Distribution Center Site Selection Incentives

Over the past few years, e-commerce distribution (among other factors) has led to many new facilities being developed across the country. When it comes to distribution center site selection, most people fully understand the key factors that should be considered: cost, clear height, available space, age of the facility and (of course) location. However, location is more than just a point on a map. With the ailing economy, and unemployment numbers continuing to hang near the double digits, local and state governments are under pressure to help generate jobs. As such, states are more and more willing to provide a number of incentives that may not have been available in years past, and leading retailers are taking advantage of these incentives to provide considerable lift to their bottom line.

Basic Incentives

There has always been some level of basic incentives available to a company generating new jobs. These are typically focused on the hiring and development of local people and often include money for training, hiring and relocation. These incentives vary from place to place, and should not be overlooked, but provide only a modest benefit to companies (see sidebar for examples in several states).

Negotiated Incentives

The real benefit lies in the negotiated incentives that are typically part of the site selection process. When a site has not yet been determined, state and local governments become very aggressive in the benefits they will offer to attract new jobs. As a result, this is where most opportunity lies. The financial benefits of negotiating with state and local officials (while simultaneously negotiating with the site owners) can make a sizable difference in the total cost of ownership. Many of these incentives are there for the taking, assuming a company knows about them and fills out the appropriate paperwork at the right time.

For example, most states have some sort of sales tax exemption for building manufacturing facilities, and in many instances those breaks have now been extended to include distribution centers. In addition, there are a number of benefits state and local governments can offer as part of the negotiating process: anything from infrastructure improvements to breaks on payroll taxes. The total size of these benefits can vary widely based on the project.

For example, in late 2011, the Spartanburg County Council unanimously voted to give an incentive package to a new Amazon warehouse being built in Spartanburg, S.C. The negotiated deal means that Amazon will be given a 6% fee-in-lieu-of-taxes agreement for 30 years (and as an added bonus Spartanburg is widening the street where the company is building its new million-square-foot distribution center).

In a similar example, in Northwest Georgia, Lowe's broke ground on a $125 million distribution center in 2011. State and local officials lured the Mooresville, N.C.–based Lowe's to the state with $37.1 million in tax and other incentives, including $11.7 million in job tax credits and $15 million in local incentives.

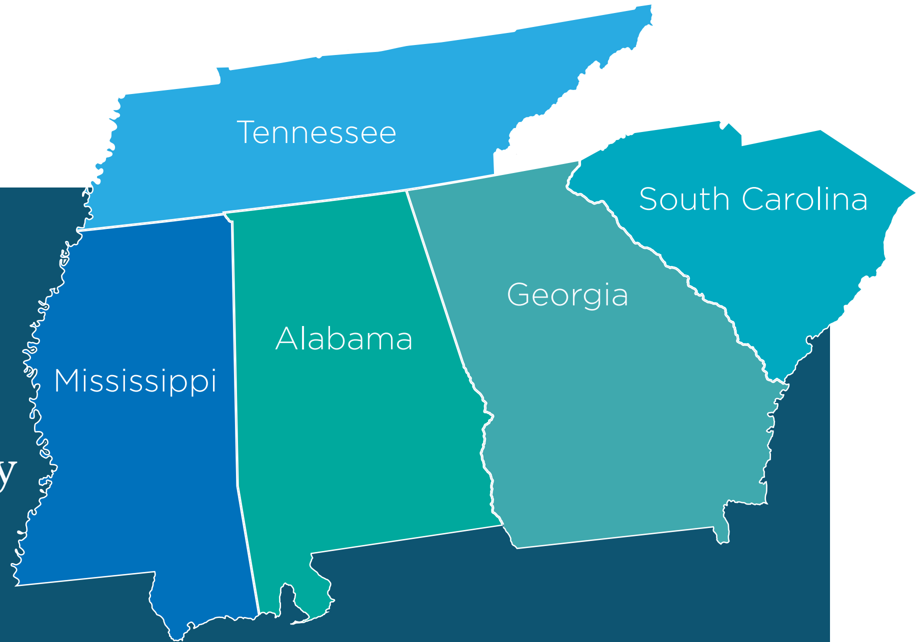
What Does It Mean?

The key to all of these benefits is recognizing that, prior to selecting a site, the buyer has all of the negotiating power. Once a site is selected, the potential benefits available become limited to the standard incentives. The lucky companies that are currently dealing with a growing e-commerce business will benefit from understanding that the jobs a new DC creates are a hot commodity. And in this market, that commodity has the potential to greatly reduce the overall project costs for a new facility.

Case Study

Kurt Salmon recently helped a $2 billion retailer reduce sales tax by **50%** on a $5.6 million conveyor system. Working on a fixed budget, this $250,000 savings was used to improve the overall facility. The client was unaware of the potential tax savings, but had hired Kurt Salmon to help with the facility design and implementation. Kurt Salmon had recently executed a similar project in Georgia in which they found a recent addition to the state tax code that allowed for a sales tax exemption of all material-handling equipment when spending over $5 million. While this project was in a different state, it appeared that this state had a similar policy.

The client identified a local ruling which proved that certain distribution purchases were eligible for sales tax exemptions. After further investigation, it was found that the conveyor system purchased qualified for the "special order" exemption. Consequently, the sales tax on the purchase was based upon the cost of the raw materials (typically 20% to 25% of the purchase price). This led to the significant cost savings for the client.



Even within one region, incentives can vary significantly

Georgia

State Level

» Business inventory is exempt from state property taxes.

» Companies that have operated a manufacturing facility in Georgia for at least three years, and that make a minimum $50,000 additional qualified capital investment, may claim from 1% to 5% (depending on tier status) of the new investment directly related to manufacturing as a tax credit.

» Job tax credits provide qualified companies tax credits of up to $3,500 (depending on the statutes of the county) for each new job created.

County Level

» Many Georgia counties also exempt from property tax up to 100% of qualified raw material, work-in-process and finished goods inventory under Georgia's local-option "Freeport" law.

» Municipalities in Georgia have the discretionary authority to provide certain incentives, including property tax abatements.

Mississippi

State Level

» Up to a 10-year exemption from property taxes may be granted to distribution centers by local governing authorities on real and tangible personal property being used in the state.

County Level

» Credits for distribution centers can be used to offset up to 50% of the entity's income tax liability, and unused job tax credits can be carried forward up to five years.

County Classification Jobs Credit Amount
Tier III: 10 or more 10% of Payroll
Tier II: 15 or more 5% of Payroll
Tier I: 20 or more 2.5% of Payroll

Alabama

State Level

» Alabama does not levy tax on inventory and allows for exemptions for some raw materials inventory. Additionally, Alabama has one of the lowest property tax rates in the U.S.

County Level

» Alabama is a right-to-work state, which can make it easier for companies to build their workforce. The state also provides free and low-cost workforce training programs.

Tennessee

State Level

» Receive a 1% excise tax credit for the purchase of qualified equipment associated with the required $500,000 capital investment by a distribution or warehouse facility.

» Franchise tax credit of $2,000 per new full-time employee in businesses that meet the requirements of 25 new full-time jobs and capital investments over $500,000. No franchise tax on finished goods inventory in excess of $30 million.

» No sales tax on purchases of material-handling and racking equipment associated with the required capital investment of $10 million by a distribution or warehouse facility. Credit of 5.5% for sales and use taxes paid on building materials, machinery and equipment used in new or expanded regional, national or international headquarters. Requires capital investment of $50 million.

» The FastTrack Job Training Assistance Program (FJTAP) assists each individual company in developing customized training plans and provides funding.

County Level

» Franchise tax credits of $4,500 per new full-time employee in special enhancement counties are available.

South Carolina

State Level

» A property tax abatement on new capital investments of approximately 20% to 25% annually for five years.

» Job tax credits of $1,500 annually for five years for each new job; $2,500 when located in a Multi-County Business Park.

County Level

» A company may take advantage of one of two potential incentive programs. Depending on total investment, a company may qualify for either a five-year abatement of a statutorily set portion of property tax or, by agreement with the county, a fee-in-lieu-of-tax arrangement. Other unique options can be considered, depending on the project size (Greenville).

AUTHORS

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Kurt Salmon is the leading global management consulting firm specializing in the retail and consumer products industry. We leverage our unparalleled industry expertise to help business leaders make strategic, operational and technology decisions that achieve tangible and meaningful results. For more information, go to www.kurtsalmon.com.

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