

STATE FINANCING PROGRAMS

Arkansas has a wide variety of financing tools available to assist your company. These range from the well-established Industrial Revenue Bond Program to the Investment Fund to provide seed capital for technology-based companies.

INDUSTRIAL REVENUE BONDS

Industrial Revenue Bond Financing is available for manufacturing, processing, warehousing, distribution. Business headquarters and other related activities. Proceeds from the sale of these bonds may be used to purchase land, buildings or equipment.

BOND GUARANTY PROGRAM

For companies with a financial history that are unable to sell industrial revenue bonds to the public, the Arkansas Industrial Development Commission (AIDC) can assure bond holders of repayment by guaranteeing up to \$5 million of a bond issue. The AIDC charges a 5% fee for guaranteeing issues of this type. Interest rates are 3 to 4 points below rates on taxable issues, and terms may be varied to suit each project's needs. For real estate loans, 15 years is the most common maturity.

GENERAL OBLIGATION BONDS

Arkansas' Constitution permits cities and counties to issue general obligation bonds to finance land, buildings and equipment. The people vote on a property tax or local sales tax to retire the bonds, and the interest paid on them is tax exempt.

ARKANSAS DEVELOPMENT FINANCE AUTHORITY (ADFA)

The Arkansas Development Finance Authority (ADFA) provides still another alternative for long-term, fixed-rate financing. ADFA can issue revenue bonds for manufacturing as well as non-manufacturing projects. Arkansas can finance construction of warehouse and distribution space with taxable revenue bonds.

ADFA's Bond Guaranty Program enables it to obtain a better credit rating, thus reducing debt service. ADFA has the capacity to issue bonds for a single project or for several projects on a pooled or composite basis. The pool arrangement allows small businesses needed financing for equipment or new facilities to take advantage of low interest financing and reduced costs for issuing bonds, something not available to them in the past.

ARKANSAS CAPITAL DEVELOPMENT CORPORATION

A for-profit institution with the ability to provide higher-risk financing, the Arkansas Capital Development Corporation works with the Arkansas Capital Corporation to form a unique partnership utilizing both state and private funds.

Arkansas Capital Corporation (ACC) is a privately owned, non-profit organization established in 1957 to serve as an alternative source of financing for businesses in Arkansas. Its main goal is to improve the economic climate in the state by providing long-term, fixed-rate loans to Arkansas businesses. Loans generally range from a minimum of \$100,000 to a maximum of \$1.25 million.

As a preferred lender for the Small Business Administration, ACC makes loans to existing operations and business start-ups for everything from new construction and equipment to working capital. ACC loans may be used in combination with bank loans, municipal bond issues, or other sources of financing.

ACC also has an affiliate SBIC venture capital fund, Diamond State Ventures, that provides patient capital to emerging growth businesses in Arkansas and the region. DSV's investment range is \$250,000 to \$2,800,000 and can syndicate capital raises of up to \$20 million. DSV will consider businesses in basic manufacturing and services, as well as technology related ventures.

Other ACC affiliates include the Arkansas Certified Development Corporation, which administers SBA 504 loans, and the Arkansas Capital Relending Corporation, which facilitates U. S. Department of Agriculture loans in communities with a population of 25,000 or less.

INVESTMENT AND JOB CREATION INCENTIVES

The State of Arkansas operates the way businesses do, proactively anticipating opportunities and quickly responding to challenges in innovative ways. This approach, combined with our incentive programs, makes Arkansas a profitable choice for locating or expanding a business.

Arkansas' performance-based incentives are nationally competitive and easy to use. The Arkansas Department of Economic Development (ADED) will focus on your business's specific needs, conduct a cost-benefit analysis and design a tailored incentive package.

Arkansas' incentives, which were updated in 2003, are based on payroll instead of number of jobs and are determined according to location. Counties are divided into four tiers, based on poverty rate, unemployment, per capita income and population growth; incentives are more lucrative in less-developed counties. Tiers are assigned annually on July 1, based on the previous year's statistics.

The new incentives may be combined to allow for more flexibility.

There are special incentives for start-up businesses in six targeted sectors.

- **Advantage Arkansas (Income Tax Credit)**

Advantage Arkansas provides a credit on state income tax equal to between 1 percent and 4 percent of new payroll for five years, depending on the tier of the county in which the business locates.

To qualify for Advantage Arkansas, the business's operations must fit one of the following descriptions continuously and throughout the project term:

- Manufacturers in NAICS codes 31-33 and businesses primarily engaged in commercial physical or biological research; or
- Eligible computer-related businesses with no retail public sales that derive at least 75 percent of their revenue from out-of-state sales;
- Businesses primarily engaged in motion picture production with no retail public sales that derive at least 75 percent of their revenue from out-of-state sales; or
- Distribution centers, including e-commerce distributors, that derive at least 75 percent of their resources from out-of-state sales; office sector businesses; corporate or regional headquarters; or trucking/distribution terminals with no retail public sales; or
- Scientific and technical services businesses that derive at least 75 percent of their revenue from out-of-state sales.

For the business to qualify for the income tax credit, employees must be Arkansas taxpayers. The credit begins in the year in which the new employees are hired. Any unused portion of the credit may be applied against income tax for the succeeding nine years.

- Tax Back (Sales and Use Tax Refund)

Advantage Arkansas participants are also eligible for a refund of sales and use taxes for building materials and taxable equipment connected with the eligible project.

Applicants for Tax Back must obtain an endorsement resolution from the local governing authority, must meet the same qualification criteria as Advantage Arkansas and must be approved by the Arkansas Department of Economic Development.

- InvestArk (Sales and Use Tax Credit)

InvestArk is a sales and use tax credit available to businesses established in Arkansas for two years or longer that invest \$5 million or more in plant or equipment, new construction, expansion or modernization. The business must be approved for the program 30 days prior to beginning construction.

A credit against the business's state sales and use tax liability is authorized equal to 1/2 percent above the state sales and use tax rate in effect at the time a financial incentive agreement is signed. The sales and use tax credit is a percentage of eligible project cost. All projects will be audited upon completion to confirm the tax credits.

The credit can be applied against the business's state sales and use tax liability. If the entire credit cannot be used in the year earned, the remainder may be carried forward for five years. Total project expenditures must be incurred within four years of the project plan approval.

Businesses eligible for this incentive include:

- Manufacturers in NAICS codes 31--33 and businesses primarily engaged in commercial physical and biological research; or
- Eligible computer firms and businesses primarily engaged in motion picture production with no public retail sales that derive at least 75 percent of their revenue from out-of-state sales; or
- Distribution centers, including e-commerce distributors, that derive at least 75 percent of their resources from out-of-state sales, office sector businesses, or corporate or regional headquarters with no retail public sales; or
- Scientific and technical services businesses that derive at least 75 percent of their revenue from out-of-state sales.

SUPER PROJECTS

In November 2004, Arkansas voters overwhelmingly approved an amendment to the state constitution to help attract super projects. The state can now issue general obligation bonds for projects that create 500 jobs and \$500 million in investment. Bonds are limited to 5 percent of state general revenues during the most recent year - currently approximately \$180 million in bonds.

The governor and legislature will decide to issue bonds, based on an economic impact analysis provided by ADED and the Arkansas Development Finance Authority.

DISCRETIONARY INCENTIVES

(Negotiated by the Arkansas Department of Economic Development in highly competitive situations)

- Create Rebate Program (Payroll Rebate)

Negotiated by the Arkansas Department of Economic Development in highly competitive situations.

Businesses hiring specified new, full-time, permanent employees within 24 months after completion of an approved expansion and/or new location project may be eligible for the Create Rebate Program.

Under terms negotiated by the Arkansas Department of Economic Development, this program provides businesses a financial rebate from 3.9 to 5 percent of the annual payroll of the new, full-time, permanent employees. The financial incentive is 3.9 percent in Tier 1 counties, 4.25 percent in Tier 2 counties, 4.5 percent in Tier 3 counties and 5 percent in Tier 4 counties.

In each tier of counties, a minimum payroll of new, full-time, permanent employees of \$2 million annually is required. Incentives are available approximately 12 months after the business has fulfilled the minimum payroll requirements.

Eligible businesses include the following:

- Manufacturers in NAICS codes 31-33; or
 - Eligible computer businesses with no retail public sales that derive at least 75 percent of their revenue from out-of-state sales; or
 - Businesses primarily engaged in commercial physical and biological research; or
 - Businesses primarily engaged in motion picture production with no retail public sales that derive at least 75 percent of their revenue from out-of-state sales; or
 - Distribution centers, including e-commerce distributors, that derive at least 75 percent of their resources from out-of-state sales and have no retail public sales; or
 - Office sector businesses or national, corporate or regional headquarters with no retail public sales; or
 - Scientific and technical services businesses that derive at least 75 percent of their revenue from out-of-state sales.
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- ArkPlus (Income Tax Credit)

Negotiated by the Arkansas Department of Economic Development in highly competitive situations

The basic incentive provided by the ArkPlus program is a state income tax credit that provides tax credits of 10 percent of the total amount of the new investment. The amount of income tax credit taken during any tax year shall not exceed 50 percent of the annual Arkansas income tax liability resulting from the project.

To utilize the ArkPlus program, businesses must sign a financial agreement prior to construction outlining the terms of the incentives and including the following:

- Businesses must invest a minimum of \$2 million to \$5 million in a plant construction or expansion project, depending upon the tier of the county in which the business locates; and
- Businesses must have a payroll of at least \$1 million to \$2 million in new, full-time, permanent employees, depending upon the tier of the county in which the business locates, within 24 months of the date that the financial agreement is signed, and maintain the payroll requirements at the new project location for the duration of the incentive period. Failure to do so could result in termination of the program and reimbursement of the incentives credited plus penalty and interest.

Eligible businesses include the following:

- Manufacturers in NAICS codes 31-33; or
 - Eligible computer businesses with no retail public sales that derive at least 75 percent of their revenue from out-of-state sales; or
 - Businesses primarily engaged in commercial physical and biological research; or
 - Businesses primarily engaged in motion picture production with no retail public sales that derive at least 75 percent of their revenue from out-of-state sales; or
 - Distribution centers, including e-commerce distributors, that derive at least 75 percent of their resources from out-of-state sales; or
 - Office sector businesses or national, corporate or regional headquarters with no retail sales to the general public.
 - Scientific and technical services businesses that derive at least 75 percent of their revenue from out-of-state sales.
- Targeted Businesses

These discretionary incentives are for start-up companies in emerging sectors that are less than five years old, have an annual payroll between \$200,000 and \$1 million, and pay at least 150 percent to 180 percent of the county's current average hourly wage, depending upon the tier of the county in which the business locates.

Emerging technology sectors include:

- Advanced materials and manufacturing systems
- Agriculture, food and environmental sciences
- Biotechnology, bioengineering and life sciences
- Information technology
- Transportation logistics
- Bio-based products
- Research and Development

Income tax credits for research and development were expanded during the 2003 session of the Arkansas General Assembly. The existing 33 percent income tax credit for taxpayers who pay for research performed at Arkansas universities remains. In addition, a 10 percent income tax credit, capped at \$10,000 per year, was approved for eligible businesses performing in-house research. Targeted businesses may also earn transferable income tax credits equal to 33 percent of approved expenditures for in-house research.

SPECIALIZED INCENTIVES

- Child Care Facility Tax Incentive

Arkansas offers a tax incentive for businesses that provide child care for their employees.

A business may choose between two state income tax credit options: 1) a credit of 3.9 percent of the total annual payroll of the employees working in the child care facility, or 2) a one-time \$5,000 income tax credit for the first year. The income tax credit may be carried forward for two years or until used entirely, whichever occurs first.

In addition to either option, businesses may receive a refund on sales and use taxes on construction materials and furnishings purchased to equip an approved child care facility.

To qualify for these incentives, the business must be approved to operate an early child care program. The business may choose to operate the facility or contract the operations.

- Recycling Equipment Tax Credit

Act 654 of 1993 allows Arkansas taxpayers to receive an income tax credit for the purchase of equipment used exclusively for reduction, reuse, or recycling of solid waste material for commercial purposes, whether or not for profit and the cost of

installation of such equipment by outside contractors. Such equipment must be used in the collection, separation, processing, modification, conversion, treatment or manufacturing of products containing at least 50 percent recovered materials of which at least 10 percent is post-consumer waste.

The amount of the tax credit shall equal 30 percent of the cost of eligible* equipment and installation costs. Credits may be carried over a maximum of three consecutive years following the taxable year in which the credits accrued.

Taxpayers receiving credit under this Act for the purchase of machinery and equipment shall not be entitled to any other state or local tax credit or deduction based on the purchase of the machinery or equipment, except normal depreciation.

* Eligibility is determined by the Arkansas Department of Environmental Quality.

- Motion Picture Incentive

Qualifying motion picture production businesses spending more than \$500,000 within six months, or \$1 million within 12 months, in conjunction with the filming or producing of one feature film, telefilm, music video, documentary, episodic television show or commercial advertisement may receive a refund of state sales and use taxes paid on qualified expenditures incurred in conjunction with the project.

- Tourism Development

The Arkansas Tourism Development Act provides state sales tax credits and corporate income tax credits to businesses initiating approved tourism attraction projects.

Sales tax credits shall be determined in accordance with the following criteria:

- Eligible minimum project costs must be \$500,000.
- The percentage of sales tax credits, ranging between 10 and 25 percent, shall be determined by total approved project costs.
- Sales tax liability is determined by the incremental sales tax liability incurred as a result of the project.
- Other review criteria requested by the Arkansas Department of Economic Development may be requested to determine whether the tourism attraction project meets the intent of the Act.

Additionally, eligible businesses may receive a credit on corporate income tax equal to the average hourly wage of each new worker times 100, with a \$3,000 cap per employee. The multiplier increases from 100 to 400 with a \$6,000 cap per

employee in a "high-unemployment" county. Employees must be Arkansas taxpayers.

Both tax credits begin in the year in which the new employees are hired. Any unused portion of the credit may be applied against corporate income tax for the succeeding nine years.

- Tuition Reimbursement Tax Credit
 - Arkansas provides a 30 percent income tax credit to eligible companies for reimbursements they make to employees for approved educational expenses. The employees must attend an accredited Arkansas post-secondary educational institution.
- Customized Training Incentives

The Business and Industry Training Program (BITP) is a nationally recognized program for new and expanding companies.

Business and Industry Training program project managers work with the Department's Community and Business Development team when negotiating with new and expanding companies. The project managers then works closely with the company throughout the training project, meeting with the local educational institution and the company coordinator to find the best trainers for the company's needs.

Eligible Businesses include:

- Manufacturing firms
- National, corporate or regional headquarters
- Distribution centers
- Knowledge-based companies

The Business and Industry Training Program has three emphases: recruiting workers, pre-employment training, and on-the-job training.

Recruiting Workers

The BITP provides financial assistance to recruit the workforce required for new and expanding businesses and industries in Arkansas. Workers are usually recruited through newspaper ads, but other forms of recruitment may be used. The company-specific recruitment can include working with the local Employment Security Department (ESD) office, locating a site to receive applications and providing temporary help for receiving applications.

Pre-employment Training

For more than 30 years ADED has operated a successful pre-employment training program for new and expanding companies, customizing the number of hours and content of the training to fit the specific needs of each company. Pre-employment training is a plus for both the company and the trainees. It gives the trainees an opportunity to look at the company and the job, and the company an opportunity to view trainees before they are hired.

On-the-Job Training

Following pre-employment training, if the company hires the trainee, ADED helps pay the instructional costs to train the new employee. Hours of instruction and the number of instructors depend on the types of jobs that require on-the-job training.

The Existing Workforce Training Program (EWTP) provides financial assistance to Arkansas' businesses and eligible consortia of businesses for upgrading the skills of the existing workforce. Skills upgrade training is defined as instruction conducted in a classroom environment at a work site, an educational institution or a neutral location that provides an existing, full-time employee with the new skills necessary to enhance productivity, improve performance and/or retain employment.

(click here to learn about Arkansas' workforce training consortia)

Eligible businesses include:

- Manufacturers in NAICS codes 31-33; or
- Eligible computer firms with no public retail sales that derive at least 75 percent of their revenue from out-of-state sales; or
- Businesses primarily engaged in commercial physical and biological research

Financial assistance is available in two forms. For eligible businesses that use a state-supported educational institution, the EWTP provides direct funding or income tax credits up to 50 percent of the cost of training paid to the school or up to \$60 per instructional hour, whichever is less. Training Consortia receive the same rate of assistance in the form of direct funding only.

For businesses that use their own employees or company-paid consultants to deliver the classroom training to their employees, the EWTP offers an income tax credit of \$15 per instructional hour. Training Consortia that use training providers other than state-supported educational institutions receive direct funding at the \$15 per instructional hour rate.

The maximum combined direct funding and income tax credits for any one-company site cannot exceed \$50,000 per calendar year.

To apply for EWTP financial assistance, companies and consortia work with a Customized Training Coordinator from the Department of Economic Development or an Education Coordinator from a state-supported educational institution. Customized Training Coordinators and Education Coordinators work with the company to outline their training needs and complete and submit the application.

INVESTMENT FUND

The Arkansas Science and Technology Authority (ASTA) administers a special Investment Fund of \$1.8 million which can provide seed capital for new and developing technology-based companies through loans, royalty agreements and limited stock purchases.

ASTA also administers \$1.8 million for grants to colleges and universities for basic and applied research. The Applied Research Partnership Program requires a matching grant from a private sector sponsor. In addition, ASTA administers a program that encourages the transfer of technology from the laboratory to manufacturing or processing.

NORTH ARKANSAS PLANNING AND DEVELOPMENT DISTRICT

The North Arkansas Planning and Development District (NAPDD) serves Benton County. Certain economic development loan funds are administered by the NAPDD and can be considered for projects that meet certain job levels and requirements.

FEDERAL FINANCING

In addition to new and established programs, the Arkansas Industrial Development Commission is aggressive in its use of all available federal programs to assist new and expanding companies with financing:

- * Small Business Administration 503 Loan Program (SBA 503)
- * Small Business Administration 7A Loan Program (SBA 7A)
- * Farmers Home Administration and Industrial Loan Program
- * Urban Development Action Grant (UDAG)

ASSISTANCE PROVIDED

The Rogers Industrial Development Corporation can help you arrange the necessary financing package to relocate or expand your business. We will be glad to arrange a confidential meeting with representatives of your company to discuss the various financial alternatives available in Arkansas.

ENTERPRISE ZONE BENEFITS

To stimulate economic growth, Rogers offers State tax incentives to any company that locates or expands within an enterprise zone.

Up until July 1, 1995, a company may choose one of two options offered through the Enterprise Zone program:

1. **Effective to July 1, 1995**, the current program offers two incentives:

- a) A \$2,000 state income tax credit per new employee carried forward for three years.
- b) A refund of state and use taxes on the purchase of materials used in construction of a new facility and on machinery and equipment to be used in connection with the business.

To be eligible for these refunds and credits under the current program, a company must create at least one new job, and 35% of the new employees must be from the county in which the business is located or from an adjacent Arkansas county and must lack basic skills, be unemployable by traditional standards, or be receiving public assistance prior to employment and be located in a designated zone.

2. **Effective July 1, 1995**, the new Enterprise Zone program has no boundaries and no hiring restrictions based on skills or income level. Provisions in the new program are:

- a) A refund of sales and use tax on new construction and a state income tax credit equal to 100 times the average hourly wage capped at \$2,000.
- b) Tax credits may be carried forward for five years for full-time permanent workers who work at least 30 hours per week. Tax credits will not apply to employees who reside out of state.

To be eligible to receive the tax credits and refunds, the company must receive the endorsement of the city or county government involved and AIDC must approve the company's application. Advantages gained by locating or expanding in an enterprise zone combined with other local, state and federal incentives and Arkansas training programs make Rogers an excellent site for your new or expanding business.

TAXES

A major indicator of a state's business climate is its tax structure. In Arkansas, we work hard to maintain a fair and equitable tax system. As a result, Arkansas' overall per capita tax burden is among the lowest in the nation.

This section contains information on most of the taxes that apply to businesses. It includes information on taxes levied by the state as well as by the city of Rogers and Benton County.

STATE TAXES

CORPORATE INCOME TAX

Domestic and all foreign corporations doing business in Arkansas are subject to tax on net income at the following rates:

First \$ 3,000 -	1.0%
Next \$ 3,000 -	2.0%
Next \$ 5,000 -	3.0%
Next \$14,000 -	5.0%
Over \$25,000 up to \$100,000 -	6.0%
\$100,000 and over -	6.5%

When business income is derived from activity that is taxable both within and without Arkansas, it is apportioned for taxation according to the percent of property and payrolls utilized in the state and sales attributable to Arkansas pursuant to the multi-state tax compact.

A corporation doing business in Arkansas and sustaining a net operating loss may carry forward the loss to the next succeeding taxable year and annually, thereafter, for a total period of five years succeeding the year of such loss and deduct it from gross income except in the case of an operating steel mill (ACT 48 of 1987) which may carry forward the loss for ten years.

Corporations that are members of an affiliated group that files a federal consolidated corporate income tax return may elect to file an Arkansas consolidated corporate income tax return. However, only those corporations in the affiliated group that have gross taxable income from sources within Arkansas are eligible. Arkansas has also adopted the provisions of Subchapter S of the federal Internal Revenue Code of 1986 (Title 26, U.S.C., Sections 1361 - 1379).

INCENTIVES

Arkansas does not require the unitary method of reporting income for either multi-state or multi-national corporations.

New or expanding businesses located within a designated Enterprise Zone are eligible for a \$2,000 credit on corporate income tax for each new job created in the zone (Act 813 of 1983) or 100 times the average hourly wage (effective July 1, 1995).

Donations of new state-of-the-art equipment to qualified research programs of the Arkansas Science and Technology Authority (ASTA) merit a 33% income tax credit. If the credit exceeds 50% of the tax liability, the remainder can be carried forward for three years. (Act 759 of 1985)

Businesses wishing to build or provide day care centers, with 80% or more of the children coming from that business, will receive tax credits on building and equipment and a 3.9% rebate on payroll taxes. The day care center must be ran by the business and must have a child development program. A day care center may be ran in conjunction with one or more businesses.

DEFINITIONS

Domestic - When applied to any corporation or association, including partnership, means created or organized inside the state of Arkansas.

Foreign - When applied to any corporation or association, including partnership, means created or organized outside the state of Arkansas.

Net Income - That income reported on the federal return, with certain additions and deductions prescribed by Arkansas law, such as adjustments for capital gains and losses, and deductions for energy-saving devices purchased for use by the corporation. The accompanying example shows the method of apportioning business income to Arkansas and the computations of tax due the state for a hypothetical firm with a business income of \$1,250,000.