

Jim Zingale Executive Director

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QUESTION: Taxpayer requests a written agreement between themselves and the Florida Department of Revenue, concerning the method by which income generated by or arising out of a "qualified capital investment project" shall be determined for purposes of the Florida Capital Investment Tax Credit under s. 220.191, F.S.

ANSWER: The Department concurs with Taxpayer's suggested calculation for the income generated by or arising out of the qualifying project. However, Taxpayer is reminded that should the facts provided in its request be determined to be substantially different, this TAA would not apply and the methodology may be deemed inappropriate.

March 29, 2024



Via email to:

Re: Technical Assistance Advisement – 24C1-001 Request for Written Agreement for Determination of Income Sections 220.11, 220.13, 220.15, 220.191, Florida Statutes ("F.S.") Rule 12C-1.0191, Florida Administrative Code ("F.A.C.")

("Taxpayer")

FEIN: Project ID:

BP#:

Department of Economic Opportunity's ("DEO") presently known as Florida Department of Commerce's Division of Economic Development ("Florida Commerce") Enterprise Florida, Inc. ("EFI")

Dear :

This is in response to your request dated **Control**, for a Technical Assistance Advisement ("TAA") pursuant to section 213.22, F.S., and Rule Chapter 12-11, F.A.C., regarding your request for an agreement concerning how the method by which income generated by or arising out of

Taxpayer's qualified capital investment project shall be determined for purposes of applying the Capital Investment Tax Credit ("CITC").

Section 220.191(5), F.S., addresses applications for CITC. That statute provides:

(5) Applications shall be reviewed and certified pursuant to s. <u>288.061</u>. The Department of Commerce shall first certify a business as eligible to receive tax credits pursuant to this section prior to the commencement of operations of a qualifying project, and such certification shall be transmitted to the Department of Revenue. Upon receipt of the certification, the Department of Revenue shall enter into a written agreement with the qualifying business specifying, at a minimum, the method by which income generated by or arising out of the qualifying project will be determined.

Pursuant to Rule 12C-1.0191, F.A.C., the Department of Revenue has adopted TAAs as the method for entering into such written agreements.

On **Constitution**, DEO certified Taxpayer as eligible to receive tax credits under s. 220.191, F.S. The Department of Revenue, having received said certification, has examined Taxpayer's letter and has established that Taxpayer has complied with the statutory and regulatory requirements for issuance of a TAA. Therefore, the Department of Revenue is hereby granting Taxpayer's request for a TAA. The Department of Revenue, in issuing this TAA, has relied on the representations of Taxpayer and the certification of the Department of Economic Opportunity. This TAA specifies the method by which income generated by or arising out of the qualifying project will be determined based on the facts as represented to the Department of Revenue. This response to your request constitutes a Technical Assistance Advisement under Chapter 12-11, F.A.C., and is issued to you under authority of s. 213.22, F.S.

ISSUE PRESENTED

In Taxpayer's letter dated **Control of Control of Contr**

FACTS SUPPLIED BY TAXPAYER

Taxpayer will be a manufacturer of **Constant of Constant of Consta**

The qualifying project ("Project") involves

The qualifying project is required to create at least 100 net new-to-Florida full-time equivalent jobs at the project location in **Sector Sector** paying an average annualized wage of at least **Sector** ("project wage"). Taxpayer employs approximately **Sector** people.

Taxpayer estimates that its cumulative capital investment will be \$. The investment includes in Florida. Taxpayer will commence operations of the project by .

Since Taxpayer files separately in Florida and all the activities in Florida are related to the project, Taxpayer proposes using the separate taxable income it generates as project income. This amount will then be used to determine the amount of tax due and the subsequent amount of the credit that is available for use, as provided in Rule 12C-1.0191(1)(a)1., F.A.C.

Taxpayer has proposed using 100% Apportionment in Florida. Taxpayer will have no operations other than those situated in Florida. The factories will be built on and operated from the site in **Example 1**. All the products referenced above will be manufactured by Taxpayer in Florida.

The financial statements and tax returns of Taxpayer will report 100% of the investment in Florida. The financial statements and tax returns of Taxpayer will report 100% of the income arising from the Qualifying Project, that is, income generated in Florida.

Taxpayer will use a three-factor formula (Property, Payroll, & Sales) to measure Florida's share of adjusted federal income. In the event that one of the apportionment factors is zero, then the weighted percentage of the other factor will be 33-1/3% and the Sales factor will be 66-2/3%. In the event that the Sales factor is zero, then the Property and Payroll factors be 50% each. If any of the two factors are zero, then the weighted average of the remaining factor will be 100%.

LEGAL AUTHORITY

Section 220.11(1), F.S., states:

(1) A tax measured by net income is hereby imposed on every taxpayer for each taxable year commencing on or after January 1, 1972, and for each taxable year which begins before and ends after January 1, 1972, for the privilege of conducting business, earning, or receiving

income in this state, or being a resident or citizen of this state. Such tax shall be in addition to all other occupation, excise, privilege, and property taxes imposed by this state or by any political subdivision thereof, including any municipality or other district, jurisdiction, or authority of this state.

Section 220.13(1), F.S., states in part:

(1) The term "adjusted federal income" means an amount equal to the taxpayer's taxable income as defined in subsection (2), or such taxable income of more than one taxpayer as provided in s. 220.131, for the taxable year...

Section 220.15, F.S., states in part:

(1) Except as provided in ss. 220.151, 220.152, and 220.153, adjusted federal income as defined in s. 220.13 shall be apportioned to this state by taxpayers doing business within and without this state by multiplying it by an apportionment fraction composed of a sales factor representing 50 percent of the fraction, a property factor representing 25 percent of the fraction. ...

Section 220.191, F.S., states in part:

(1) DEFINITIONS—For purposes of this section:

(b) "Commencement of operations" means the beginning of active operations by a qualifying business of the principal function for which a qualifying project was constructed.

(c) "Cumulative capital investment" means the total capital investment in land, buildings, and equipment made in connection with a qualifying project during the period from the beginning of construction of the project to the commencement of operations.

(d) "Eligible capital costs" means all expenses incurred by a qualifying business in connection with the acquisition, construction, installation, and equipping of a qualifying project during the period from the beginning of construction of the project to the commencement of operations ...

(e) "Income generated by or arising out of the qualifying project" means the qualifying project's annual taxable income as determined by generally accepted accounting principles and under s. 220.13.

(g) "Qualifying business" means a business which establishes a qualifying project in this state and which is certified by the Department of Economic Opportunity to receive tax credits pursuant to this section.

(2)(a) An annual credit against the tax imposed by this chapter shall be granted to any qualifying business in an amount equal to 5 percent of the eligible capital costs generated by a qualifying project, for a period not to exceed 20 years beginning with the commencement of operations of the project. ...The annual tax credit granted under this section shall not exceed the following percentages of the annual corporate income tax liability or the premium tax liability generated by or arising out of a qualifying project:

1. One hundred percent for a qualifying project which results in a cumulative capital investment of at least \$100 million.

2. Seventy-five percent for a qualifying project which results in a cumulative capital investment of at least \$50 million but less than \$100 million.

3. Fifty percent for a qualifying project which results in a cumulative capital investment of at least \$25 million but less than \$50 million.

(d) If the credit granted under subparagraph (a)1. is not fully used in any one year because of insufficient tax liability on the part of the qualifying business, the unused amounts may be used in any one year or years beginning with the 21st year after the commencement of operations of the project and ending the 30th year after the commencement of operations of the project.

(4) Prior to receiving tax credits pursuant to this section, a qualifying business must achieve and maintain the minimum employment goals beginning with the commencement of operations at a qualifying project and continuing each year thereafter during which tax credits are available pursuant to this section.

(8) The Department of Revenue may specify by rule the methods by which a project's pro forma annual taxable income is determined.

Rule 12C-1.0191(1)(a)1., F.A.C., states:

In situations where the applicant is using a separate corporate entity to account for the activities of the qualifying project, the taxable income generated by that entity as reported on the return filed pursuant to section 220.22(1), F.S., will be used to determine the amount of income tax due and the subsequent amount of the credit that will be available for use. If the applicant has other activities not related to the project reported on this return, a pro forma attachment will be required to separately account for the taxable income generated by the project, the resulting amount of tax due, and the subsequent amount of the credit that will be available for use.

DISCUSSION

On **December 1**, DEO issued a letter approving Taxpayer's project for participation in Florida's CITC program, and indicated in its letter that the qualifying project will be located in a High Impact Performance Incentive Sector pursuant to s. 288.108, F.S. The certification approval entitles the project to eligibility for an annual tax credit against the corporate income tax imposed if certain criteria are met, in an amount equal to the lesser of the following for up to twenty years, beginning with the commencement of operations:

- 1. Five (5) percent of the cumulative capital investment, which is estimated to be \$, but must be at least \$25 million;
- 2. Fifty (50%), seventy-five (75%), or one hundred percent (100%) of the annual corporate income tax liability generated by or arising out of the qualifying project, depending on the level of cumulative capital investment; or
- 3. The tax due on the separate Florida corporate income tax return of Taxpayer prior to the application of this credit that includes the income generated by or arising out of the qualifying project.

Unused credits cannot be carried forward unless the qualifying project meets the requirements for credit carryovers provided in s. 220.191(2)(d), F.S.

DEO has required that the qualifying project meet certain criteria by the commencement of operations. The "commencement of operations" (as defined in s. 220.191, F.S.) will not be deemed to occur unless Taxpayer has provided DEO with evidence that it has met the following criteria:

1. Capital investment of at least \$25 million has been made at the project's location in,

2. Creation of at least 100 net new-to-Florida full-time equivalent jobs paying at least the project wage at the project's location in **Example 1**.

No annual CITC may be claimed without a letter from DEO stating that the appropriate annual requirements have been satisfied or maintained.

The Department agrees with Taxpayer's proposed method of 100% apportionment in Florida. The Project's taxable income would then be multiplied by the applicable tax rate. The allowable CITC will be limited to the lesser of the limitations stated above.

Since all the activities in Florida are related to the project, Taxpayer has proposed using the taxable income determined on the separately filed Florida corporate income tax return as the income generated by or arising out of the qualifying project. This amount would be used to determine the tax liability of the project and the corresponding CITC. The Department concurs with Taxpayer's methodology.

Pursuant to s. 220.191(2)(d), F.S., when the capital investment is at least \$100 million, credit amounts not fully used in any one year because of insufficient tax liability on the part of the qualifying business may be used in any one year or years beginning with the 21st year after the commencement of operations of the project and ending with the 30th year after the commencement of operations of the qualifying project.

The amount of carryover from any one taxable year is five (5) percent of the cumulative capital investment that is at least \$100 million less the amount of capital investment tax credit that could be used on the tax return for the taxable year. The amount of carryover from a taxable year may not exceed five (5) percent of the cumulative capital investment that is at least \$100 million.

CONCLUSION

Given the specific circumstances involved in this case, and based on the representation of Taxpayer, the Department concurs with Taxpayer's suggested calculation for the income generated by or arising out of the qualifying project based upon s. 220.191, F.S., and Rule 12C-1.0191, F.A.C. However, Taxpayer is reminded that should the facts provided in its request of be determined to be incorrect or changed, the computation for the income

generated by or arising out of the project could be substantially different from what has been agreed upon in this TAA.

This response constitutes a Technical Assistance Advisement under section 213.22, F.S., which is binding on the Department only under the facts and circumstances described in the request for this advice as specified in section 213.22, F.S. Our response is based on those facts and specific situation summarized above. You are advised that subsequent statutory or administrative rule

changes or judicial interpretations of the statutes or rules upon this advice is based may subject future transactions to a different treatment than expressed in this response.

You are further advised that this response, your request and related backup documents are public records under Chapter 119, F.S., and are subject to disclosure to the public under the conditions of section 213.22, F.S. Confidential information must be deleted before public disclosure. In an effort to protect confidentiality, we request you provide the undersigned with an edited copy of your request for Technical Assistance Advisement, the backup material and this response, deleting names, addresses and any other details which might lead to identification of the taxpayer. Your response should be received by the Department within 15 days of the date of this letter.

Sincerely,

Denise Q. Smith

Denise L. Smith Tax Law Specialist Technical Assistance and Dispute Resolution (850) 717-6326

CC:



Record ID: 7001035067

TADR Satisfaction Survey

The Florida Department of Revenue invites you to complete the online TADR Satisfaction Survey to help us identify ways to improve our service to taxpayers. The survey is an opportunity to provide feedback on your recent experience with the Department's office of Technical Assistance and Dispute Resolution (TADR). To access the survey, place the following address in your browser's access bar:

https://tadr.questionpro.com

When you open the survey, you'll be asked to enter the following information. This information will enable you to complete and submit the survey.

Notification number: 7001035067

Respondent code: 44

Tax type: Sales and Use Tax

Correspondence type: Technical Assistance

If you need technical assistance accessing the survey, please email Douglas Charity at <u>douglas.charity@floridarevenue.com</u>.

Thank you.