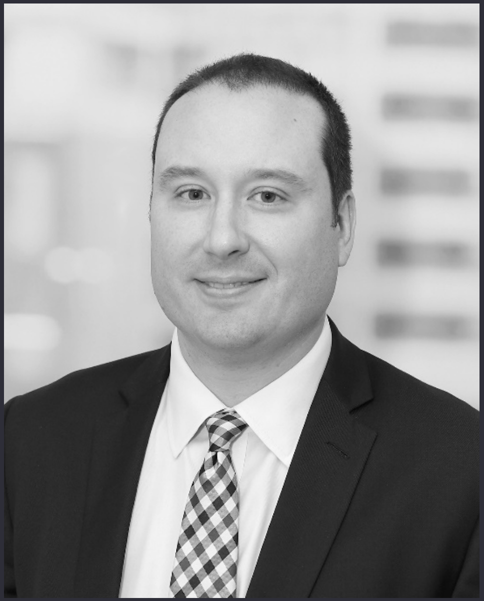
BTI Virtual Session

10 December 2020

Building a better working world

Panelists



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Credits & Incentives triggers

- Many business activities can trigger incentives opportunities:
  - Capital expenditures and routine spend (real and/or personal property)
  - Hiring, job creation, reduction, retention or relocation
  - Facility expansion, modernization, remodeling or acquisition
  - Greenfield
  - Joint ventures / mergers and acquisitions
  - Equipment replacement / retooling
  - Research and development
  - Training expenditures
  - Lease expiration or renewal
  - Sustainability / green initiatives
- Certain incentives are available if the company meets defined statutory requirements while others require advanced approval or must be negotiated with the government prior to the company publicly announcing the project, acquiring land, etc.

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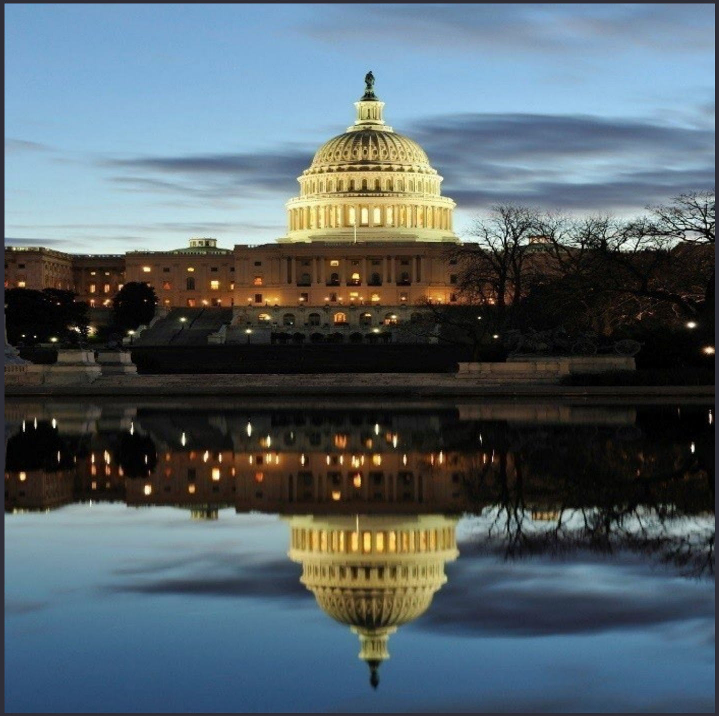
Types of statutory and discretionary business incentives

Statutory: Automatic ("as of right")	*Statutory: Pre-approval or Prior Certification Required*	*Discretionary ("but for")*
• Statutory tax credits & incentives that are provided to companies "as of right" if meet defined statutory requirements • Pre-certification or prior approval not required	• Statutory tax credits & incentives that require companies to meet additional approval qualifications within state and local regulations	• Customized financial incentive packages that are negotiated with state and local government agencies

Work Opportunity Tax Credit

- The Work Opportunity Tax Credit (WOTC) is a program designed by Congress to:
  - Encourage employers to hire and retain applicants from nine economically disadvantaged target groups
  - Help people move from economic dependency to self-sufficiency
- A tax credit of up to $2,400 is available to the company for hiring most eligible workers and up to $9,600 for select target groups



- Credit given for hiring individuals in the following target groups:
  - SNAP (Supplemental Nutrition Assistance Program or food stamp recipient)
  - Long-term Family Assistance Recipient (TANF, formerly AFDC)
  - **VOW to Hire Heroes**
  - **Qualified veterans**
  - Qualified Ex-Felon
  - Designated Community Residents (previously High Risk Youth)
  - SSI recipient
  - Vocational rehabilitation referral

Cares Act: Employee Retention Credit

General provisions

- Part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) expected to be signed into law this week
- Refundable payroll tax credit against the employer share of the Social Security Tax on wages or the equivalent amount of Tier 1 of the Railroad Retirement Act
- The credit is not allowed for any employee for any period in which the WOTC is claimed on such employee
- Wages used for the credit may not be used for the Section 45S Credit. The deduction for wages and salaries must be reduced by the amount of the credit.

Credit amount and recovery process

- Refundable credit equal to 50% of qualified wages paid or incurred including certain health plan expenses
- Max credit of $5,000/employee (50% of max $10,000 qualified wages)
- Claimed on the current quarter Form 941 or Form 941-X (an alternative process for advance payment is anticipated).

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New York Investment Tax Credit (“ITC”) for R&D

Eligible entities	Benefits	Claiming the Credit	Special Considerations
The Investment Tax Credit is available for businesses that place qualified property into service during the tax year. Companies, including financial services companies, may be able to claim the ITC on eligible capitalized assets used in qualifying R&D.	An ITC up to 9% of the cost basis of qualified tangible property, including buildings and structural components of buildings that is depreciable under Internal Revenue Code Section 167 or 168, has a useful life of (4) years or more and was not expensed under Internal Revenue Code Section 179(a). [1]	No application or pre-certification required. Taxpayers calculate the credit using Form CT-46. For Article 9-A taxpayers, the ITC is nonrefundable and cannot reduce the taxpayers liability to less than the greater or the tax on minimum income or the fixed dollar minimum tax. [2]	Unused credits can be carried forward for (15) years for C corporations and (10) years for other entities. However, there is a provision whereby “new businesses”, defined as any business in operation for (5) years or less, can elect to have any excess credit refunded instead of carried forward.

Arizona Quality Jobs Credit

Eligible entities	Benefits	Claiming the Credit	Special Considerations
Any AZ taxpayer creating at least 25 net new qualified jobs within a 12-month period at a single site and making a certain level of capital investment[1]	Tax credits against corporate income tax for up to $9,000 for each net new quality job created over a three-year period	Credit is available annually based upon the number of jobs created and/or retained by the taxpayer at a single location in AZ Credit is non-refundable, but unused credits may be carried forward for up to 5 years.	Taxpayer must apply to the ACA for an allocation of credits in order to qualify Amount of capital investment required is determined based upon the number of net new quality jobs created and includes any expenditure to purchase, lease or improve property used in operation the business

[1]Qualified New Jobs are defined as net new jobs that: are full-time permanent positions located at the project site; positions filled by an AZ resident; pay at or more than the county average wage; employer provides health insurance and covers at least 65% of the cost for the employee; and was filled by a single employee for at least 90 days during the year.

California Competes Tax Credit

Eligible entities	Benefits	Claiming the Credit	Special Considerations
Any California business can apply. The credit is available statewide to all industries and business sizes that want to expand or relocate in California[1] FY20/21 upcoming application periods: - 1/4/21-1/25/21 - 3/8/21-3/29/21	A business should request the amount of credit that it needs to be able to commit to implementing its proposed project Tentative amount of credits that can be allocated is $180M in each FY18/19 through 22/23	- Negotiated incentive - 4 Phase application process and contract award - Administered by the governor's office - Non-refundable - 6-Year carryforward - Can be awarded over multiple years	In order to qualify for a portion of the allocation, the business must have expansion plans to create jobs in California over the next five years or be at risk to leave California.[2] There must be an inducement argument crafted to show CA that there are other viable states for the project.

[1]While there are no geographic or sector-specific restrictions, the purpose of the program is to attract and retain-high value employers in California in industries with high economic multipliers and that provide their employees good wages and benefits.

[2]Other key evaluation factors, among others – number of jobs created or retained, compensation paid to employees, investment in California, economic census data in job creation areas, incentives from other states, duration of proposed project, economic impact, opportunity for future growth, cost benefit of investment to tax credit

Additional Federal & State Tax Credit Opportunities

- Federal Tax Credits
  - Childcare Tax Credit
  - Family and Medical Leave Act credit (through 2020)
  - Previous and forward looking disaster credits
  - Investment Tax Credit for Renewable Energy Investments
  - Low Income Housing Credit
  - New Markets Tax Credit

- Common State Credits & Incentives
  - New York Excelsior
  - Texas Enterprise Zone
  - Tennessee Jobs Tax Credit
  - Georgia Quality Jobs Tax Credit
  - Illinois Enterprise Zone Investment Tax Credit
  - State “piggy backs” to federal credits (hiring, R&D, ITC, LIHTC, etc)

Polling Question #1

Does your company negotiate incentives when you have significant capital spend or increased headcount?

A. Always
B. Sometimes, depends on the jurisdiction
C. Sometimes, depends on our available resources
D. Never

Process overview – Step 1

Help client determine which tax credit investments are right for them

Identify and analyze credit opportunities

Perform due diligence

Post deal closing

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Common Objectives for Tax Credit Investing

Managing the corporate effective tax rate	Increasing after-tax cash flow/increasing investment income
Enhancing earnings per share	Improving regulatory or public relations

Process overview – Step 2

Help client determine which tax credit investments are right for them

Identify and analyze credit opportunities

Perform due diligence

Post deal closing

State Tax Credits

US states provide credits for a diverse series of fiscally, economically or socially desirable activities

Job Creation	Investment	Renewable Energy	R&D	Employee Training

State Tax Credits can generally be divided into four main segments:

Certificatable	Bifurcatable	Allocable	Refundable

Clients generally prefer to focus on:

Certificatable Credits	Bifurcatable Credits

Polling Question #2

Does your company invest in state tax credits?

A. It is a key part of our strategy
B. When we hear of interesting opportunities we invest
C. Not yet but we are considering it
D. We don’t and won’t invest

Investing in Federal tax credits

	Low Income Housing Tax Credit	Historic Rehabilitation Tax Credit	New Markets Tax Credit	Production Tax Credit: Wind	Investment Tax Credit	Opportunity Zones
Sector	Rental Real Estate	Real Estate	Various, mainly real estate	Electricity produced from wind, biomass, geothermal	Electricity produced from solar, fuel cells, cogeneration	Various, mainly real estate
Expiration	Permanent	Permanent	2021	Phase down begins for projects that began construction in 2017;	Phase down begins for projects that began construction in 2019; 10% perm in 2022	2026 tax deduction and deferral; 2047 for tax exclusion
Credit period/ Recapture Period	10 years/15 years	Five years/five years	Seven years/ seven years	10 years/None	One year/Five years	Until 2026 / Until 2026
Main risk(s)	Real estate foreclosure, tax compliance, asset management	Tax structuring, real estate foreclosure	Tax structuring	Tax structuring, project operations	Tax structuring, project operations	Tax structuring, liquidity
Return composition	Tax credits, deductions	Tax credits, deductions, priority return, put proceeds;	Tax Credits	Tax credits, deductions, cash flow	Tax credits, deductions, cash flow	Underlying asset performance, Tax deferral, tax deductions and tax exclusion
After-tax IRR	5% - 7%	Varies	8% to 12%	6% to 8%	6% to 15%	Varies
GAAP Treatment	Proportional Amortization Below-The-Line	Equity Method w/Impairment Above-The-Line and Below-the-Line	Equity Method w/Impairment Above-The-Line and Below-the-Line	Equity Method w/HLBV Above-The-Line and Below-the-Line	Equity Method w/HLBV or Impairment Above-The-Line and Below-the-Line	N/A

Polling Question #3

Which Federal credits has your company invested in?

A. None
B. Only LIHTC to fulfill CRA requirements
C. Only Renewable Energy for ESG purposes
D. Multiple tax credits

Process overview – Step 3

- Help client determine which tax credit investments are right for them
- Identify and analyze credit opportunities
- Perform due diligence
- Post deal closing

Due diligence process

- **Benchmark proposed investment against typical transactions**
  - Return
  - Operational Risk
  - Tax Risk
  - Counter-party Risk
- **Understand the risks**
  - Help manage investment decisions
  - Walk clients through each step
  - Advise through negotiations
  - Consult with advisors, counter-parties
- **Research issues as needed**
  - Talk through uncertainties
  - Market guidance
  - Provide documentation of issues tackled

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Process overview – Step 4

Help client determine which tax credit investments are right for them

Identify and analyze credit opportunities

Perform due diligence

Post deal closing

EY

Polling Question #4

If you do invest in Federal tax credits, how much does it drive down your ETR?

A. We don’t invest
B. Less than 2%
C. More than 2% but less than 5%
D. More than 5%