JLL SEE A BRIGHTER WAY

A manufacturer's guide to incentives

Get practical tips and strategies for securing financial incentives for your manufacturing project

There's good news if you're expanding or building new manufacturing facilities in the United States today: we're in the midst of one of the most favorable incentive environments in decades. Hoping to stimulate the economy and spur job creation, governments at every level are rolling out the red carpet for manufacturers.

Landmark federal programs such as the Inflation Reduction Act and the CHIPS and Science Act have sparked a flurry of nationwide activity. States, counties and cities are all vying to win business, offering manufacturers a unique opportunity to reduce costs through substantial financial incentives and tax strategies.

This guide provides tips for navigating the complex world of incentives. We answer top questions, including:

- **Why** should we pursue incentives?
- **Who** influences incentive decisions?
- **What** programs are available?
- **How** do we get started?
- **Where** can we find the most lucrative incentives?

Why pursue incentives?

Applying for incentive programs can feel daunting, but it's worth taking the time to understand all the available options. A competitive incentive package can deliver the following benefits:

Secure a more financially competitive location for your operations
Incentives may make it possible to open a facility in an area that seemed economically unfeasible.

Qualify for up-front cost savings
Lowering construction costs frees up funds to invest in project start-up costs.

Secure long-term cost savings
Incentives can support sustained financial health and allow for reinvestment in core business activities.

Utilize financial savings for employee recruitment and training
When you reinvest savings in your workforce, you can enhance your competitive edge by attracting top talent and upskilling workers

Enhance your return on investment
Money saved on taxes, infrastructure and other operating costs significantly improves profit margins.

Companies in some industries, such as semiconductor manufacturing, may also find that winning incentives begets more incentives. Securing support from city, county and state officials is a critical step in applying for federal programs like the CHIPS Act, so it's worth pursuing every available program.

What incentives are available for manufacturers today?

If you know where to look, you'll find a wide variety of incentive programs at the city, county, state and federal government levels. The most common programs involve tax abatements, rebates and reductions, but a few non-tax solutions exist.

Property tax incentives

A manufacturing property valued at $150 million could face a tax bill of $15–30 million over ten years. Mitigating that cost can make a significant impact on the bottom line. Cities, counties and school districts may offer various incentives depending on the type of property being taxed — building, equipment or inventory:



Building: Property tax abatement on the building value generates substantial savings for high-investment manufacturing facilities.



Equipment: When investing in a state that levies property taxes on business equipment, securing a tax reduction on high cost equipment can create meaningful savings.



Inventory: In states that charge inventory property taxes, manufacturers and distributors must understand any available Freeport Exemptions, which give businesses a certain period (typically 150 – 180 days) to ship inventory out of state before incurring taxes.

When comparing incentive packages, it's important to remember that property tax rates vary greatly across the U.S. A $2 million abatement in a low-tax state could result in lower overall costs than a $5 million abatement in a state with significantly higher rates.

Sales tax incentives

States, counties and cities typically charge sales taxes at rates between 6% and 12%. Incentives can help mitigate the cost of these taxes when purchasing equipment, building materials and utilities.



Manufacturing and distribution equipment: Most states — but not all — offer tax exemptions for manufacturing equipment purchases. Incentives for distribution equipment purchases are limited, but some states provide sales tax exemptions in special circumstances.



Building materials: A select few states grant property and sales tax exemptions in exchange for allowing a manufacturing or distribution building to be owned by the county, city or public authority via a bond program.



Utilities: Some states offer tax exemptions on electricity purchases — a significant expense for manufacturing operations but they may require proof that more than 50% of the power is used for manufacturing.

Corporate income tax incentives

Corporate income taxes vary substantially across the U.S. Each state uses an apportionment formula that taxes companies based on the value of property, payroll or sales occurring within the state — and sometimes all three.

Many states are moving to single-factor apportionment to be more business-friendly, meaning the tax is levied solely on sales within the state. As a result, most companies pay limited corporate income tax, making this category of incentives less valuable except to manufacturers that supply products primarily to customers within the same state. However, select states allow companies to monetize corporate income tax credits by converting them to cash.

Payroll tax incentives

Most states and some local governments apply a payroll tax (also known as a personal income tax) to individual wages, although nine states do not.

States with an individual income tax may offer high-paying manufacturing operations lucrative tax rebates based on new jobs and associated payrolls. These cash rebates are considered some of the most powerful incentives. A new manufacturing operation employing 500 people with an average wage of $50,000 per year may qualify for up to $1 million in rebates annually for several years.

Non-tax and other unique incentives

While tax credits play heavily in incentive packages, state and local governments also offer a variety of non-tax benefits to support economic development.

Job grants: : Cash grants for job creation may originate at both the state and local levels and can range from $500 to $15,000 per job.

Infrastructure improvement: Depending on the size and impact of a project, incentives to fund the development of expensive water, road, electrical, drainage and other infrastructure can be worth tens of millions of dollars.

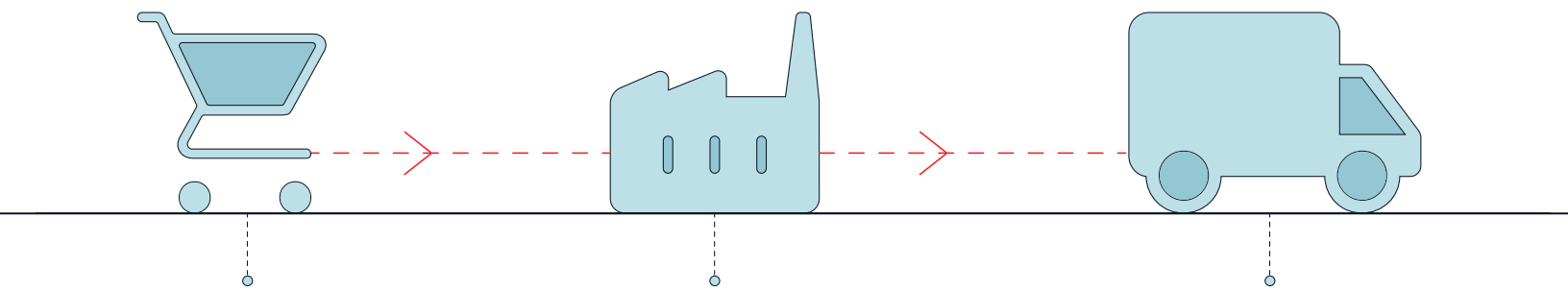
Foreign trade zones (FTZs): Designed to encourage domestic manufacturing, FTZs allow raw materials to enter the U.S. duty/tariff-free. This can be an integral incentive for some companies in today's higher tariff environment.

Port usage: Supply chains relying on ports for imports and/or exports may qualify for attractive state and local incentives.

Fee waivers: Local governments sometimes waive permit or impact fees for new manufacturing sites.

E-commerce point of sale determinations: In rare circumstances, a company may pursue sales tax rebates based on where it designates the point of sale for e-commerce sales — the location of the customer, company headquarters, warehouse or data center.

Incentives available throughout the supply chain



Raw materials

- Inventory tax reduction
- Foriegn trade zones
- Port tax credits for imports/exports
- Infrastructure grants for rail, site improvements, access and utilities

Manufacturing

- Property tax reduction
- Sales tax reduction
- Corporate income tax reduction
- Payroll tax rebates
- Inventory tax reduction & freeport exemptions
- Electric cost reduction

Distribution

- Inventory tax reduction & freeport exemption
- Sales tax exemptions when possible
- Business personal property tax reduction
- Infrastructure improvements when needed

Where can we find the most lucrative incentives?

Cities, counties and states assess many factors when awarding incentives, but job creation is the top consideration. **Areas most in need of good, well-paying jobs will be more motivated to win your project.**

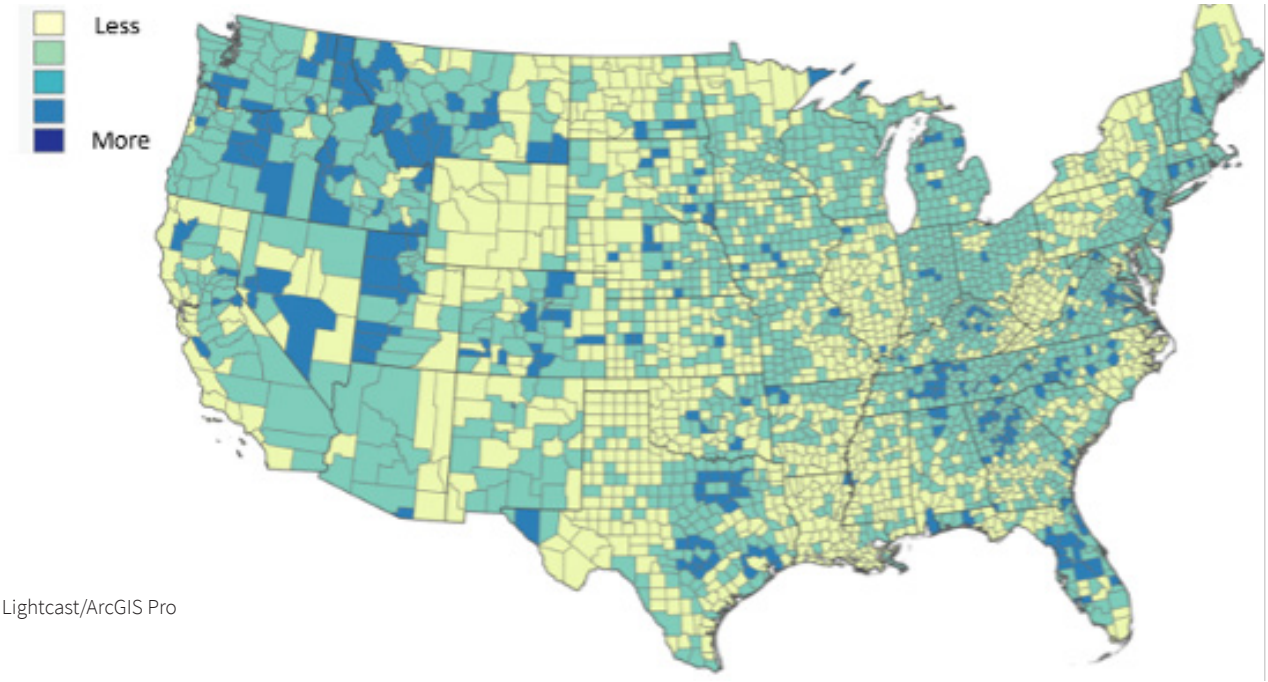
However, incentives are intertwined with many other factors that influence location decisions, and it's essential to consider tradeoffs. For example, a county outside a major metro area may offer valuable job grants but a smaller labor pool.

Following are a few of the many geographic indicators used to assess a location's incentive potential and overall desirability:

Population change

High-growth regions typically offer a bigger labor pool but lower incentives, while low-growth areas give you more leverage. The ideal location is growing moderately.

Population change: 2014-2024

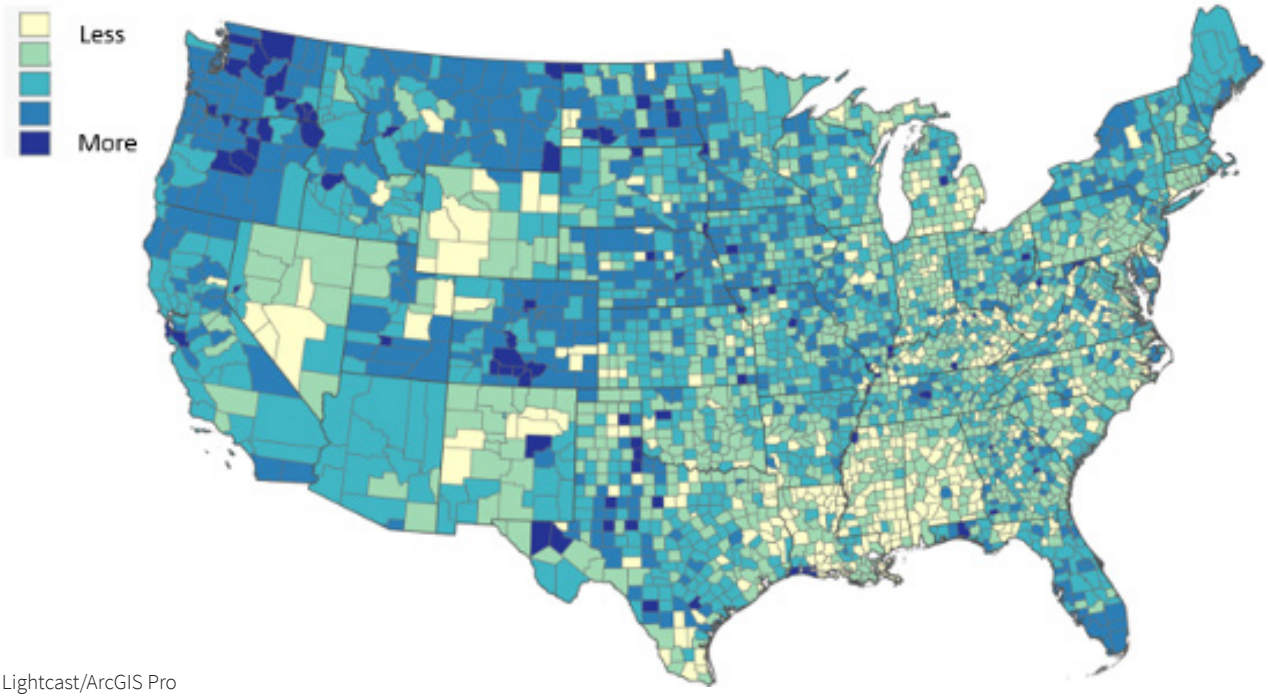


Source: Lightcast/ArcGIS Pro

Wage change

Strong wage growth indicates a tight labor market and price pressure. Companies must pay higher wages to qualify for incentives in these locations.

Wage change: 2014-2024

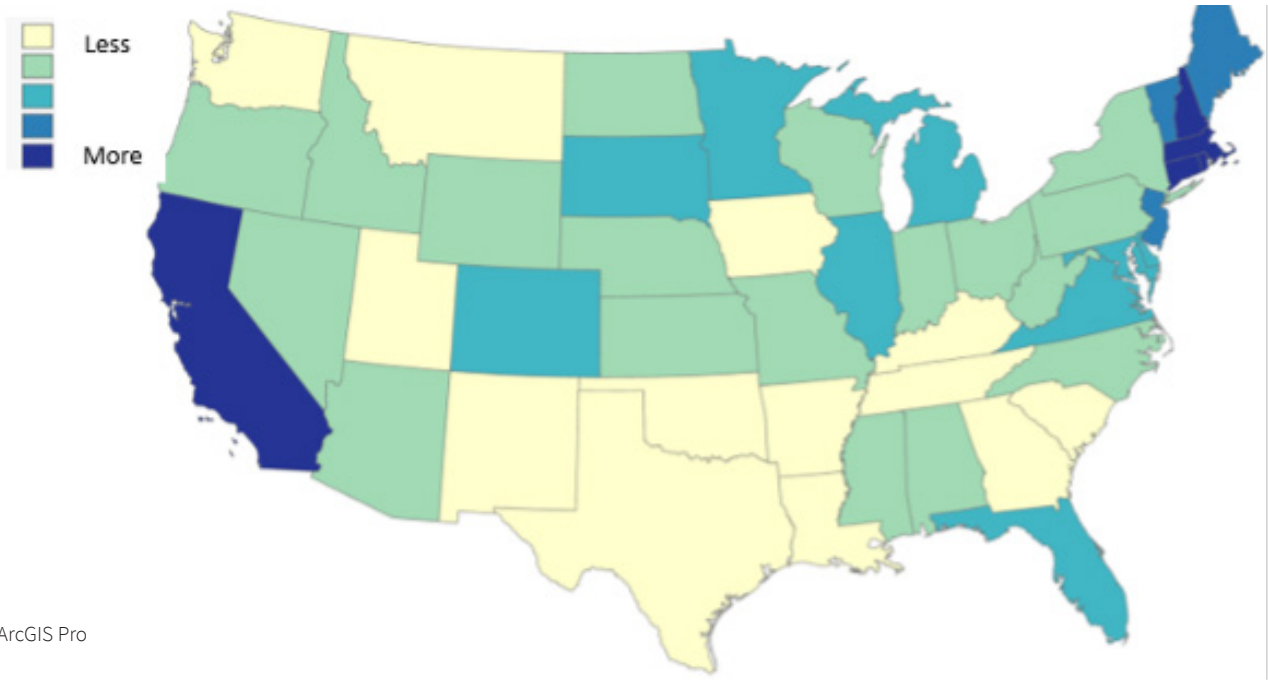


Source: Lightcast/ArcGIS Pro

Electricity cost

Escalating electricity costs are a burden to all segments of the supply chain, especially for power-intensive manufacturing operations.

Electric cost: Cents per kWh



Source: EIA/ArcGIS Pro

Who influences incentive decisions?

Incentive negotiations involve many layers of discussions. The best place to start is always with the designated local or regional economic development office. They will get you plugged into other groups as needed, including city and state economic development offices.

Once discussions transition from the big picture to financial details, expect interaction with more government departments, such as the state's department of revenue. Elected officials will also step in as the project and incentive package take shape. Finally, you will need to work out permitting considerations with state and local permitting departments.

How do we get started?

Building a new manufacturing facility requires making a long-term commitment to a location. There's no "do-over" if you invest in the wrong site, making it critical to conduct a rigorous and thorough site selection process.

Incentives often play a significant role in location decisions, but it can be challenging to navigate the process. An experienced external advisor can guide the way and provide an unbiased analysis of your options. Having a partner on your side also signals to economic development offices that you are taking the process seriously and expect a competitive offer.

JLL combines deep real estate experience with extensive knowledge of the incentives landscape. Our seasoned professionals have led site selection for many of the nation's most impactful manufacturing and distribution projects. We understand the nuances and restrictions of incentive programs. Additionally, our extensive broker network is deeply ingrained in local markets, giving us insight into off-the-market locations that can't be found elsewhere.

Let JLL solve the "where." Contact us today to discuss your site selection needs.

Incentive qualification factors

Cities, counties and states consider the following factors when awarding incentives:

Job creation:
How many jobs are you creating?

Wages:
How will your wages compare to the county, state or industry average?

Investment:
How much economic impact will you create by purchasing buildings and equipment?

Location:
Where is the project located within the city and state?

Type of property and business:
Are you building a manufacturing facility, distribution center, headquarters, e-commerce fulfillment center or a major office?

Customer location:
Will your product or service be exported to other states or countries?

Industry:
Are you in a highly coveted industry such as aerospace, semiconductors or life sciences?

For more information please contact:

Jubal Smith
Managing Director
jubal.smith@jll.com
+1 214 438 6235

Angela Carrier
Executive Vice President
angela.carrier@jll.com
+1 214 438 6350

Dan Breen, J.D., CPA, LL.M
Managing Director
dan.breen@jll.com
+1 973 829 4672

Rose Davidson
Senior Vice President
rose.davidson@jll.com
+1 404 995 7440

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