

# Kentucky Economic Development Finance Authority (KEDFA) Kentucky Industrial Development Act (KIDA)

*This fact sheet provides an overview of the KIDA program. For a full discussion of the program requirements, please see KRS 154.28-010 through 154.28-140. As with all state administered tax incentive programs, any inducements offered to an eligible company under the KIDA program are negotiated by Cabinet for Economic Development officials.*

## **Eligible Companies**

Any business entity that establishes new manufacturing plants or expands existing manufacturing operations in Kentucky may be eligible.

## **Eligible Projects**

The project must involve a minimum investment of \$100,000, create and maintain at least 15 new full-time jobs for persons subject to Kentucky income tax. Potential eligible costs include expenditures for land acquisition, site development, utility extensions, architectural and engineering services, building, construction or rehabilitation, purchases of building fixtures including installation costs provided that the project's real estate is acquired by the approved company through the acquisition of title or a capital lease as defined under FASB13. Manufacturing equipment purchased for the project is also potentially eligible up to \$20,000 per each new job created and maintained. As an alternative, an operating lease for the real estate is acceptable if the minimum lease term equals or exceeds the ten-year KIDA recovery period; however, the use of an operating lease limits any potential recovery to only the costs incurred for the purchase and installation of equipment the total of which cannot exceed \$20,000 per new full-time job created and maintained at the project. A penalty will be assessed against an approved company that terminates its lease prior to the required ten-year period.

## **Tax Incentives**

A KIDA approved company may receive a 100 percent credit against the Kentucky income tax liability generated by the project **OR** utilize a 3 percent Job Development Assessment Fee (JDAF) as set forth in a tax incentive agreement for up to a ten-year period. An approved company with a real estate operating lease may only recover the eligible equipment cost through the JDAF and no income tax credit is available. The JDAF entails a withholding from the employees hired as a result of the approved project equal to 3 percent of the employees' gross wages. The employees recoup the JDAF through a state income tax credit equal to the JDAF amount withheld. Either option is limited to the KIDA eligible costs authorized in a tax incentive agreement. The tax credit or JDAF remains in place until the authorized incentive amount is realized over a maximum term of ten years. Unused incentives may be carried forward through the term of the tax incentive agreement, however, any unused incentives remaining after the incentive agreement has expired are not accessible.

## **Minimum Employee Compensation**

Pursuant to KRS 154.28-080, any company participating in the KIDA program is required to compensate at least 90 percent of its employees whose jobs were created as a result of the project with a minimum hourly wage established for the county in which the project locates. In addition, the participating company must provide its new employees with benefits as defined in KRS 154.28-010 equal to 15 percent of the county minimum hourly wage. If employee benefits are less than 15 percent, a company may utilize a combination of wages and employee benefits equivalent to 115 percent of the county minimum hourly wage.



Cabinet for Economic Development

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## The Process

- The company makes application to KEDFA.
- The total amount of incentive available to a project is negotiated with the Cabinet.
- KEDFA preliminarily approves the company, authorizes its project and enters into a memorandum of agreement with the company that sets forth the maximum incentives.
- The company completes its project and provides KEDFA with documentation in connection with the project's costs.
- A tax incentive agreement is negotiated between the Cabinet and the company, the company chooses its recovery option and KEDFA approves the final agreement.
- The company activates the tax incentive agreement, initiates its 10-year recovery period and utilizes the incentives.

## Fees

A \$500 non-refundable application fee is payable upon submission of the KIDA application. Fees which the company may expect to incur as a result of final approval include an administrative fee equal to 1/4 of 1 percent (\$40,000 maximum) of the final KIDA amount authorized in the tax incentive agreement. In addition, the company will incur legal fees necessary for the preparation of the tax incentive agreement.

## Example

XYZ manufacturing company is locating a new facility in Kentucky. The company plans to invest approximately \$1,500,000.

The assumptions regarding the company and the project are as follows:

- ◆ The land and building costs total \$1,050,000 and equipment totals \$2,000,000
- ◆ The company will employ 45 people. (45 X \$20,000 = \$900,000 eligible equipment cost)
- ◆ The total eligible investment under the program equals \$1,950,000. (\$1,050,000 for land and building and \$900,000 eligible equipment)
- ◆ The company annual net income subject to Kentucky taxation is \$1,000,000.
- ◆ The company chooses to use the KIDA tax credit option.
- ◆ The \$1,000,000 annual Kentucky taxable income produces a tax liability of \$58,500 of Kentucky income tax liability.
- ◆ Assuming the Kentucky taxable income remains constant throughout the 10-year term, the company realizes \$585,000 in income tax credits over the 10-year recovery period.

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