	3,036	$120,050,000	1,498	$430,400,000	1,966	$47,110,000	491
Warren	$0	-	$0	-	$0	-	$0	-	$0	-	$0	-
Washington	$250,000	1	$0	-	$0	-	$0	-	$5,330,000	144	$0	-
Watauga	$0	-	$0	-	$0	-	$0	-	$0	-	$0	-
Wayne	$11,500,000	436	$6,200,000	182	$2,000,000	58	$7,875,000	122	$0	-	$0	-
Wilkes	$1,500,000	42	$4,000,000	-	$0	-	$3,000,000	12	$0	-	$28,800,000	200
Wilson	$6,300,000	84	$50,300,000	884	$5,300,000	123	$108,000,000	92	$0	-	$0	-
Yadkin	$0	-	$0	-	$13,000,000	170	$7,000,000	120	$27,000,000	172	$8,000,000	20
Yancey	$0	-	$0	-	$0	-	$0	-	$0	-	$0	-
Totals	**$2,882,260,591**	**18,230**	**$2,411,199,180**	**20,846**	**$2,569,468,024**	**14,711**	**$5,124,478,603**	**19,490**	**$2,886,339,922**	**16,840**	**$3,986,855,785**	**17,380**
Source: North Carolina Department of Commerce,Business & Industry Division, 2011												

APPENDIX B

Statutory Incentive Tools				
	Job Creation Tax Credit	**M&E Tax Credit**	**Real Property Tax Credit**	**R&D Tax Credit**
North Carolina	Article 3J: Tax Credits for Growing Businesses	Article 3J: Tax Credits for Growing Businesses	Article 3J: Tax Credits for Growing Businesses	R&D Tax Credit
Alabama	Income Tax Capital Credit	Income Tax Capital Credit	Income Tax Capital Credit	N/A
Florida	Qualified Target Industry Tax Refund (QTI)	Rural and Urban Enterprise Zones Business Equipment Sales Tax Refund	Rural and Urban Enterprise Zones Property Tax Credit (Corporate Income Tax)	Innovation Incentive Fund
Georgia	Mega Project Tax Credit; Quality Job Tax Credit; & Job Tax Credit	Existing Industry Investment Tax Credit & Optional Investment Tax Credit		R&D Tax Credit
Louisiana	Enterprise Zone Program & Technology Commercialization Credit and Jobs Program	Industrial Tax Exemption Program	Restoration Tax Abatement; Modernization Tax Credit; & Gulf Opportunity Zone	LA Research & Development Tax Credit
Mississippi	Jobs Tax Credit	Manufacturing Investment Tax Credit	N/A	R&D Tax Credit
South Carolina	Job Tax Credit; "Annual" Small Business Job Tax Credit; & "Accelerated" Small Business Job Tax Credit	N/A	Corporate Headquarters Credit	R&D Tax Credit
Tennessee	Jobs Tax Credit; Jobs Tax Super Credit; & Tiered Rural Opportunity Initiative (ROI) Jobs Tax Credit	Industrial Machinery Tax Credit	N/A	N/A
Texas	Franchise Tax Credits for Job Creation	N/A	N/A	Franchise R&D Tax Credit
Virginia	Major Business Facility Job Tax Credit; Green Jobs Tax Credit; Enterprise Zone Job Creation Grant	Recycling Equipment Tax Credit	Enterprise Zone Real Property Investment Grant	R&D Tax Credit

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