



LED-MANAGED EXEMPTIONS

SELECTED EXHIBITS FOR REVENUE STUDY COMMISSION

December 10, 2012

AGENDA

SECTION I: Overview of LED-managed exemptions

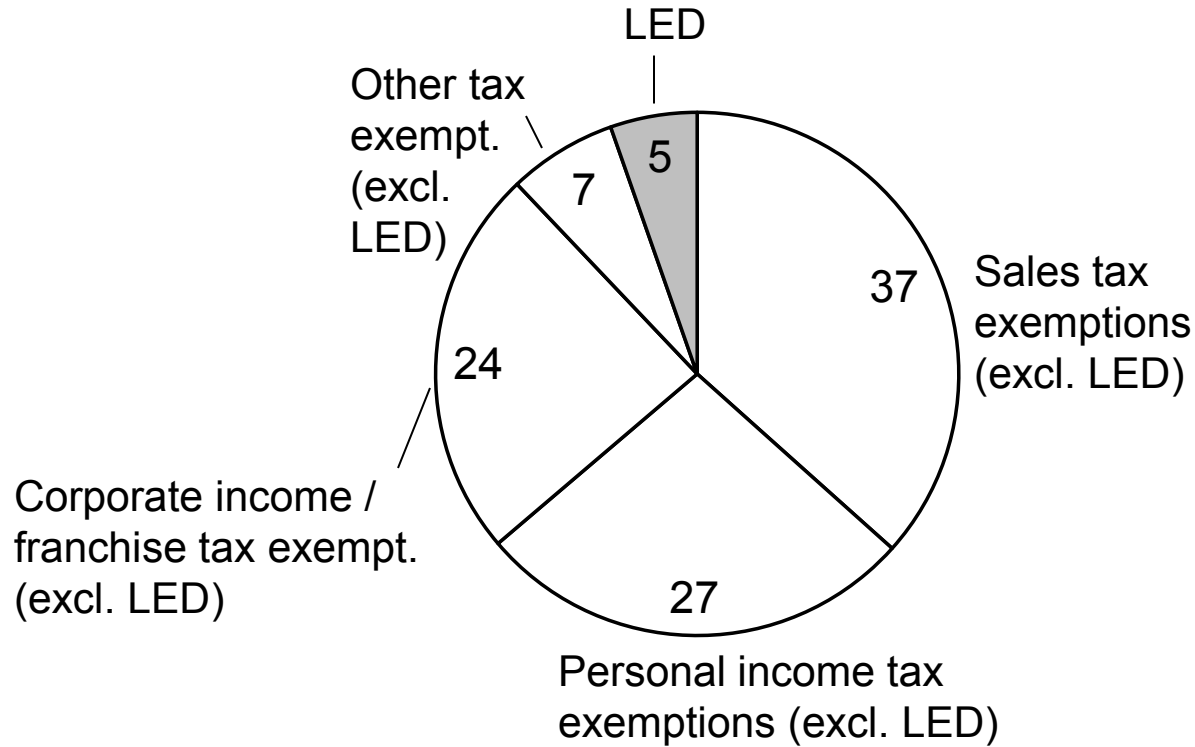
SECTION II: Other LED-managed exemptions

SECTION III: Appendix

ALL TAX EXEMPTIONS IN LOUISIANA TOTALED \$6.8 BILLION IN FY11

Total value (% in FY11)
100% = \$6.8 billion

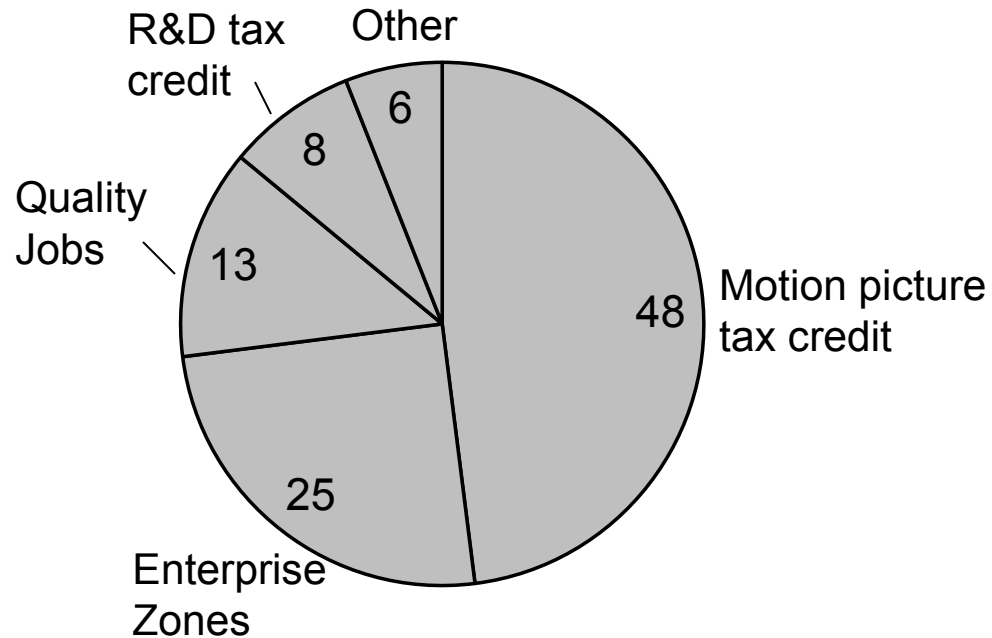
LED-managed exemptions



LED-MANAGED TAX EXEMPTIONS TOTALED \$364 MILLION IN FY11

Total value (% in FY11)
100% = \$364 million

LED-managed exemptions



MOTION PICTURE INVESTOR TAX CREDIT

CASE EXAMPLE



The Louisiana Motion Picture Investor Tax Credit program was vital to produce *Beasts of the Southern Wild*. The picture won the Camera d'Or award at the 2012 Cannes Film Festival and Grand Jury Prize at the 2012 Sundance Film Festival.

- **Overview:** Provides a 30% transferable tax credit for qualified motion picture production expenditures and an additional 5% payroll tax credit for in-state labor
- **Created:** 2002
- **Last amended:** 2009
- **Value (FY11):** \$174 million
- **Impact (CY11):**
 - Certified spending of \$677 million in Louisiana
 - Total economic impact: \$1.0 billion

ENTERPRISE ZONE PROGRAM

CASE EXAMPLES

Top applicants by number of projects

| | |
|----------------------------------|----|
| Walgreen's | 59 |
| Rouse's Enterprises | 21 |
| Raising Cane's | 16 |
| Diaz II (Shell service stations) | 11 |
| Wal-Mart | 11 |

- **Overview:** Provides a one-time \$2,500 per job tax credit and either a 4% sales/use tax rebate on capital expenditures or a 1.5% investment tax credit for qualified expenses
- **Created:** 1981
- **Last amended:** 2011
- **Value (FY11):** \$91 million
- **Impact (FY11):**
 - New permanent jobs at applicant companies: ~15,920
 - Net new jobs in LA: ~5,000

LOUISIANA'S ENTERPRISE ZONE PROGRAM IS MUCH BROADER THAN SIMILAR PROGRAMS IN PEER STATES

| Program feature | Louisiana | Alabama | Arkansas | Mississippi | Texas |
|--|--|--|----------------------------|-----------------------------------|----------------|
| Summary of incentives | Job, investment, sales/use tax credits | Job, investment, sales/use tax credits | Job, sales/use tax credits | Investment, sales/use tax credits | Job tax credit |
| Exclusion of industry sectors with high substitution effects | No | Yes | Yes | Yes | Yes |
| Business must locate in economically disadvantaged zone | No | Yes | No | Yes | No |
| \$ per job incentive caps | No | No | No | No | Yes |

QUALITY JOBS PROGRAM

CASE EXAMPLE

Dynamic Fuels™



Dynamic Fuels uses the Quality Jobs Program at their Geismar plant that produces renewable diesel and jet fuels from animal fats.

- **Overview:** Provides a 5% or 6% cash rebate of annual gross payroll for new, direct jobs for up to 10 years and (via EZ program) either a 4% sales/use tax rebate on capital expenditures or a 1.5% investment tax credit for qualified expenses
- **Created:** 1995
- **Last amended:** 2011
- **Value (FY10):** \$87.1 million
- **Impact (FY10):**
 - New permanent jobs (direct only): 8,365

LOUISIANA'S QUALITY JOBS PROGRAM IS COMPETITIVE WITH SIMILAR PROGRAMS IN PEER STATES

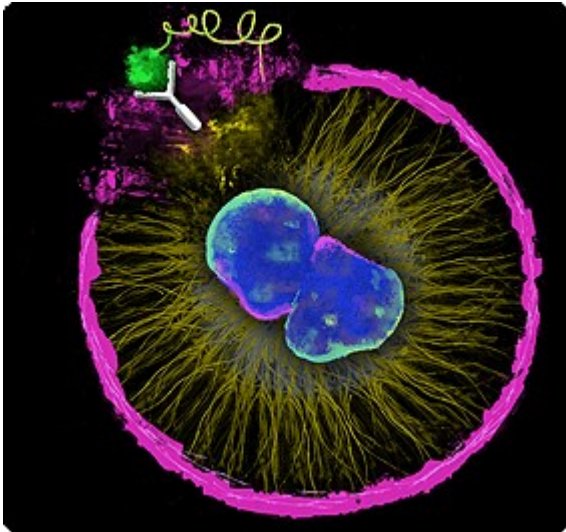
| Program feature | Louisiana | Arkansas | Kentucky | Mississippi | Oklahoma |
|-----------------------------------|------------------|-----------------|---------------------|--------------------|--------------------------------|
| Program name | Quality Jobs | Create Rebate | Business Investment | Advantage Jobs | Quality Jobs |
| Max payroll rebate (%) | 5-6 | 3.9-5 | 4-5 | 4 | 5-6 (7-10 for \$100k/yr+ jobs) |
| Department discretion | No | Yes | Yes | No | No |
| Min average salary | Yes | No | Yes | Yes | Yes |
| Min standards for health benefits | Yes | No | Yes | Yes | Yes |
| Target industry requirements | Yes | Yes | Yes | Yes | Yes |

WHILE BOTH QJ AND EZ TARGET JOB CREATION IN LOUISIANA, THE DETAILS OF THE PROGRAMS ARE VERY DIFFERENT

| <u>Attribute</u> | <u>Quality Jobs</u> | <u>Enterprise Zone</u> |
|---|---------------------|------------------------|
| Excludes industries with high substitution effects? | Yes | No |
| Provides benefits for full-time jobs only? | Yes | No |
| Requires min wage/salary? | Yes | No |
| Establishes standards for health benefits? | Yes | No |

RESEARCH AND DEVELOPMENT TAX CREDIT

CASE EXAMPLE



Esperance Pharmaceuticals in Baton Rouge currently utilizes the R&D tax credit program in their efforts to develop a new class of targeted anticancer drugs that selectively kill cancer cells without harming normal cells.

- **Overview:** Provides up to a 40% tax credit on qualified research expenditures incurred in Louisiana – with no cap and no minimum requirement
- **Created:** 2002
- **Last amended:** 2011
- **Value (FY11):** \$28 million
- **Impact (CY11):**
 - Certified spending: \$108.6 million

DIGITAL MEDIA AND SOFTWARE DEVELOPMENT TAX CREDIT

CASE EXAMPLE



Moonbot Studios in Shreveport used the Digital Media Tax Credit to make the iPad application based upon the Academy-Award winning production *The Fantastic Flying Books of Mr. Morris Lessmore*.

- **Overview:** Provides a 35% tax credit for in-state labor, coupled with a 25% credit for eligible production expenses
- **Created:** 2005
- **Last amended:** 2011
- **Value (FY11):** \$1.5 million
- **Impact (CY11):**
 - Certified spending: \$26.9 million

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RETENTION AND MODERNIZATION TAX CREDIT

CASE EXAMPLE



The Angus Chemical Company in Sterlington anticipates using the Retention and Modernization Tax Credit to support the installation of electrical upgrades.

- **Overview:** Provides a refundable tax credit of up to 5% (not to exceed \$3 million) of qualified capital expenditures for existing Louisiana manufacturers making at least \$5 million in qualified capital expenditures
- **Created:** 2009
- **Last amended:** Never amended
- **Value (FY11):** \$0
- **Impact (CY11*):**
 - Anticipated new permanent jobs: 685
 - Anticipated retained jobs: 2,989

SOUND RECORDING INVESTOR TAX CREDIT

CASE EXAMPLE



Recorded in Louisiana and utilizing the sound recording tax credit program, the Rebirth Brass Band won the 2012 Grammy for Best Regional Roots Music for their most recent album, *Rebirth of New Orleans*.

- **Overview:** Provides a 25% refundable tax credit for qualified expenditures on state-certified sound recording productions and infrastructure
- **Created:** 2005
- **Last amended:** 2009
- **Value (FY11):** \$1.1 million
- **Impact (CY11):**
 - Certified spending: \$3.5 million

MUSICAL AND THEATRICAL PRODUCTION TAX INCENTIVE

CASE EXAMPLE



The Saenger Theatre in New Orleans is currently utilizing the live performance infrastructure program as the cornerstone to the restoration of this historic venue.

- **Overview:** Provides a 25% to 35% tax credit on qualified production or infrastructure development expenses with additional tax credits available for payroll and transportation
- **Created:** 2007
- **Last amended:** 2009
- **Value (FY11):** \$0.6 million
- **Impact (CY11):**
 - Certified spending: \$23.4 million

ANGEL INVESTOR TAX CREDIT

CASE EXAMPLE



Louisiana's Angel Investor Tax Credit Program helped Ethan Cheramie create 10 jobs at Petro TV in New Orleans.

- **Overview:** Provides a 35% tax credit on investments by accredited investors in qualified Louisiana small businesses
- **Created:** 2005
- **Last amended:** 2011 (reauthorized)
- **Value (FY11):** \$3.5 million
- **Impact (CY11):** TBD

TECHNOLOGY COMMERCIALIZATION AND JOBS PROGRAM

CASE EXAMPLE



TheraVasc, Inc. utilized the Technology Commercialization credit in developing the PAD technology, which is now in clinical trials. Patients with diabetes are at a greater risk of developing peripheral artery disease (PAD), a chronic disorder associated with reduced blood flow to the extremities.

- **Overview:** Provides a 40% refundable tax credit for companies that invest in the commercialization of Louisiana university technology and a 6% payroll rebate for the creation of new direct jobs
- **Created:** 2002
- **Last amended:** 2011
- **Value (FY11):** \$0.1 million
- **Impact (CY11):**
 - Approved commercial costs: \$0.2 million

INDUSTRIAL TAX EQUALIZATION PROGRAM

CASE EXAMPLE



Stuller, Inc in Lafayette used the Industrial Tax Exemption Program to stay competitive and continue to operate in Louisiana.

- **Overview:** Eliminates the tax differential through the equalization of the overall taxes between a Louisiana site and a competing site in another state
- **Created:** 1966
- **Last amended:** 2005
- **Value (FY11):** \$8.4 million
- **Impact (CY11):**
 - No new applicants approved in 2011

OTHER LED-MANAGED TAX CREDIT PROGRAMS ARE INACTIVE FOR A VARIETY OF REASONS

| Program | Status* |
|---|--|
| ▪ LA Motion Picture incentive (old program) | ▪ Superseded; sunset 1/1/07 |
| ▪ Mentor-Protégé | ▪ Sunset 12/31/11 |
| ▪ LA Community Economic Development | ▪ Inactive; no donor applicants |
| ▪ Urban Revitalization | ▪ Inactive; no Hubzone applicants |
| ▪ University R&D Parks | ▪ Inactive; no tenant applicants |
| ▪ Louisiana Biomedical R&D Park | ▪ Repealed 2005 |
| ▪ Green Job Industries | ▪ Inactive; federal funding not available |
| ▪ Exemptions for Manufacturing Establishments (Industry Assistance) | ▪ Inactive; 2005 amendments diminish usefulness |
| ▪ Ports of Louisiana | ▪ ROI requirement limits use of import/export credit; infrastructure credit hasn't yet been utilized |

*Some programs may have values reported in the latest Tax Exemption Budget due to incentives issued in prior years and claimed recently, or due to coding errors by taxpayers

THE REMAINING PROGRAMS ON TODAY'S AGENDA ARE ADMINISTERED BY OTHER AGENCIES

Program

Agency

- | | |
|--|------------------------------------|
| ▪ Atchafalaya Trace Heritage Area Development Zone Tax Exemption | ▪ Culture, Recreation, and Tourism |
| ▪ Cane River Heritage Tax Credit | ▪ Culture, Recreation, and Tourism |
| ▪ New Markets Tax Credit | ▪ Revenue |
| ▪ Brownfields Investor Tax Credit | ▪ Environmental Quality |
| ▪ Louisiana Capital Companies Tax Credit Program | ▪ Office of Financial Institutions |

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TAX EXEMPTIONS SHOULD BE VIEWED IN TERMS OF LOUISIANA'S COMPETITIVENESS IN IMPORTANT AREAS

- State tax systems are composed of many factors, including types of activities that are taxed, brackets, rates and exemptions
- The entire tax system determines a state's tax burdens and competitiveness
- Competitiveness should be viewed in general terms and in particular areas (e.g., key industry sectors)
- We recommend the Revenue Study Commission focus on enhancing our state's competitiveness in important areas

ECONOMIC DEVELOPMENT INCENTIVES DIFFERENTIATE SITES THAT ARE COMPARABLE ON PRIMARY CRITERIA

NOT COMPREHENSIVE

Primary selection factors*

- Quality, availability, and cost of target workforce
- Tax and regulatory climate
- Proximity to key customers and suppliers
- Transportation infrastructure and logistics
- Operating costs (electricity, insurance, workers comp, etc.)
- Quality-of-life factors (public education options, crime, etc.)
- Availability of target real-estate solution (size, cost, control, water/sewer/rail connectivity, etc.)

Secondary selection factors**

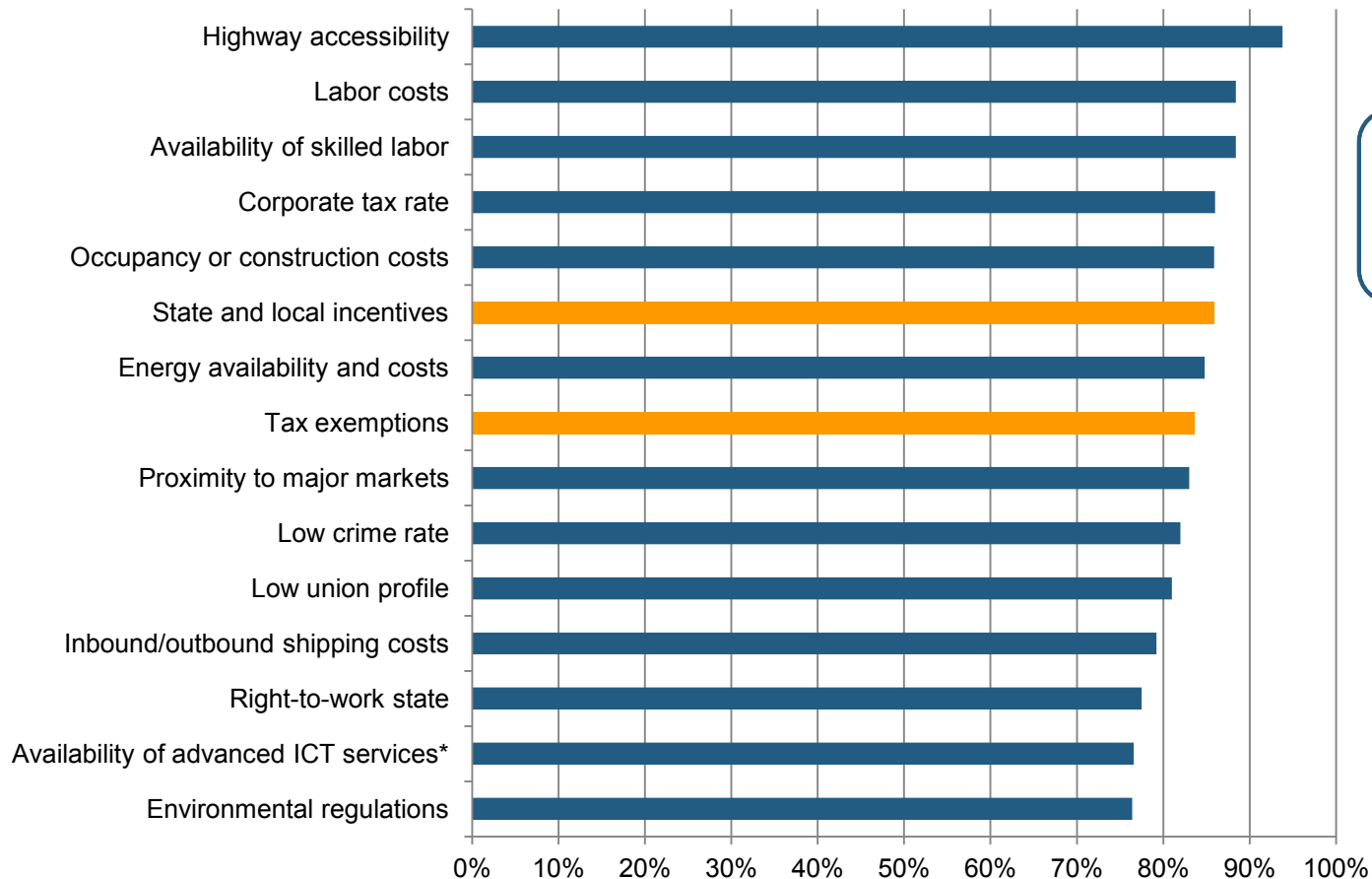
- Level of state-and-community support (fast-track permitting, etc.)
- Availability and quality of customized training
- Statutory financial incentives
- Customized incentives

*Priority of selection factors varies from project to project; however, quality and availability of workforce almost always is one of the top three considerations

**Typically these factors come into play when multiple locations offer relatively comparable characteristics relative to primary site-selection criteria

CORPORATE EXECUTIVES CITE INCENTIVES AND TAX EXEMPTIONS AS IMPORTANT SITE SELECTION FACTORS

Top 15 site selection factors (% of executive respondents rating factor as “important” or “very important”)



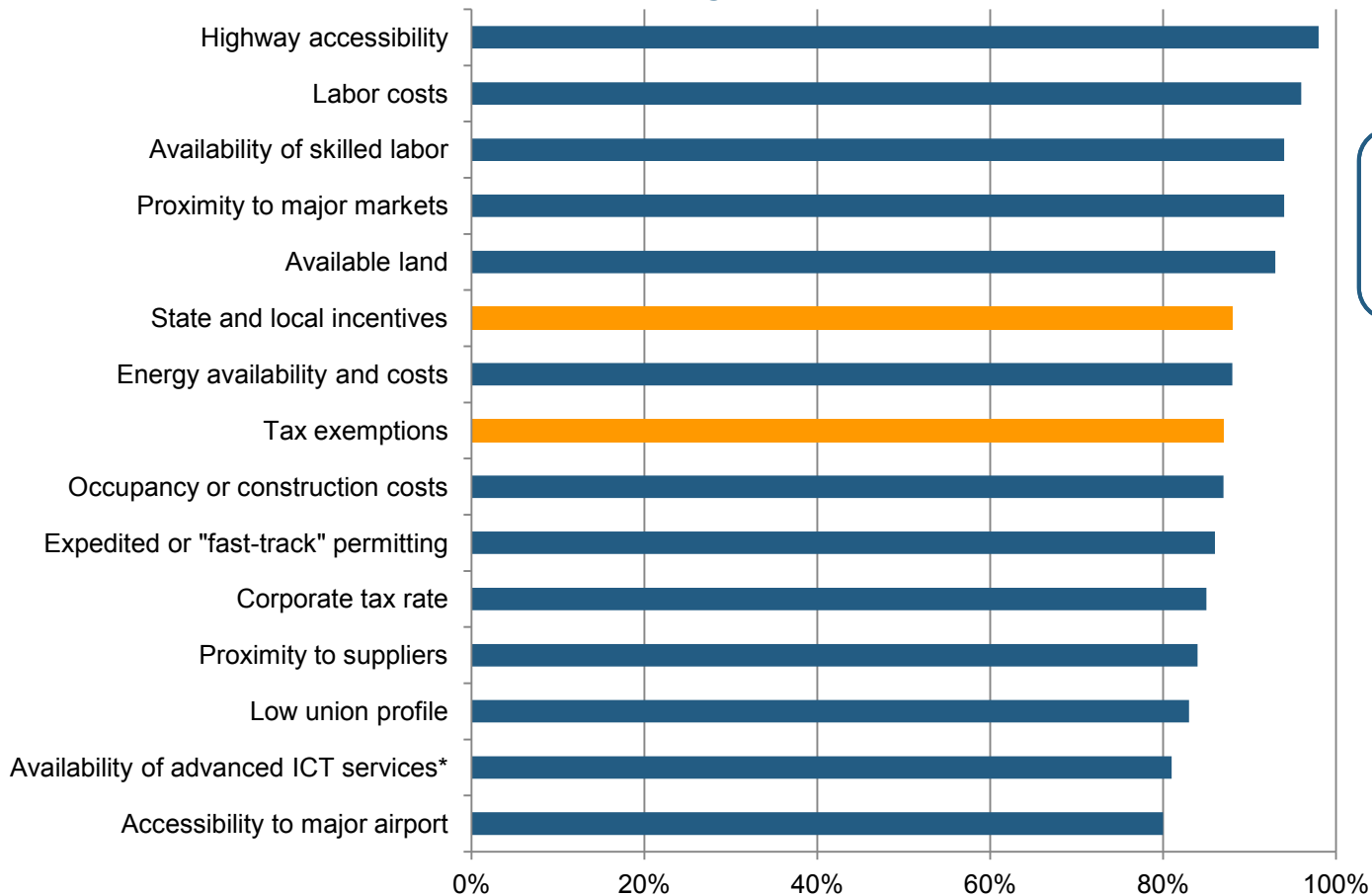
Methodology:

- Respondents were asked to rate the importance of 35 site selection factors

*Information and communications technology

SITE SELECTION CONSULTANTS FOCUS ON INCENTIVES AND TAX EXEMPTIONS, AS WELL

Top 15 site selection factors (% of site consultant respondents rating factor as “important” or “very important”)



Methodology:

- Respondents were asked to rate the importance of 35 site selection factors

*Information and communications technology

Source: Area Development's 2011 Site Selection Consultants Survey

THERE ARE MANY MEASURES OF LOUISIANA'S TAX COMPETITIVENESS

EXAMPLES FOR INDIVIDUALS

LA's rank
(1=best)

Nation South

| Measure | Description | Limitations | Nation | South |
|---|---|--|--------|-------|
| <i>State-Local Tax Burden, FY09 (Tax Foundation)</i> | <ul style="list-style-type: none"> Total State and local taxes as percent of total personal income | <ul style="list-style-type: none"> Very broad measure; does not account for differences in tax profile of individuals | 9 | 4 |
| <i>Sales Tax: Combined State and Average Local Rates, 2012 (Tax Foundation)</i> | <ul style="list-style-type: none"> Combined state and local sales tax rates | <ul style="list-style-type: none"> Focuses on sales tax only | 48 | 15 |
| <i>State and Local Property Tax Collections Per Capita, FY09 (Tax Foundation)</i> | <ul style="list-style-type: none"> Property tax collected per capita | <ul style="list-style-type: none"> Focuses on property tax only | 6 | 4 |

THERE ARE MANY MEASURES OF LOUISIANA'S TAX COMPETITIVENESS

EXAMPLES FOR BUSINESS

LA's rank
(1=best)

| Measure | Description | Limitations | Nation | South |
|--|---|--|--|------------------|
| <i>Location Matters</i> (Tax Foundation) | <ul style="list-style-type: none"> Estimated tax burdens for both new and mature firms across industries | <ul style="list-style-type: none"> Does not consider all industries or provide overall state ranks | 2 } <i>New</i> 10 } <i>Mature</i> | 1 } 3 } |
| <i>State Business Tax Climate Index</i> (Tax Foundation) | <ul style="list-style-type: none"> Measure of alignment of tax system with principles of tax neutrality and fairness | <ul style="list-style-type: none"> Does not measure actual business tax burden; ignores differences in industry mix | 32 | 6 |
| <i>Total State and Local Business Taxes</i> (COST/Ernst and Young) | <ul style="list-style-type: none"> Aggregate business tax burden (ratio of taxes paid to private sector GSP) | <ul style="list-style-type: none"> Does not provide actual tax burden on individual businesses; ignores differences in industry mix | 35 | 13 |

VARIOUS ELEMENTS OF THE BROADER TAX SYSTEM DETERMINE A STATE'S TAX COMPETITIVENESS

EXAMPLE

Rank for new firms
(#1=best)

Louisiana

Description

Corporate income tax

- 8% top rate; FIT deduction

Sales tax

- ~8.9% rate; MME exempt

Property tax

- 1-2% average range

Other taxes

- 1.7% UI (\$7,700 max base)

Exemptions/incentives

- QJ, R&D, ITEP, Inventory TC



#2

Texas

Corporate income tax

- 1% rate; single-sales apport.

Sales tax

- 7.4-8.3%; MME exempt

Property tax

- 3.5-4.0% average range

Other taxes

- 2.7% UI (\$9,000 max base)

Exemptions/incentives

- 10-yr 15% prop. tax abate.



#42

SIMILAR TO MOST STATES, LA'S TAX COMPETITIVENESS IS STRONG IN SOME AREAS AND WEAKER IN OTHERS

| | LA's rank (1=best) | |
|--------------------------------|--------------------|---------------|
| | New Firm* | Mature Firm** |
| Overall Rank | 2 | 10 |
| R&D Facility | 1 | 1 |
| Labor-Intensive Manufacturer | 1 | 16 |
| Capital-Intensive Manufacturer | 1 | 20 |
| Corporate Headquarters | 2 | 26 |
| Call Center | 42 | 29 |
| Distribution Center | 43 | 40 |

* New firms have been in operation less than three years

** Mature firms have been in operation 10 years or more



CONTACT

Stephen Moret

Secretary

Louisiana Economic Development

(225) 342-5388

moret@la.gov



OpportunityLouisiana.com



[@LEDLouisiana](https://twitter.com/LEDLouisiana)