

Tax Credit Strategy Guide

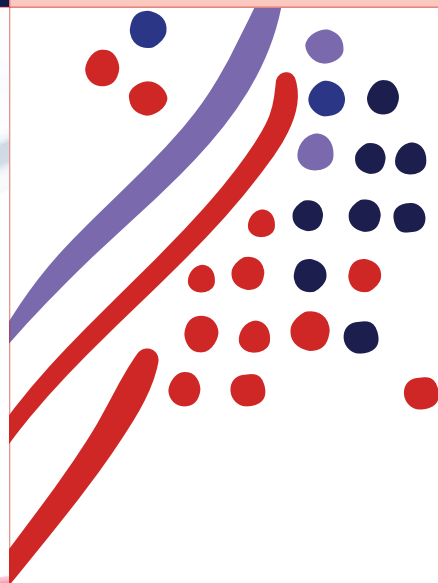




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What is a tax credit?

Companies use business tax credits to offset their tax obligations to the government or to generate savings. Tax credits are usually offered by federal, state and local governments to promote specific corporate behavior — like investment, research and development (R&D), and job creation. Tax credits fall into the two major categories of statutory and discretionary.



In the case of statutory (as-right) credits, laws must be passed or expanded to create a new tax credit program. For some credits, any business that meets the statutory criteria is eligible. For other credits, known as discretionary tax credit programs, negotiations are on a project-by-project basis between the taxpayer and the government. To qualify for this type of benefit, a company must demonstrate that it would not proceed with a project in that geography if they did not receive the tax incentives offered. Discretionary tax credits can offer valuable tax incentives but often have long compliance cycles with variable reporting requirements. Programs can set additional criteria for companies engaged in qualifying activities, limiting the target to a certain industry, geographic area, investment size, etc.

Businesses can claim tax credits by filing the appropriate forms with the IRS or other taxing jurisdiction themselves, or can have a tax professional manage the process for them. Tax credit programs, eligibility, zone boundaries and filing requirements can change annually, so it is important to monitor those changes to determine whether your company is impacted.

A good tax credit strategy involves monitoring requirements and filing obligations for current tax credits while at the same time looking for opportunities for new tax credits to expand the incentive portfolio. Some businesses have experts in-house to do this, while others outsource the management of their tax credits.

Many companies offer tax credit outsourcing, but not all options are equal. If you choose to outsource, there are many considerations in the areas of portfolio management, reporting capabilities, tax credit opportunity identification and compliance administration.

How do tax credits work?

Whereas exemptions and deductions reduce your total taxable income amount, tax credits typically reduce the actual tax amount owed or, in some cases, can be used to create above-the-line impact. Tax credits are more advantageous than tax exemptions or deductions because they reduce tax burden dollar for dollar, rather than just lowering a company's taxable income. Tax credit amounts and triggers differ from program to program. Many allow companies to claim either the qualifying amount, or a percentage of the qualifying amount, of investment up to a certain dollar figure. Other credits set an amount that companies can claim for each qualifying instance, like a job creation credit.

Companies claim tax credits when they file their income tax returns. Tax credit programs often require records that document fulfillment of the credit, so businesses need to plan for tax credit reporting requirements and calculations in advance and keep records to prove compliance. Some provisions or agreements also contain "clawbacks" or "recapture" that require companies to repay the amount of the credit to the state or municipality, sometimes with interest or penalties, if the company does not comply with the requirements of the credit.

In cases where a company's credit exceeds its tax bill for the year, the company can generally carry the leftover credits into future years, while some programs are refundable or can even be sold to another taxpayer. In the case of a salable credit, the tax credit can be transferred between two taxpayers from the seller who generates but cannot use the benefit to the buyer who has uncovered tax liability and can purchase the tax credit offset at a discounted rate.

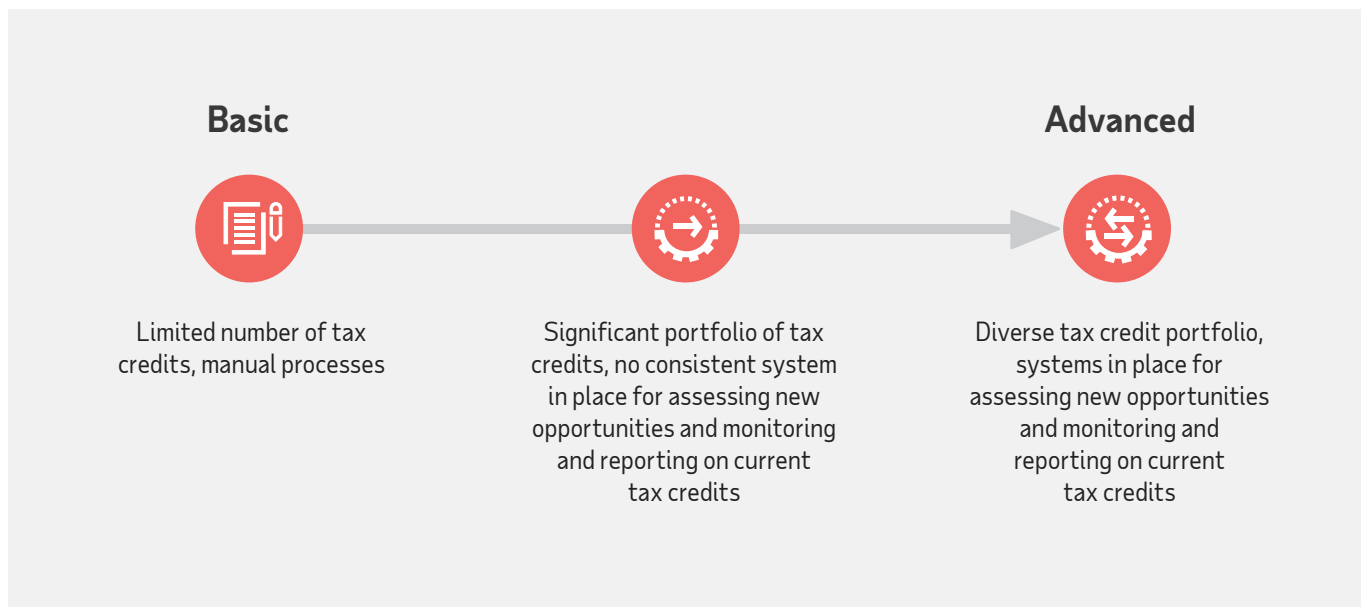


Assessing your company's current tax credit strategy

Tax credit strategies vary from business to business. On one end of the spectrum are companies that are new to tax credits. They have not pursued them before and need guidance and direction to find relevant opportunities. At the other end of the spectrum are companies that have been pursuing incentives for years and may need help identifying new opportunities and keeping track of their compliance obligations. Wherever your business falls on the continuum, many of the needs and fundamentals for maximizing the performance of the portfolio are the same. However, the degree of assistance, the technology deployed and the level of professional support you require may differ.

A basic or introductory-level tax credit strategy includes identification of new opportunities and tracking reporting obligations associated with each incentive in the portfolio.

More comprehensive tax credit strategies allow you to assess new opportunities, present them to stakeholders in a prioritized manner for approval, monitor your current reporting obligations, keep track of your changing tax liabilities, adjust for changes in the tax credit requirements as you go, have the right records for reporting on tax returns, evaluate tax credit performance against goals on an ongoing basis, etc., with expert support and tools for assessment and reporting.



How can the right tax credit partner benefit your business?

The ideal solution for your company may depend on your industry, workforce attributes, work locations and your strategic goals, as well as the resources and level of expertise that you have available at your company. However, companies of any size and level of tax credit maturity can benefit from opportunity identification and compliance and reporting assistance.



Identifying opportunities

Whether you are a newly eligible business that is taxable and has not begun taking advantage of tax credits, or a business with a large tax credit portfolio, outsourcing tax credits can help ensure that someone is evaluating all new opportunities and going after the right set of tax credits that is meaningful for your business. Additionally, if your company is expanding, then pursuit of discretionary tax credits involves planning in advance of decisions being made in order to negotiate in good faith.

A tax credit partner can advise, or administer on your behalf, how to determine eligibility and whether you are taking advantage of all relevant opportunities and direct you to opportunities to reduce your liability by purchasing credits when you can't generate the benefits organically. This dialogue requires participation from both sides because, while the partner understands the tax credit landscape, they will need help understanding historical tax filings, functional groups involved, key data systems and the strategic direction of the business.

Once you decide to pursue a tax credit, you will need to present the opportunity to your stakeholders and get their buy in. The right tax credit partner can provide the analysis, a high-level description of the pursuit process, relevant benchmarking with similar clients and the data-driven value proposition that you need to make a strong case.



Acquisition strategy

A strong tax credit strategy should include a thorough evaluation of available local, state and federal incentives, as well as analysis of business plans that could yield incentive opportunities, like expansion and job creation. The starting point of the opportunity analysis should always involve a thorough review of where a company files its tax returns and what the liabilities are, in order to understand and be sensitive to where the company can best utilize incentives.



Record keeping

When assessing new tax credit opportunities, understanding the compliance responsibilities and filing schedules for each credit within the portfolio is critical. Understanding the record keeping requirements up front is vital, but the documentation also has additional advantages.

Having access to the appropriate data and keeping records of your performance and your remaining obligations helps ensure that you stay compliant and are able to report tax credits accurately and on time.

In addition, good documentation is useful in the long-term management of your tax credit portfolio. You can review decisions made regarding past opportunities to help you make more informed decisions about new opportunities going forward. Good historical records also prove useful when asked by executives about prior decisions. If you have memorialized your decisions in a standardized way, then citing the previous review becomes a simple retrieval of the information rather than recreating the evaluation process.



Staying compliant

If your business doesn't have experts on staff or a team designated to oversee tax credits, a partner can manage all of that for you. An expert partner can be responsible for completing reports, monitoring compliance against commitments periodically throughout the year, preparing filings on time and staying up-to-date with changing compliance requirements over time. This gives you the comfort that the reporting will be taken care of year-over-year by an experienced team, even as personnel on your internal team changes.



Monitoring and reporting

Tax credit compliance and deadline management can be difficult and time-consuming. The best way to ensure compliance is with consistent monitoring and reporting of when and how your business is meeting its obligations. If you don't have staff dedicated to these tasks, it makes good sense to outsource your tax credit management to a trusted partner.

In addition to clawbacks and recapture, which can require you to repay tax credits claimed if you don't meet your obligations, there can be financial penalties for noncompliance. These penalties can sometimes be avoided by having a dedicated expert to monitor and report your tax credit activities, getting ahead of any compliance problems.

ADP's Incentive Management Platform

ADP's Incentive Management Platform is a comprehensive tool in which all of your portfolio management takes place — from opportunity identification through management and reporting.* The dashboard provides a view of your entire business incentives portfolio and value. You get a real-time view of how we are managing your portfolio of credits, with full transparency, multiuser access, and notifications for new opportunities and potential risks.



Technology and data-enabled platform

We combined next-generation technology, leveraging our rich data assets and analytics tools, in order to identify incentive opportunities to pursue and highlight potential risk areas within a company's existing incentive portfolio. The data-driven insights, incentive management dashboards and the experience of subject-matter experts translates into a unique tax credit incentive management platform and service offering.



Opportunity identification and insights

For existing clients, ADP® can set up or leverage existing data feeds to monitor for new opportunities. New opportunities are then posted on the dedicated tax credits platform, and the client receives email and telephone notifications from the account manager to review next steps.

Vendors often contact companies about potential tax credit opportunities, which can lead to urgent requests for research into the viability of these credits. This reactive process distracts resources from other initiatives. With its incentive management platform, ADP highlights potential eligible credits that are a good fit for the company, while also memorializing the review of credits for which the company does not qualify, or which do not provide economic utility in order to minimize wasted effort.

We provide clients with a cloud-based view of credits and incentives they are potentially eligible for, with data-driven indicators and commentary, based on ADP's automated management of data, proprietary technology and databases, and subject-matter oversight and expertise.



Tax credit expertise

With over forty-five years of providing tax credit support and solutions, ADP is uniquely positioned to help identify new opportunities and mitigate risk. The technology is only one-half of the equation. Our tax credit experts use the platform, in consultation with your business, to manage and maximize your tax credit portfolio.

Because ADP specializes in business incentives, we have a dedicated government relations team and are constantly monitoring and tracking new legislation and its impact on our client base.



Reporting and collaboration

You need to keep track of various credit and incentive projects being managed in your business. The platform provides a detailed report for each tax credit and replaces manual tracking in spreadsheets and via email, reducing errors, omissions and duplication. Reporting can be tailored to the needs of different stakeholders, including government relations, tax, HR, etc. The platform facilitates greater collaboration, bringing functional groups together and centralizing communications. Teams can share data, discoveries and opportunities. Stakeholders can access your company's information at any time and get a clear view of the status of each project, including next steps, milestones and more.



Compliance calendar and risk alerts

Get alerts and notifications about upcoming filings to avoid missing a deadline. Have visibility into milestones for each incentive.

Credits and incentives can be put at risk for numerous reasons including, but not limited to, failing to meet job creation commitments/requirements and wage thresholds, failing to submit necessary filing paperwork, and much more. Our platform provides proactive alerts of potential risks.



Document management

The document management system provides secure storage with full transparency. Multiple stakeholders can access the same information at any time. This protects against lost data or knowledge caused by stakeholder turnover, and aids in document retention and accuracy.

Why ADP?

ADP is uniquely positioned to help you identify, apply for, and maintain compliance with thousands of tax credits and incentives, thanks to our technology platform that enables complete visibility, extensive knowledge and expertise in tax incentive identification and management — and the breadth and scale of our experience with clients across industries and geographies.

Visit us: [ADP.com](https://www.adp.com)

Call us: 855-237-4236



