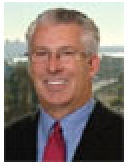
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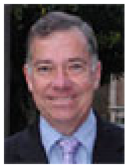
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Lower Your Clients' Fiscal Blood Pressure With Less SALT

Two lucrative tips for lowering your clients' state and local tax (SALT) burden and pitfalls of failing to apprise clients of these deserved tax breaks.

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by Blake Christian, CPA/MBT and Chuck Swenson, CPA/PhD

Forty-three states have some sort of tax increment financing (TIF) program. Such programs can either reduce your clients' property taxes or provide funding for part of a specific project they have in mind. Here's how it works.

If your client plans a construction/development project, they should contact their respective city economic development group to see if their project falls into a Redevelopment Area (RDA). If the project does fall into an RDA, and your client files paperwork on time, they may get the local tax breaks.

The benefits vary by state. The essence of RDA programs is that state and city governments realize that any new construction or rehabilitation of realty generally increases their surrounding property values and thus, their tax base. The city and state are often willing to give something back to the developer/construction company in return for investing in their community. Some states simply exempt the new construction from increased property taxes. Other states allow the city to give low interest financing to the developer, while other states use the hypothetical increased property taxes to build infrastructure for the developer's project (water and sewer, sidewalks, etc). In any case the benefits can be very lucrative.

Additional Benefits From Private Sector Lenders

If your client's project will be in a state Enterprise Zone in California, Illinois or Indiana, the bank gets a tax break from lending to your client. In California and Illinois, the bank pays no state income tax on net interest received from a business borrower in an EZ — including construction projects. In Indiana, the bank gets a state five percent lender's interest credit on gross interest.

Just how much are we talking about? Assume the bank makes a $1 million loan. It charges the borrower eight percent, and its cost of funds is three percent. Tax benefits to the bank by state are:

- **Indiana:** If the loan is made to an EZ business, the tax savings is:
    - 5% Lenders Interest Credit (LIC)*8%=.4%. Annual tax savings is 1m*8*5%=$4,000

This is the annual extra amount earned over a loan that would be made to a non-EZ borrower. Multiply this figure over the number of years of the loan, and this is the after-tax increment the bank is making off of your client.

- **California:** The net interest income is not taxed under the Net Interest Deduction (NID) if the loan is made to an EZ business. The annual tax savings is 1m*(8%-3%)*10.84 percent (CA bank tax rate) = $5,420. This is annual the extra amount that would be earned over a loan to a non-EZ borrower. Multiply this figure over the number of years of the loan, and this is the additional profit the bank is making off of your client.

- **Illinois: see California**

Armed with these figures, you can advise your client to negotiate a more favorable deal with the bank.

EZ Benefits From the Construction Project

If your client is developing/constructing in an Enterprise Zone (EZ) in one of the 42 states that have EZs, they can be eligible for a variety of state income, sales/use and property tax benefits. Moreover, the ultimate occupant of the property may be eligible for various tax incentives as well. Since 11 of the state EZ programs require pre-operational approval for tax benefits, it's important to know right away if the project is in an EZ so you can file the paperwork for the client in a timely manner.

How Do I Find Out More About TIFs and EZs?

Each city should have information at their economic development department. Unfortunately, maps of these areas, or eligible street ranges are often difficult to locate.

The Good, the Bad … and the REALLY Ugly

There is a growing number of non-CPA/boutique credit screening firms in the marketplace. In addition, our experience in location-based incentive credit programs, including state Enterprise Zones, Federal Empowerment Zones, Renewal Communities Gulf Opportunity Zones and Indian Tribal Lands, indicates that less than 20 percent of eligible taxpayers claim these tax credits. This is due to the general complexities in identifying specific business addresses and employees who qualify for the credits.

Therefore, it is only a matter of time before your clients are contacted regarding the tax credits they may be eligible for. If you are on top of these programs, you should have no concerns. However, if you are not identifying these benefits, you may not only be missing out on a powerful tax planning service, but you may also be exposing your firm, and your client CFO's/Tax Directors to unnecessary exposure.

The California EZ program generates over $300 million in tax credits for California taxpayers and the New York Empire Zone program generates in excess of $400 million annually. This translates into hundreds of thousands of dollars for the average taxpayer participating in the programs. These benefits compensate the taxpayers for taking employees off government tax rolls and for investing in these economically challenged regions.

With the competitive marketplace and taxpayer's reliance on CPAs to identify all reasonable tax saving techniques, their realization that their CPAs have over-reported tax obligations by hundreds of thousands of dollars can result in frustrated client relationships, lost clients and in some cases lawsuits. We have been made aware of a number of cases where taxpayers have taken action against their CPAs to recover past fees or lost benefits from "closed" tax years, as a result of unreported incentive tax credits and other benefits. One case was settled in the six-figure range.

A search of your tax research resources (e.g. CCH, RIA, Lexis-Nexis etc.) or a Google search of "Enterprise Zones," "Incentive Tax Credits," "Hiring Credits" or "Equipment Credits" will generally yield numerous resources for your given state(s). CCH recently launched a product that appears to combine all necessary information on credits and incentives and locations of such areas.

By investing some time and resources, CPA firms and corporate tax departments can get up to speed on these federal and state tax incentives fairly quickly and develop a profitable and effective new service line, or a new profit center.

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