Warning: This is NOT another article about how tax reform may or may not affect your bank.

Disappointed? We can still talk tax! Instead, let’s talk about tax incentive and reduction programs that positively affect financial institutions and fintech businesses, and will go unscathed by tax reform.

Domestic innovation, quality jobs and capital investment are beneficial to the economy. To promote these economic benefits, the U.S. government financially supports and entices companies to engage in certain behaviors in exchange for tax credits, deductions and tax abatements. The behaviors that policy makers want to encourage include:

- Developing new software and technology;
- Creating and maintaining jobs in the U.S.;
- And investing in facilities and other capital.

Tax and incentive programs are available to companies planning to incorporate any of the above into a growth strategy, and will offset the cost of such investments by reducing cash taxes and the effective tax rate.

A diverse menu of tax programs—many of which are regionally specific—are designed to incent corporate behavior. The below examples highlight a few of these programs.

The Federal Research Tax Credit
The Federal Research Tax Credit (RTC) is a well-established planning tool utilized by U.S. companies engaged in traditional technology development. It is rapidly becoming a similarly valuable planning tool for financial institutions and fintech companies investing in technology-enabled services.

How does it work? Companies claim an annual tax credit based on the cost of the technology development and process enhancements, regardless of whether the development was outsourced or in-house. The rate of return ranges between 5 and 8 percent of the cost, and there is an increased benefit when the company simultaneously claims a state credit.

If you thought this credit was only for product developers and scientific research companies, you are not alone. Financial institutions and other financial service providers reliant upon software platforms and web-based programs underutilize this tax planning opportunity.

Historically, the guidance as to how the RTC applied to financial service technology was murky, and as a result, financial institutions often opted not to apply the credit due to the inherent audit risk. But in 2016, Department of the Treasury regulations finally caught up to include such activities as eligible for the RTC. Companies that have invested in technology focused on financial modeling and enterprise tools, data security mechanisms, and modules developed to provide improved services may want to strategically reevaluate this credit.

Jobs & Investment Location Incentives
Speak with any state or local economic development group, and they will tell you that job creation and capital investment are top priorities to fuel economic growth. To meet this goal, each state has its own menu of programs designed to incent companies to create and maintain jobs, and invest in facilities and capital.
Recall the huge incentive packages recently lobbed to Amazon in hopes of landing its second headquarters, which promises 50,000 jobs and massive real estate development in the community that Amazon ultimately chooses. Although the Amazon project is truly a white whale for most states, development groups regularly put together similar packages, and the value offered is reflective of the anticipated impact of the project.

How do these incentives work? **Companies lock in location incentives prior to engaging in development.** The threshold for discussion is generally 20 or more jobs, coupled with capital investment. The program names differ in each state, but the gist is the same. If a company embarks on a strategy to build new facilities or improve current facilities, create jobs, or even maintain its current headcount—which could be relocated elsewhere—the state is motivated to support companies to ensure that growth stays within the state.

The jobs and investment incentives generally take the form of income or withholding tax reductions, refundable tax credits, property tax abatements and even cash grants. Although these incentives often seem like a black box, obtaining financial packages for proposed growth is quite likely. Leverage is gained through strategic discussions prior to initiating the project.

Investments made to improve processes, services and technology, or to add quality jobs and invest in your business’ facilities often give rise to direct and indirect tax savings. Our taxing systems will continue to reward such behaviors. The key to maximizing savings is strategically matching the behavior with the relevant program.

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