STATE OF UTAH INCENTIVE OVERVIEW

Sales and Use Tax Exemptions

An exemption of sales and use taxes is available for the purchase or lease of new or replacement equipment or machinery for manufacturing facilities. The Utah Tax Code, Section 59-12-104, identifies applicable exemptions as follows:

(11) Sales or use of property, materials, or services used in the construction of or incorporated in pollution control facilities allowed by Sections 19-2-123--through 19-2-127.

(15) Sales or leases of machinery and equipment purchased or leased by a manufacturer for use in new or expanding operations (excluding normal operating replacements, which includes replacement machinery and equipment even though they may increase plant production or capacity as determined by the commission) in any manufacturing facility in Utah. Normal operating replacement shall include replacement machinery and equipment which increases plant production or capacity. Manufacturing facility means an establishment described in SIC Codes 2000 to 3999 of the Standard Industrial Classification Manual 192, of the Federal Executive Office of the President, Office of Management and Budget. For purposes of this subsection, the commission shall by rule define "new or expanding operations" and "establishments." By October 1, 1991, and every five years thereafter, the tax commission shall review this exemption and make recommendations to the Revenue and Taxation Interim Committee concerning whether the exemption should be continued, modified, or repealed. In its report to the Revenue and Taxation Interim Committee, the tax commission review shall include at least:

(a) The cost of the exemption;
(b) The purpose and effectiveness of the exemption; and
(c) The benefits of the exemption to the state.

(16) Sales of tooling, special tooling, support equipment, and special test equipment used or consumed exclusively in the performance of any aerospace or electronics industry contract with the United States government or any subcontract under that contract, but only if under the terms of that contract or subcontract title to the tooling and equipment is vested in the United States government, as evidenced by a government identification placed on the tooling and equipment or by listing on a government-approved property record if a tag is impractical;

(26) Property stored in the state for resale;

(28) Property purchased for resale in this state, in the regular course of business, either in its original form or as an ingredient or component part of a manufactured or compounded product.

Economic Development Area/Tax Increment Financing

Tax Increment Financing (TIF) is utilized in areas that have been targeted for economic development. Economic Development Areas (EDA=) are set up and administered by local cities and municipalities. Portions of the new property tax generated by the new development (i.e., capital investment in building, property and land) can be returned to the company in the form of infrastructure development, land cost write-downs or other appropriate means. Up to 100% of the new property tax can be returned to a
company for up to 12 years, or up to 75% of the new property tax can be returned to a company for up to 20 years. Each municipality constitutes a board, which votes on the approval of Tax Increment Financing for individual companies and their projects.

**Industrial Assistance Fund**

The State of Utah has an Industrial Assistance Fund (IAF) that a company can use for relocation/expansion costs. This incentive loan can be repaid through credits earned from money spent on Utah purchases, on its Utah payroll and from Utah jobs the company creates that meet IAF requirements for higher-quality jobs. This program is designed to convert the loan to a grant. Three basic programs exist:

1) Corporate Funding, which is dependent on the amount of Utah purchases and wages; 2) Targeted Industries, which is primarily aimed at information technology, biomedical and aerospace; and 3) The Rural Utah Program, which has a focus on job creation in rural areas.

**Custom Fit Training**

The State of Utah funds the "Custom Fit Training Program," which provides training for new or expanding companies. A Custom Fit representative will discuss with the company the training needs anticipated, and then develop a specific customized training plan to meet those needs. The required training can take place at a variety of locations, including the business or a local institution. Often, training is provided in both locations. The program can provide instructors from the State's learning institutions, private sector, consultants or instructors within the industry. The program is designed to be flexible to meet the specific needs of the company.

Training is available to a company if they are expanding or moving into Utah and are engaged in Manufacturing, Production, Assembly, or the Information and Service Sectors. To be eligible for the program, a company moving into the Salt Lake City metro area must pay a minimum of $9.10 per hour to their workers. Training is normally short-term, ranging from one to four months. The time involved ranges from 10-400 hours, depending on the identified needs. Funds for the company will be based on actual training needs and the availability of funding from the Utah Legislature.

**Short Term Intensive Training (STIT)**

STIT programs are customized and designed to meet full-time job openings. Programs are usually less than one year in length, and will be designed to meet the specific training needs of a company, while matching needs with people seeking employment. Although potential employers/employees must pay tuition to participate, STIT can provide qualified employees from which a company can hire. STIT gives the option of training at a 66% discount of normal training costs. State funding for this program is distributed to the following: Weber State University, Southern Utah State University, Salt Lake Community College, Utah Valley Community College and The College of Eastern Utah.
Workforce Investment Act (WIA)

The Federally-funded Workforce Investment Act provides funds to prepare unskilled youth and adults for jobs in private industry. It provides job training for the economically disadvantaged, dislocated, and others who face significant barriers to employment. Activities funded by WIA may include on-the-job training, classroom training and support services (such as transportation, tools and job search). Fifty percent of wages can be paid up to 1000 hours of training excluding holidays, sick leave and vacation.

Workforce Services

The Workforce Services offices utilize a computerized, job-matching system that quickly screens applicants to ensure that they meet the qualifications set by a company. Over 16,000 active applicants are presently registered with the Salt Lake office. Workforce Services personnel can save countless hours by taking all of a company’s applications, and then referring only the most-qualified applicants.

In addition to these services, space is available at Workforce Services offices for company staff to interview applicants, or Workforce Services employees can assist the personnel office on the company premises. Special programs such as Affirmative Action, Targeted Job Tax Credits and Veterans programs are also available.

The services offered for employers conducting a mass hiring are outlined as follows.

- Pre-screening of Job Applicants
  - Computerized job-matching system to recruit qualified applicants
  - Pre-employment testing
  - Advertising job openings in newspapers and/or on radio stations

- Labor Market Information
  - Wage information per occupation
  - Number of available applicants in computer system sorted by occupational code

- Other Services
  - Space in an office for employers to interview job applicants
  - Workforce Services employees can assist your personnel office on the company premises.

A recent study estimated the salaries/benefit cost for processing and interviewing applicants at $189 per hired applicant. The majority of this expense is in the initial recruitment, application and pre-screening process.
**Industrial Development Bonds**

- Industrial Development Bonds (IDB's) are a financing tool used by private sector developers for manufacturing facilities. These bonds are offered as exempt from federal income tax, making them attractive to the market.

- The applicant must meet federal guidelines; however, the State of Utah has no additional requirements.

- The federal tax code places a limit of $10 million per project on IDB financing. The Internal Revenue Code also specifies that the sum of all other IDBs used by the developer cannot exceed $40 million nationwide.

- Ninety-five percent of bond proceeds must be used for manufacturing facilities. They cannot be used to refinance debt, inventory or operating capital.

- Local communities or counties must initiate the process by passing an inducement resolution.

- Bond council must be retained by the company, and terms on the bonds are negotiated between the company and the private market. The end purchaser of an Industrial Development Bond does not pay Federal Income Tax; consequently, the savings passed through may result in a lower cost of money to the company.

**Enterprise Zones**

The Act passed by the Utah State Legislature provides tax credits for companies locating in rural areas that qualify for assistance.

A. **JOB CREATION TAX CREDITS** (may claim for up to 30 full-time positions per tax year):

1) A $750 tax credit for each new full-time position filled for at least six months during the tax year;

2) An additional $500 tax credit if the new position pays at least 125% of the county average monthly wage for the respective industry (determined by the Utah Dept. of Employment Security). In the event this information is not available for the respective industry, the position must pay at least 125% of the total average monthly wage in the county;

3) An additional $750 tax credit if the new position is in a business which adds value to agricultural commodities through manufacturing or processing;
4) An additional $200 tax credit, for two consecutive years, for each new employee insured under an employer-sponsored health insurance program, if the employer pays at least 50% of the premium.

B. OTHER TAX CREDITS:

5) A tax credit (not to exceed $100,000) of 50% of the value of a cash contribution to a 501(c)(3) private, non-profit corporation engaged primarily in community and economic development, and accredited by the Utah Rural Development Council;

6) A tax credit of 25% of the first $200,000 spent on rehabilitating a building which has been vacant for at least two years, and which is located within an Enterprise Zone;

7) An annual investment tax credit of 10% of the first $250,000 in investment, and 5% of the next $1,000,000 qualifying investment, in plant, equipment or other depreciable property.

Recycling Market Development Zone Program

The Act passed by the Utah State Legislature provides tax credits for companies residing in the zone that collect, process, handle recycled content material or use them in their manufacturing processes, or composting.

♦ 5% state income tax credit on the investment in machinery and equipment;
♦ 20% state income tax credit (up to $2,000) on eligible operating expenses; and
♦ Various local incentives.

Revolving Loan Funds

The State of Utah has endeavored to establish and operate Revolving Loan Funds (RLF), utilizing a variety of federal resources. These resources include: (1) Direct loans to the private developer through the Farmers' Home Administration; (2) Direct loans and RLF capitalization through the Economic Development Administration (EDA); and (3) RLF capitalization through the Department of Housing and Urban Development's Community Development Block Grant program (CDBG).

Research and Development Tax Credits

The 1998 session of the Utah State Legislature passed bills that will provide a Research Tax Credit and a Research Tax Credit for Machinery and Equipment. These credits are for taxable years 1999 through 2010. The following non-refundable franchise/income tax credits are allowed:

A. RESEARCH TAX CREDIT FOR MACHINERY AND EQUIPMENT
The credit amounts to six (6) percent of the purchase price of machinery and equipment (including computers, computer equipment and software) purchased during the taxable year, and primarily used to
conduct a qualified research in Utah. The credit also applies to installation costs. The credit is available only if the equipment or machinery is not exempt from the payment of sales or use taxes in Utah or another state.

**B. RESEARCH TAX CREDIT**

The credit amounts to six (6) % of a taxpayer’s “qualified research expenses” paid or incurred for the tax year in excess of the taxpayer’s “base amount” for that tax year. The base amount is determined by multiplying a fixed-base percentage by the taxpayer’s average annual gross receipts attributable to sources within the state for the four tax years before the credit year. The credit applies only to “qualified research expenses” incurred in conducting “qualified research” in Utah. “Qualified research expenses” are those defined as such in Section 41 of the Internal Revenue Code, which generally includes in-house research expenses (wages and supplies) and contract research expenses (i.e., 65% of amounts paid to certain non-employees).

**Provisions Applicable to Both Credits**

- May be carried forward for 15 years.
- Available to corporate (franchise) and individual (income) taxpayers.
- Available for basic research payments to, and for research machinery or equipment provided to a qualified organization (such as a university or college.)
- Available for “qualified research,” as defined in Section 41 (d) of the Internal Revenue Code. Generally, this includes expediters for research undertaken for the purpose of discovering information that is technological in nature, and which is intended to be useful in the development of new or improved business components of the taxpayer, provided that substantially all of the activities of which involve the process of experimentation for a new or improved function, performance, reliability or quality.
- Generally, “qualified research” is defined as research conducted in an experimental or laboratory sense. It does not include: expenditures for routine or ordinary testing, inspection or quality control; efficiency, management or marketing studies; costs of acquiring another person's intellectual property; research with respect to a business component already in commercial production (excluding the costs of significant improvements in an existing product); costs of adapting existing products to particular customer’s needs; reverse engineering costs; or certain types of internal use software.

**Utah State Permit Fees**

**Department of Environmental Quality, Air Quality Filing Fee:**
Cost: $250 to $15,000. If additional resources are needed above the $15,000 level, DEQ will bill for time spent on the project at $50 per hour.

Utah State Taxes

**Corporate Franchise Tax**
A rate of 5% of net taxable income from Utah operations.

**General Property Tax**
Rates vary by local municipalities. The rate ranges from 1.3% to 1.9%. The 1998 total rate averaged 1.21%. A company's commercial and personal property is assessed at 100% of fair market value. Residential property is assessed at 55% of fair market value.

**Personal Property Tax for Business**
Rates and depreciation schedules vary by class of personal property. This information can be furnished if the type of property is known.

**Sales and Use Tax**
Rate: 6.35% is the maximum rate. This rate will differ by community depending on the amount of local option taxes in effect. Manufacturing equipment and pollution control equipment are exempt.

**Personal Income Tax**
Rate: Maximum rate of 7%, with a deduction against State taxes for Federal income taxes which have been paid.

**Inventory Tax**
None.