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Tax Questions Technology Leaders Should Ask Before Moving Operations: Unlocking Tax Opportunities Across State Lines

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Technology companies considering an interstate move must juggle many variables. Not least among them are the tax implications of this decision, which can be complex and wide-ranging. According to BDO's 2023 Tax Strategist Survey, 71% of respondents in the tech industry say they are involved in strategic decisions such as geographic expansion. That potentially means that some tech companies are not consulting with their tax executives before expanding or moving operations to a new location. Failure to consult tax executives before an interstate move can lead to issues like unexpected costs, missed incentive opportunities, and more.

Even when the right executives are involved, it can be difficult to begin planning a move. Tech companies might not understand the nuances of tax policies and offerings in every state, and there's no easy directory of negotiated or discretionary incentives. Many incentives are not in the tax code and can be hard to find, requiring in-depth research or professional connections.

If you're considering a move and aren't sure where to start, ask yourself the following tax questions to set yourself up for success:

1. **Is the New Property the Right Size?** One of the most common mistakes companies make is initiating an expansion or relocation without fully assessing the tax implications of new properties. For example, a property's size and location will affect tax liability. Failure to weigh those implications could cause financial and logistical setbacks.

   Companies should conduct careful research to ensure they aren't selecting locations that are too large and would expose them to higher property taxes than they might have paid otherwise. They should keep alternative locations in mind in case a first choice proves too expensive or is otherwise nonviable.

2. **How Do the Tax Rates Compare?** Companies should lay out specific goals for initiating any move — especially those that are tax-based or related to other factors such as access to skilled labor — and determine what level of potential tax cost they are willing to accept in order to realize those goals. They should then engage in a direct tax rate comparison between their current and target locations. This should include all relevant taxes, such as property, payroll, corporate, and sales taxes. Because taxes don't exist in a vacuum — certain taxes may be higher in some states while others may be lower — a comprehensive examination is crucial to determining the true tax impact of a move.

3. **What Statutory Credits Are Available?** Companies should also explore any credits or incentives provided by a target location's tax code. Research and development (R&D) credits, for example, are often of particular interest to tech companies, and requirements can vary depending on a state's needs. For instance, some states might place a lower priority on software development, electing instead to allocate R&D credits to companies with a manufacturing focus, such as semiconductor construction.

   Tech companies should be prepared to communicate closely with a state's tax regulators to assess whether credit requirements align with their business models. Further, companies might find that some tax incentives necessitate more comprehensive training programs or hour tracking to qualify. The logistical and financial elements of those adjustments should be included in any tax cost assessment.

4. **What Discretionary Incentives Are Available?** Not all discretionary funding opportunities appear in a state's tax code. Companies will need to seek out and apply for those credits.

   The new markets tax credit (NMTC) program is a popular type of discretionary incentive awarded to organizations that invest in underrepresented or underserved communities. As with all discretionary credits, NMTCs are highly competitive. Organizations don't automatically qualify for them. The application process requires a company to have thorough recordkeeping and a compelling case for why it is an attractive candidate for program funding.

   Tech companies that plan to pursue discretionary incentives of any kind should be able to provide strong business justifications for their moves and documentation to support their claims.

5. **How Will the Move Impact Remote Work?** Remote or hybrid work structures have become more common in the tech industry and can affect the profitability of a move. Rebates for withholding taxes can be powerful incentives for companies, but they are tied to geographic locations. If a company moves to a new state, and most of its employees are not in that state, the company risks losing access to rebates. States want businesses to create value and generate tax revenue within their borders, not elsewhere.

   However, some states are loosening their rules to account for the reality of remote work. They are allowing for statewide employment, rather than tying personnel incentives to a specific address or fixed location. While that gives companies a little more flexibility in choosing how to distribute their workforce, businesses with remote workers will nevertheless have to address employee relocation when considering a move. They'll also need to assess the labor pool in their desired location to ensure they can find enough local talent to address any staffing gaps resulting from relocation.

6. **When Should Companies Engage with a Third Party?** With new locations come new tax nuances, and companies don't always have the right in-house specialists to navigate them. Opportunities and pitfalls exist at various levels, including federal, state, and local, and tech leaders might not be fluent in every area. Hiring additional full-time specialists can be expensive, whereas third-party providers can offer specialized tax resources for the duration of the move, which may be more cost-effective.

   Additionally, for companies that want to pursue discretionary funding, third-party providers can be crucial to finding opportunities — especially those that aren't well-publicized. BDO's professionals have broad tax experience across many jurisdictions and an expansive professional network that can help companies take advantage of all available opportunities and mitigate risk during an expansion or relocation.

CONTACT

HANK GALLIGAN
National Technology
Industry Leader
hgalligan@bdo.com

MATTHEW DYMENT
National Technology
Industry Tax Leader
mdyment@bdo.com

TIM SCHRAM
National Leader of BDO's
Creditand Incentive Practice
tschram@bdo.com

DAVID WONG
National Business Incentives
Group Practice Leader
dwong@bdo.com

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