



Presentation to: Tennessee Advanced Energy Business Council

Tennessee Tax Incentives for Advanced Energy

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Incentive Overview in Tennessee

- **Certified Green Energy Production Facilities**
 - Certain types of advanced energy generation technologies receive state and local tax benefits
 - Applies to facilities producing electricity for use and consumption off the premises from geothermal, hydrogen, solar, and wind sources
- **General Economic Development Incentives**
 - There are no other advanced-energy specific tax incentives in Tennessee, but advanced energy manufacturing such as electric vehicle and battery manufacturing are often priorities for application of more general economic development incentives

Tennessee State and Local Taxation

- **Property Tax**

- Tax paid on the assessed value of real and personal property based on local tax rates and assessment ratios

- **Sales and Use Tax**

- Tax levied on the sales price of each item or article of tangible personal property either sold at retail in Tennessee or used, consumed, distributed, or stores for use or consumption in Tennessee

- **Business Tax**

- Tax on gross receipts for based on a specific classification of a taxpayer's dominate business activity

Tennessee State and Local Taxation

- **Franchise Tax**

- Tax equal to percentage of the greater of a company's net worth or actual value or real and tangible personal property in Tennessee

- **Excise Tax**

- Tax equal to 6.5% of a company's net earnings for business done in Tennessee

- **In Lieu of Tax on Electricity Sales**

- Tax equal to 5% of the "Tennessee apportioned gross receipts" derived from "covered wholesale sales of electric current"

Property Tax

Property Tax Generally

- **Formula for typical tax calculation = Appraised value * Assessment ratio * Equalization ratios * Tax (Millage) Rate**
- Real property – All real property is classified according to use and assessed as follows:
 - Public utility (55%)
 - Industrial and commercial property (40%)
 - Residential and farm property (25%)
- Personal property – All personal property is classified according to use and assessed as follows:
 - Public utility property (55%)
 - Industrial and commercial property (30%)
- If applicable, public utility equalization ratio (85%)

Property Tax on Green Energy Property

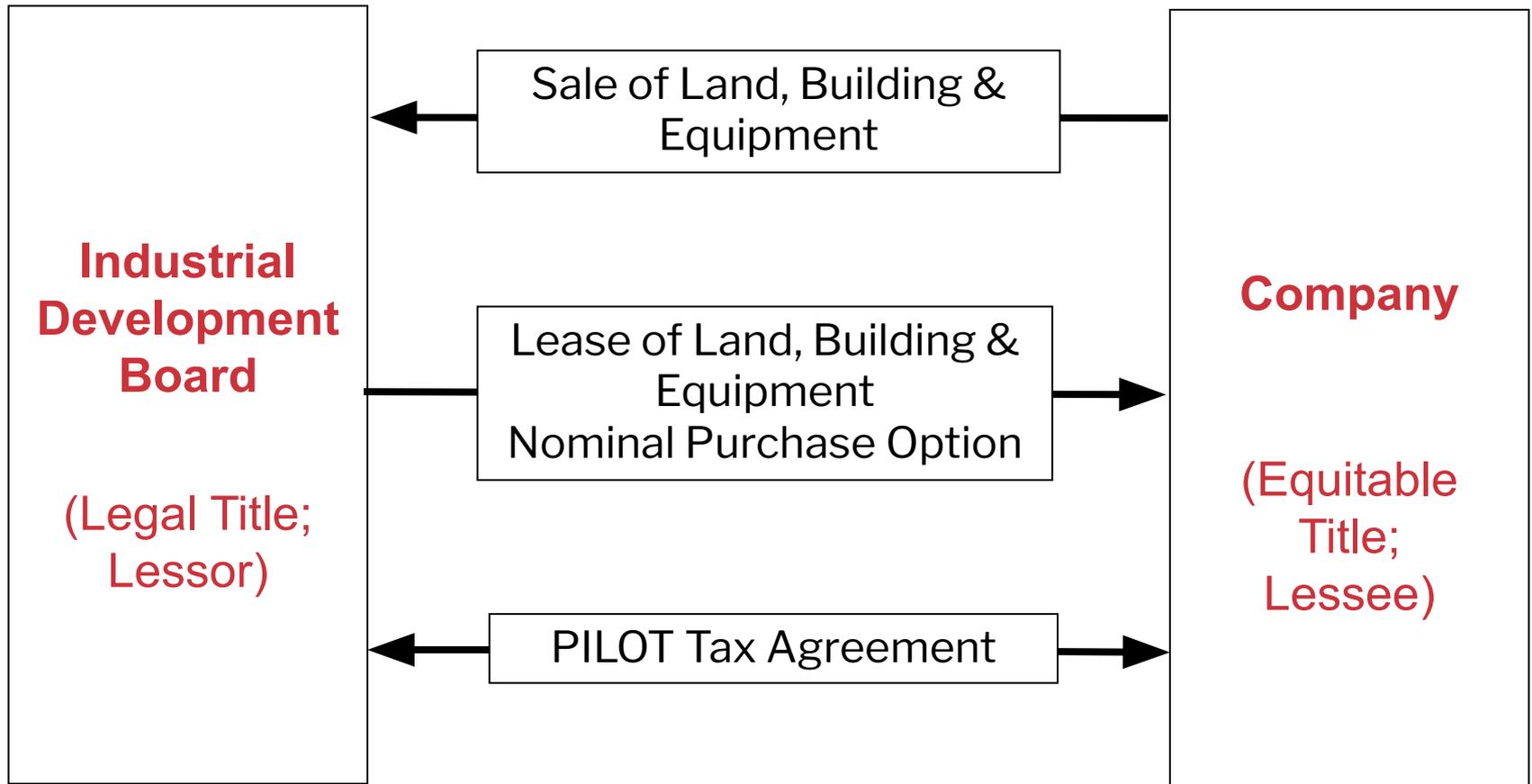
- Tennessee General Assembly made legislative finding that green sources of electricity production are generally capable of producing less electricity than traditional sources.
- The value of property “shall not initially exceed”:
 - Solar: 12.5% of total installed costs
 - Wind: 33% of total installed costs
 - Other sources not to exceed appropriate capacity factor
- Public utility property is assessed by the Office of State Assessed Properties (OSAP).
- OSAP considers solar property fully depreciated as a result of special statutory valuation.

Hypothetical Estimation of Assessment and Taxes for Solar Facility	Green Energy Certificate or Filed Ad Valorem	No Green Energy Certificate or Filing of Ad Valorem
Initial Cost (as an example)	\$100,000,000	\$100,000,000
Valuation Percentage	12.50%	100.00%
Tennessee Value	\$12,500,000	\$100,000,000
Level of Assessment	55.00%	55.00%
Assessed Value	\$6,880,000.00	\$55,000,000.00
Personal Property Reduction	85.00%	85.00%
Reduced Assessment	\$5,848,000.00	\$46,750,000.00
Real Property Appraisal (Land/Building)	\$100,000	\$100,000
Level of Assessment	55.00%	55.00%
Real Property Assessed Value	\$55,000.00	\$55,000.00
Reduced Assessment - Solar Facility	\$5,848,000.00	\$46,750,000.00
Land/Building Assessed Value	\$55,000.00	\$55,000.00
Total Reduced Assessment	\$5,903,000.00	\$46,805,000.00
Equalization Ratio <u>Putnam</u> County 2019	0.9526	0.9526
Total Equalized Assessment	\$5,623,197.80	\$44,586,000.00
<u>Putnam</u> County Tax Rate Per \$100 of Assessment (2019)	0.02926	0.02926
County Taxes	\$164,534.77	\$1,304,586.36
<u>Cookeville</u> City Tax Rate per \$100 of Assessment for (2019)	0.0099	0.0099
City Taxes for	\$55,669.66	\$441,401.40
Estimated Total Taxes for 2019	\$220,204.43	\$1,745,987.76
Effective Tax Rate	0.22%	1.74%

Payment in Lieu of Tax (PILOT) Incentives

- PILOT transactions are contractual arrangements for property tax abatements authorized under the Industrial Development Corporations Act
- Industrial Development Boards (IDBs) are quasi-governmental, non-profit corporations formed for the purpose of promoting economic development
- Tennessee constitution only allows disparate tax treatment for non-profit entities, so private companies must lease from a non-profit (IDB) to receive a property tax incentive
- No limits on the economic deal, except:
 - Greater than 20-year abatement term + 3-year construction period requires Comptroller and ECD Commissioner approval
 - Must be authorized by governing body of municipality that formed the IDB

Payments in Lieu of Tax (PILOTs)



Sales and Use Tax

Sales and Use Tax

- Sales and use tax
 - 7% state tax
 - Local option tax (varies from 1.50% to 2.75%) on first \$1,600 of value per single article
 - State single article tax rate of 2.75% on personal property beginning at \$1,600.01 up to and including \$3,200
- Advanced energy projects can take advantage of a number of exemptions/credits:
 - Industrial machinery
 - Certified green energy production facility
 - Tangible personal property specifically intended for resale; or
 - Sales to governmental entities

Sales and Use Tax Exemptions/Credits

- **Industrial machinery:** “machinery, apparatus and equipment ... necessary to, and primarily for, the fabrication or processing of tangible personal property for resale and consumption off the premises” – TCA § 67-6-102(44)(A)(i)
 - Electricity is tangible personal property
 - Includes “machines used to generate, produce and distribute utility services” – TCA § 67-6-102(44)(D)(ii)
- **Certified green energy production facility (“GEPF”):** a “facility certified by the department of environment and conservation as producing electricity for use and consumption *off the premises* using clean energy technology”

Sales and Use Tax Exemptions/Credits

- **Utilities:** One hundred percent (100%) sales tax exemption on qualifying utilities including water, wastewater, natural gas, and electricity directly used in the production process that comes in direct contact with the product being made and is separately metered by the utility.

Franchise and Excise Tax

Franchise Tax

- Franchise tax equals \$0.25 per \$100 of the greater of a company's
 - Net worth (first measure); or
 - Total tangible personal property owned or used in Tennessee (second measure)
- GEPF and industrial machinery are excluded from second measure
- Franchise tax liability likely based solely on the first measure
 - Net worth valuation may be inflated if project doesn't have project-level debt
- Tax credit available for combined franchise and excise tax liability on green energy property and industrial machinery (next slide)

Excise Tax

- Excise tax equals 6.5% of a company's net earnings for business done in Tennessee and is imposed on any business having a substantial nexus with Tennessee – TCA §67-4-2001, et seq.
- **Franchise and Excise Tax Credit**
 - Credit against up to 50% of taxpayer's combined Tennessee F&E tax liability equal to a percentage of the purchase price of industrial machinery purchased or leased during the tax year and located in Tennessee
 - Percentage is determined by amount of taxpayer's capital investment
 - Unused credit may be carried forward for up to 15 years

Job Tax Credit

- Standard: Job tax credit of \$4,500 per job for counties with Tier 4 designations to offset up to fifty percent (50%) of franchise and excise tax liability and no other tax liability in any given tax year with a carry forward of up to 15 years.
- Enhanced: Additional annual credit of \$4,500 per job for designated Tier 2, Tier 3, and Tier 4 Enhancement Counties. No carry forward.
- Super: Job tax credit increased to \$5,000 per job credit for various combinations of significant additional investment or higher wages.

State Grants

- Three types of Fasttrack Grants can be awarded by TNECD
 - Infrastructure
 - Industrial training
 - Economic development
- Economic development grants are more flexible in the use of funds but are limited to projects where the funds will have a proportionally significant impact on the community
- All Fasttrack grants must flow through local governments or local economic development organizations.
- Subject to job-based clawbacks.

Questions?

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