

# MANUFACTURING

## *in Lehman's Terms*

### Incentives 101: Automation Tax Credit

I hope you're all enjoying your spring! Now that the hustle and bustle of the legislative session has wrapped up, and direction has been established for North Dakota for the next two years, it is now our responsibility at Commerce to put some of those votes into motion. A couple of these bills which were passed will be sneaking their way into this series. Of noteworthy importance to manufacturing operations were bills regarding apprenticeships, scholarships, research and development and the one that I probably get asked about the most, HB1040. Let us start off by digging into this one a bit more.

HB1040, the 21<sup>st</sup>-century manufacturing workforce incentive (dubbed the 'automation tax credit') bill essentially incorporates a new tax incentive program based on the previous program that was allowed to sunset back in 2017. There are a few points of differentiation between this new program and its predecessor, which I will point out below.



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**Incentive:** The automation tax credit provides a tax incentive of up to 20% of the cost of manufacturing machinery and equipment used to automate manufacturing processes. One caveat to keep in mind, however: In the past, there was \$2M per year appropriated to this incentive (\$4M/biennium). This bill puts in place \$1M per year (\$2M/biennium). If more than \$1M is claimed, the actual amount the taxpayer will receive will be a prorata share of the 20% based on the total claims.

#### **Qualifications:**

- Must be Primary Sector: Primary Sector designation must be applied for through the North Dakota Department of Commerce. To be considered, a company must add value to a product, process or service, resulting in the creation of new wealth.
- Automation equipment must be new or used automation and robotic equipment used to upgrade or advance a manufacturing process (does not provide for replacement equipment). This equipment must:
  - Improve job quality by at least 5% (in average wages or safety improvement)
  - OR-
  - Increase productivity by at least 5%

**Timeline:** This act is effective for taxable years beginning after December 31, 2018.

**How it works:** Although subject to change, this will likely be very similar to the previous automation tax credit process:

- Step 1** Apply to Commerce for Primary Sector designation (good for 4 years).
- Step 2** Apply to Commerce for tax credit (must include all receipts for the automation equipment).
- Step 3** Commerce reviews application and forwards it to the Tax Department for review.
- Step 4** Tax Department returns application to Commerce.
- Step 5** Commerce Issues preliminary notification of eligibility to taxpayer and Tax Department.

- Step 6** Tax Department conducts calendar year-end review to determine the final allocation of available credits to all applicants.
- Step 7** Tax Department issues final notification of credit to taxpayer with final tax credit amount on or about February 28.

**Please note:**

- This is not just for robots!!
- Applications must be filed **no later than January 31** of the calendar year following the calendar year in which the purchases were made.
- Keep your receipts! You will need Invoices or other documentation as evidence of the purchase
- Within one year after claiming a tax credit, the taxpayer shall file with the tax commissioner a report documenting the improved job quality or increased productivity and any other information as required by the tax commissioner. Failure to do so is grounds for disallowing the credit.

So, in summary, we have our new automation tax credit (nomenclature yet to be determined), essentially in effect. With the manufacturing labor shortage we are experiencing across the nation, North Dakota's legislature has put one foot forward to help increase the state's manufacturing capacity through automation. For questions regarding this or other manufacturing related incentives, please be sure to reach out. We will be covering additional incentives in subsequent articles, so stay tuned, and be sure to save your receipts!

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