

# State Tax Credit & Incentive Opportunities for Start-Ups

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# TODAY'S PRESENTERS

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## Nick Cousino, CPA

State and Local Tax Manager

Nick is a state and local tax professional with more than seven years of experience in public accounting. He specializes in consulting with multistate taxpayers in the areas of income and franchise tax, property tax, and state tax credits. Serving mainly closely held businesses and their owners, Nick has worked with many clients in a variety of industries, including manufacturing and distribution, wholesale, real estate, and service providers. His professional experience includes managing complex compliance filings for large multistate taxpayers, facilitating state tax audits, consulting on state tax credits, assisting with fee-in-lieu-of-tax agreements, researching and drafting technical matrices and memoranda, and providing state tax planning.

Prior to joining Elliott Davis, Nick served business and individual tax clients in a variety of industries at a top 15 public accounting firm.



## Will Clarke, JD, EA

State and Local Tax Manager

Will is a state and local tax professional and has more than seven years of public accounting experience. He has served clients in a variety of industries, including manufacturing and distribution, retail, financial services, and construction. Will experience managing state voluntary disclosure projects, state tax audits, performing sales and use tax exposure and taxability reviews, researching and drafting technical matrices and memoranda, and providing state tax planning guidance. He has also assisted clients in becoming compliant with state regulations related to sales and use taxes.

Prior to joining Elliott Davis, Will served as a senior associate in the Federal Tax practice at a non-Big Four international accounting firm. He also spent two years as an accounting intern with the Shaw Group at the V.C. Summer New Nuclear Development project in Jenkinsville, South Carolina.

# Top Opportunities for Start-Ups

- Accelerated Small Business Job Tax Credit
- Capital Investment Tax Credit
- Research Expense Credit
- Angel Investor Credit

# SOUTH CAROLINA JOB TAX CREDIT

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# South Carolina Job Tax Credit

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- South Carolina provides three related job tax credits – the “traditional” job tax credit, the “annual” small business job tax credit, and the “accelerated small business job tax credit
- Most businesses take either the traditional annual JTC or the accelerated small business JTC
- The tax credit can be used against South Carolina income tax, bank tax, or insurance premium tax
- All three job tax credits are Non-Discretionary credits – meaning no prior approval is needed from the taxing authorities



# South Carolina Job Tax Credit

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- Corporations, sole proprietorships, partnerships, S corporations, and limited liability companies are eligible for the credit.
  - To qualify for the jobs tax credit, a business must:
    - (1) be a certain type of business, and
    - (2) create and maintain a required minimum number of “new, full time jobs”
- Each qualifying new job creates a credit worth between \$750 and \$25,000, depending on the county the business is located in.

# South Carolina Job Tax Credit

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## Qualified Business Types:

- Manufacturing and processing
- Warehousing and distribution
- Banking
- Research and development
- Agribusiness operations and agricultural packaging
- Qualified service-related facility
  - **Almost all medical related facilities and service providers qualify here!**
- Medical Practices, Nursing Homes, Home Health Services, Medical Labs, Ambulance Services....
- A corporate office facility
- A technology intensive facility
- A extraordinary retail establishment
- **A retail facility or service related industry located in a Tier IV county may also qualify for the credit. (Thus, essentially any business type qualifies in Tier IV)**

# South Carolina Job Tax Credit

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- **Traditional Job Tax Credit**

- Required number of new full-time jobs is 10
- New jobs are determined by comparing the monthly average number of full-time employees subject to SC withholding tax for the tax year with the monthly average in the prior tax year.
- If a minimum of 10 new jobs are created in Year 1, credit for each of those jobs can be taken in Year 2 through Year 6 (5 year span).
- A taxpayer may claim credit only for job levels maintained in the tax year that the

credit is claimed. Credits are not allowed for a tax year in which the new full-time job increase falls below the minimum level of required new full-time jobs (i.e. 10).

- The amount of credit used in a year may not exceed 50% of the taxpayer's South Carolina tax liability.
- Unused credit may be carried-forward 15 years
- Two half-time jobs (min. 20 hours/week) are considered one full-time job

# South Carolina Job Tax Credit

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- **Small Business Job Tax Credit**

- Available to employers with less than 100 employees
- Minimum new job requirement reduced from 10 to 2
- Small companies with high paying new jobs (defined in annual guidelines by county location)
  - Under the Small Business Jobs Tax Credit, the company may only get the full credit amount for net new jobs that pay 120% of the county's average hourly rate. For jobs that pay less than 120% of the county's average hourly wage rate, credits from \$750 to \$12,500 per job may be available for qualifying companies.
- "Accelerated" option available to claim credit on the taxpayer's return beginning with the year the new jobs are created. (Year 1)

# South Carolina Job Tax Credit

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- **Definition of “Full Time Job”**

- A “full time” job is one requiring a minimum of 35 hours of an employee’s time each week for the entire normal year of company operations.
- Two half time jobs requiring a minimum of 20 hours of each employee’s time a week qualify as one “full time” job.
- A seasonal employee counts as a fraction of a full-time worker, with the numerator being the number of hours worked a week multiplied by the number of weeks worked and the denominator being 1,820.

- **Definition of “New Job”**

- A “new job” is a job created in the state at the time a new facility or an expansion is initially staffed. The term “new job” does not include a job created when an employee is shifted from an existing South Carolina location to a new or expanded facility whether the transferred job is from, or to, a facility of the taxpayer or a related person. ”

# South Carolina Job Tax Credit

## 2021 JOB TAX CREDIT DEVELOPMENT TIERS

<b>TIER I</b> <b>\$1,500 credit</b> per new, full-time job	<b>TIER II</b> <b>\$2,750 credit</b> per new, full-time job	<b>TIER III</b> <b>\$20,250 credit</b> per new, full-time job	<b>TIER IV</b> <b>\$25,000 credit</b> per new, full-time job
Aiken, Beaufort, Berkeley, Charleston, Dorchester, Greenville, Lexington, Newberry, Oconee, Richland, York	Anderson, Edgefield, Florence, Georgetown, Greenwood, Kershaw, Lancaster, McCormick, Pickens, Saluda, Spartanburg	Abbeville, Calhoun, Cherokee, Chesterfield, Clarendon, Colleton, Darlington, Hampton, Horry, Jasper, Laurens, Sumter	Allendale, Bamberg, Barnwell, Chester, Dillon, Fairfield, Lee, Marion, Marlboro, Orangeburg, Union, Williamsburg

# South Carolina Job Tax Credit

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- **Small Business Credit For Jobs That Do Not Meet 120% Threshold**

- Tier I - \$750
- Tier II - \$1,375
- Tier III - \$10,125
- Tier IV - \$12,500

- **\$1,000 Bonus Per Job**

- An employer may qualify for an additional \$1,000 credit for each new full time job created in a business or industrial park jointly established and developed by a group of counties.
- A company that incurs expenses through brownfields or voluntary cleanup programs are eligible for the bonus as well.

# South Carolina Job Tax Credit

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- **Example Scenario:**

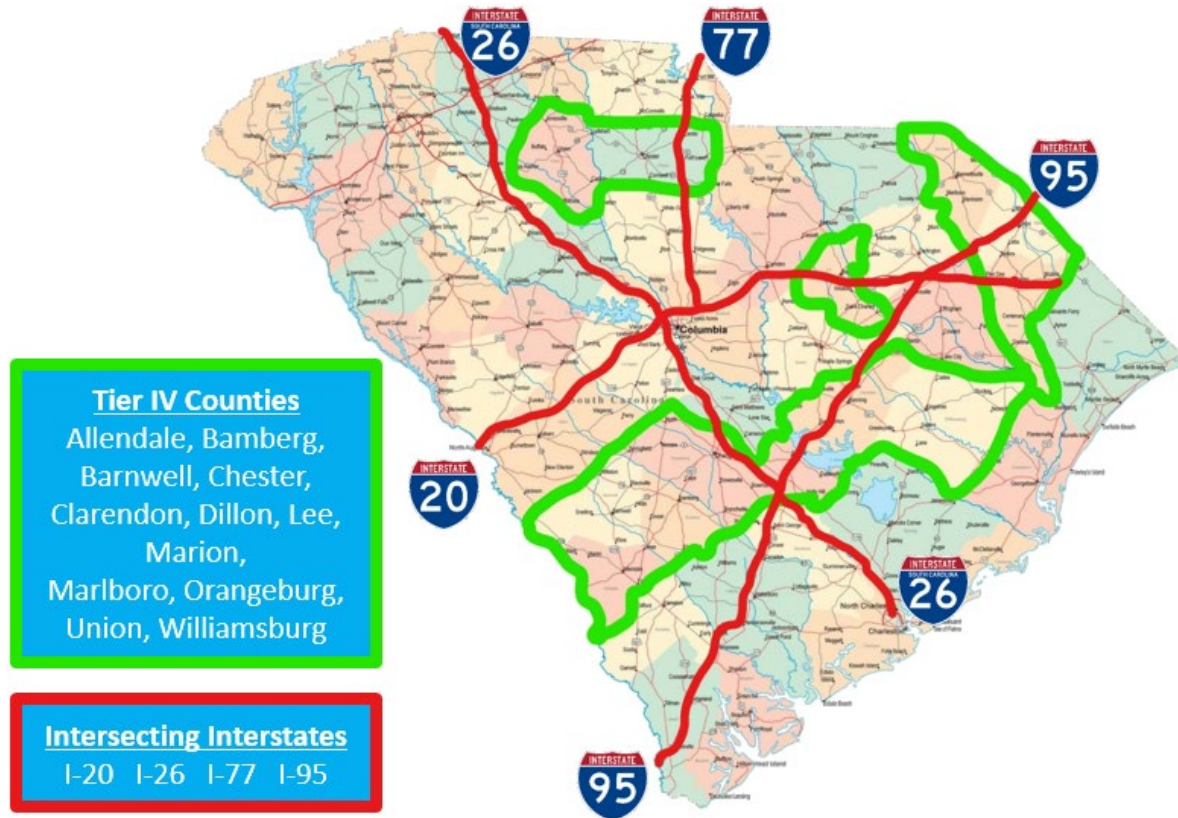
- Small agribusiness start-up in Orangeburg County (Tier IV, \$25,000 credit for 2020)
- Added an average of 4 new jobs in 2020, all wages at 120% of county per-capita wages
- In year one, \$100,000 of job credits will be earned. Cumulatively, \$500,000 of jobs credits will be earned in years one through five, assuming the job level established in year one is maintained.
- These credits can be carried forward up to 15 years, and can be used against up to 50% of taxpayers tax liability, per year.

- **Additional Jobs Added During Credit Period?:**

- During the original credit period, a business can take credit for additional new, full time jobs added in subsequent eligible years even if fewer than 10 additional jobs are added. This additional credit is claimed for 5 years beginning in the year following the year in which the qualifying additional new, full time jobs are created, provided the jobs are maintained for the year that the business is claiming the credit.



# South Carolina Job Tax Credit



Original Map Source: State-Maps.org

# Capital Investment Credit

# South Carolina Capital Investment Credit

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- South Carolina provides a credit against income taxes for qualified manufacturing and productive equipment properties placed in service during the taxable year in South Carolina.
- Credit amounts range between 1%-2.5% of cost basis, determined by the class life of the property
- This credit has a 10 year carryforward period and can offset up to 100% of South Carolina income tax liability in each year

# Research and Development Credit

# South Carolina Research and Development Credit

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- South Carolina Code §12-6-3415 allows a taxpayer a credit against income taxes or corporate license fees equal to 5% of its qualified research expenses made in South Carolina.
- The credit is limited to 50% of the taxpayer's tax liability remaining after all other credits have been applied. Any unused credit can be carried forward, but must be used before a taxable year beginning 10 years or after from the date of the qualified research expenses.
- For a taxpayer to qualify for the credit, the taxpayer must claim a federal income tax credit pursuant to Internal Revenue Code §41 for increasing research activities for the taxable year. For purposes of this credit, qualified research expenses has the same meaning as provided in Internal Revenue Code §41.

# Angel Investor Credit

# South Carolina Angel Investor Credit

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- South Carolina provides an income tax credit to encourage certain investors (“angel investors”) to invest in early stage, high growth, and job creating businesses. The credit is **35%** of the investor’s qualified investment in a qualified business, subject to certain limitations.
- An “angel investor” is an accredited investor as defined by the United States Securities and Exchange Commission (see, [www.sec.gov/answers/accred.htm](http://www.sec.gov/answers/accred.htm))
- An accredited investor seeking to claim the credit **must** submit an application to the Department for tentative approval of the credit. The deadline for submitting applications to the Department is **December 31 of the year the investment is made**.

# South Carolina Angel Investor Credit

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- Angel investors who invest in qualified businesses that have been certified by the Secretary of State. These qualified businesses are primarily engaged in:
  - Manufacturing & distribution
  - Wholesaling & processing
  - Software development
  - Information technology services
  - Research and development
- The qualified business must also meet the following criteria:
  - Is a corporation, limited liability company, or partnership that has its headquarters located in South Carolina.
  - Has had in any completed fiscal year before registration, gross income of \$2 million or less on a consolidated basis.
  - Was organized not more than 5 years before the qualified investment was made.
  - Is registered with, and certified by, the Secretary of State as a qualified business.
  - Employs 25 or fewer people in South Carolina at the time it is registered as a qualified business.



# Additional Credit & Incentive Opportunities

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# Additional Opportunities

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## Capital Investment Incentives

- **Corporate Headquarters Credit:** Companies that establish a corporate headquarters or expand an existing corporate headquarters in South Carolina may be eligible for tax credits based on the amount of capital investment in the project. Certain capital investment and/or job creation thresholds may apply.
- **Community Development Credit:** For investing amounts in qualifying community development corporations or financial institutions
- **Infrastructure Credit:** For construction or improvements of water lines, sewer lines and road projects eventually dedicated to public use or qualifying private entity
- **Fee in Lieu of Property Taxes:** Discretionary incentives based on a negotiated agreement with county authorities for a lower property tax rate when making significant capital investment in the county.

# Additional Opportunities

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## Real Estate Revitalization Incentives

- **Abandoned Buildings Revitalization Credit:** An incentive for the improvement, renovation or redevelopment of an eligible site for income producing purposes. Certain rehabilitation expense thresholds must be met. Additionally, the building must have been at least 66% non-operational for at least five years prior to the date of taxpayer's intent to rehabilitate.
- **Brownfields Cleanup Credit:** A company that incurs expenses through brownfields or voluntary cleanup programs are eligible for income tax credits, job tax credit bonuses and potential property tax exemptions.
- **Certified Historic Structure Credit:** A taxpayer who incurs qualified rehabilitation expenditures for a certified historic structure located in South Carolina that qualifies for the federal rehabilitation credit may be eligible for a tax credit up to 25% of the rehabilitation costs.
- **Textiles Rehabilitation Credit:** A company that improves, renovates or redevelops an abandoned mill site may be eligible for one of two tax credits. Eligible sites must have been at least 80% abandoned for a least one year.

# Additional Opportunities

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## Additional South Carolina Tax Credit Opportunities

- **Agribusiness Income Credit:** For an agribusiness operation or agricultural packaging operation that increases its purchases of certified South Carolina grown agricultural products by a minimum of 15% in a calendar year.
- **Port Volume Increase Credit:** For a qualifying business that uses South Carolina port facilities and increases its port cargo volume at these facilities by at least 5% in a calendar year over its base year port cargo volume.
- **Research Expenses Credit:** To reward companies for increasing research and development in a taxable year, South Carolina offers a credit equal to 5% of the taxpayer's qualified research expenses as defined in Section 41 of the Internal Revenue Code.

# Property Tax Opportunities

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# Property Tax Opportunities

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## Property Tax Basics

- Real property, business personal property, and certain “personal” personal property are subject to tax
- “Fair Market Value” x Assessment Ratio x Millage Rate = Property Tax (*Ad Valorem Tax*)
- In general, commercial real property is assessed at 6%, and manufacturing property is assessed at 10.5% (although this is being effectively lowered to 9% by PT Year 2023)
- Both commercial and manufacturing personal property is assessed at 10.5%
- Commercial personal property is reported annually on the South Carolina Form PT-100, while manufacturers and FILOT holders file the South Carolina PT-300, and both are normally due April 30
- The Tax Foundation consistently ranks South Carolina among the mid-30 states on Property Taxes (lower score is better). SC is one of the worst Southeast states for property taxes.

# Property Tax Opportunities

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## Fee-In-Lieu-Of-Tax (FILOT) Agreements

- A discretionary incentive that can significantly reduce property taxes for an extended period of time
- Negotiated with and at the discretion of the local county council
- Minimum investment of \$2.5 million required over a five-to-ten year investment period
- A typical agreement reduces the assessment ratio from 10.5% to 6% (a 40% savings) and allows the taxpayer to enter a millage rate agreement with the county over the life of the FILOT (usually 20-30 years)
- Further benefits may be negotiated as part of the FILOT, such as Special Source Revenue Credit or Infrastructure Credit which directly reduce the amount of fee due.
- The Manufacturer's Partial Exemption is not allowed on property filed under a FILOT agreement

# Property Tax Opportunities

## Fee-In-Lieu-Of-Tax (FILOT) Agreement Example

- \$3,000,000 investment of personal property

Simplified FILOT Savings Example				
	Standard Property Taxes		FILOT Agreement	
Fair Market Value	\$	3,000,000	\$	3,000,000
Assessment Ratio		10.50%		6.00%
Assessed Value	\$	315,000	\$	180,000
Millage Rate		0.3499		0.3499
Tax/Fee	\$	110,219	\$	62,982
<b>Savings</b>			<b>\$</b>	<b>47,237</b>
<b>Savings %</b>				<b>42.86%</b>



# Property Tax Opportunities

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## Property Tax Strategies – PT-100 Filers

- Section 179 depreciation
- Review asset listings for accuracy
- Dispose of assets (for tax purposes) assets no longer in service

## Property Tax Strategies – PT-300

- FILOT
- Pollution control equipment exemption
- Schedule L for finished goods warehouse of manufacturer's
- Manufacturing and R&D facility partial exemption

# Property Tax Opportunities

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## Assessable Transfer of Interest (ATI) Exemption for Commercial Property

- Opportunity to substantially save on real estate taxes by reducing the taxable value of real property by up to 25%
- Applicable to commercial property assessed at 6% ratio before and after ATI event (i.e. an arms-length sale)
- Taxpayer must file exemption form with county *before* January 31<sup>st</sup> of the year following the property transfer, although this may change pending current court cases
- **Example:** Commercial property with a county-appraised fair-market value of \$500,000 is sold for \$750,000.
  1.  $\text{ATI FMV} = \$750,000 > \text{Current FMV} = \$500,000$
  2. Reduce ATI FMV by 25%:  $\$750,000 - \$187,500 = \$562,500$
  3. ATI Exemption Value = \$562,500 > Current FMV = \$500,000 therefore \$562,500 is new taxable value, instead of \$750,000
  4. Property taxes on \$750,000 =  $\$750,000 \times 6\% \times 0.3499 = \$15,746$
  5. Property taxes on \$562,500 =  $\$562,500 \times 6\% \times 0.3499 = \$11,809$
  6. Annual savings of \$3,936 (25%)

# We Can Help!

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- **Let's Get Started!**

- The experienced professionals of the Elliott Davis, LLC State and Local Tax Practice are ready to assist with a State Tax Credit review project for your business.
- Our State Tax Credit review will verify whether your business qualifies for applicable state credits, determine if the appropriate new job thresholds are met, assist in preparing/amending credit forms and tax returns and properly documenting credit support.

# Questions?

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