

## VERMONT EMPLOYMENT GROWTH INCENTIVE FREQUENTLY ASKED QUESTIONS

- Q.** How can I learn more about this business incentive program?
- A.** Go to our [website](#) or call Fred Kenney, VEPC Executive Director, at (802) 777-8192 or email: [fred.kenney@vermont.gov](mailto:fred.kenney@vermont.gov).
- Q.** How do I know if my company or project might be eligible for the Vermont Employment Growth Incentive?
- A.** If you can answer “Yes” to the following questions, your company and project may be eligible:
- Unless an incentive is authorized, my company would not proceed with the project in Vermont, would not proceed with the project at all, or the project might proceed, but it would occur in a significantly different and significantly less desirable manner. Less desirable is from the State’s perspective, meaning fewer jobs, less new payroll, less new tax revenue, etc.
  - To the best of my knowledge, the municipality in which the project would occur would welcome the business;
  - To the best of my knowledge, the proposed economic activity would conform to applicable town and regional plans;
  - My business would not expand within a limited local market or, to the best of my knowledge, an incentive would not give our business an unfair competitive advantage over other Vermont business in the same or similar line of business and in the same limited local market; and
  - Our project would add new, full-time jobs in Vermont that meet the [VEGI Wage Threshold](#) for the region in which the project will be located.
- Q.** Does my company have to have a Vermont income tax liability to receive an incentive payment under the VEGI program?
- A.** No. The incentive consists of cash payments and does not offset a state tax liability. That is, the incentive is not a tax credit.
- Q.** Can my company seek approval for VEGI incentives if my company is in arrears with any State of Vermont taxes?
- A.** No. An applicant must certify that the applicant company is “[in good standing](#)” with the Vermont Department of Taxes. That is, the applicant company cannot have any outstanding tax liability to the State of Vermont. A letter certifying “good standing” obtained from the Vermont Department of Taxes is required for a VEGI application to be considered complete.
- Q.** How do I get authorized for the VEGI incentives?
- A.** First, contact Fred Kenney, VEPC Executive Director, at (802)777-8192 or email: [fred.kenney@vermont.gov](mailto:fred.kenney@vermont.gov) and file an online VEGI Pre-Application to get an estimate of incentives for your project. Then, file a formal application to the Vermont Economic Progress Council before

a VEGI [application due date](#) (usually the first Friday of each month). An application must be considered and approved *before* the company makes the decision to proceed with the project in Vermont.

**Q.** Can my company get an estimate of VEGI incentives for a project we are considering?

**A.** Yes. Contact Fred Kenney, VEPC Executive Director, at (802)777-8192 or email [fred.kenney@vermont.gov](mailto:fred.kenney@vermont.gov), then complete and file a VEGI online Pre-Application. A Pre-application can be filed anytime, has no deadline and is an informal process that does not involve a Board decision. It is not an approval for incentives.

**Q.** Can incentives be authorized for jobs and payroll that my company has already created or other economic activity that has already occurred?

**A.** No. The incentives are for prospective economic activity and are meant to encourage incremental economic activity which:

- Is above and beyond normal growth (background or organic growth) for the sector of the applicant company; and
- Will only occur because the incentive is authorized.

The incentives may only be authorized based on future activity and the applicant must meet a But For test (the proposed economic activity would not occur or would occur in a significantly different and significantly less desirable manner without the incentive).

**Q.** How many years of incremental economic activity can be covered by an application?

**A.** The minimum is one year and the maximum is five years.

**Q.** Once I file a formal [Initial or Final](#) application, how long does it take to get incentives authorized?

**A.** If a *complete* formal application (not a Pre-Application) is received by the due date (normally the first Friday of the month) for a scheduled VEPC meeting, the application is normally considered (approved or denied) on the last Thursday of that month. So approval can occur within 30 days of submitting the application.

**Q.** What if the economic activity my company is considering will not occur for several months?

**A.** Do *not* delay filing an application. If you wait until all decisions are made and the activity is about to commence, you will miss the opportunity for incentives. File a Pre-Application as early as possible (even as early as a year in advance). The company must then file a formal (Initial or Final) application *before* the company makes a decision to commence with the activity in Vermont. Applications are accepted up until October for projects that would commence in the year of application. Applications are available by July for projects that would commence during the next calendar year.

**Q.** What if our company needs to get authorization of incentives so the CEO or Board of Directors can make some decisions (about location or whether to proceed at all), but we do not yet know the full details of the project scope?

**A.** VEPC can give an Initial Authorization based on approval of the But For, with an initial approval of the level of incentives based on projections known at that time. The company must then file a Final Application by the end of the calendar year in which the project commences, finalizing

projections and setting the incentive amount and the [annual performance requirements](#) that must be met to earn the incentive. Applicants may also file a Final Application without having filed an Initial Application.

**Q.** Can I calculate the potential value of an incentive if I know the economic activity I may undertake in the future?

**A.** No. The incentive value is based on many variables that generate incremental tax revenue to the state (benefits) and revenue losses (costs) that your project will generate. Also, the background or organic growth (growth that would occur anyway) of new jobs and payroll must be discounted from the calculation using historic data for your industry sector. We use a cost-benefit model to calculate the potential incentive value. The only way to get an incentive estimate is to file an online Pre-Application by contacting Fred Kenney, VEPC Executive Director, at (802)777-8192 or email [fred.kenney@vermont.gov](mailto:fred.kenney@vermont.gov). A Pre-application can be filed anytime, has no deadline and is an informal process that does not involve a Board decision. It is not an approval for incentives. You do not need to have definitive project scope or details to get a Pre-Application estimate.

**Q.** The economic activity my company is planning will occur through different entities (i.e. an operating company creating jobs and a real estate holding company investing in a building). Can these companies apply for incentives together?

**A.** Yes. The incentive would be assigned to the entity creating the jobs and the incentive payments would be paid to the same entity. However, both entities must meet the applicable performance requirements (for example, job and payroll levels by the operating company and capital investment levels by the holding company). If the performance requirements are not met by *either* entity, the incentives assigned to the operating company would be impacted.

**Q.** How long is the period during which the incentive can be earned?

**A.** The incentives are earned through job and payroll creation and capital investments made over a period of no less than one year and no more than five years following approval. Because the incentive earned in a given year is paid out over five years, the total period over which incentive installments can be paid to the company can be up to nine years.

**Q.** What if my company applies and is authorized mid-year?

**A.** The incentive can be earned for activity during the partial calendar year and then for the remaining four complete calendar years. Or, the authorization can be effective at the start of the calendar year following authorization. The incentive can only be calculated and earned for jobs, payroll, and capital investments that occur after the [Activity Commencement Date](#) designated by the applicant (which must be after the date of Initial Approval, or Final Approval if no Initial Approval is sought). If the company is approved during the calendar year for activity that will occur that same year, the Year 1 performance requirements must be met by December 31 of the first year; the company does not have a full twelve months to meet the first year targets.

**Q.** What if my company operates on a fiscal year that does not end on December 31?

**A.** The company fiscal year does not impact the incentive. The application must be completed based on the *calendar year*, the incentive is calculated on a calendar year basis, and filing a claim for an earned incentive is based on a calendar year.

- Q. Are there any annual reporting requirements with this program?
- A. Yes. Once authorized, applicants become claimants and use the same secure online system that is used for applications to file an annual incentive claim which is examined by the Vermont Department of Taxes to ensure that [annual performance requirements](#) are met and maintained. The reporting consists of a claim form, an employee benefits form, and four MS Excel workbooks which must be completed and uploaded to show detailed employment, payroll and capital investment data supporting the claim.
- Q. How are the [annual performance requirements](#) set to earn the incentive?
- A. The applicant sets their own performance requirements in their Final Application. The new qualifying employment, new qualifying payroll, and new qualifying capital investments included by the applicant on a Final Application become the performance requirements for each year. Once a Final Application is approved, these requirements cannot be adjusted.
- Q. How is “[meeting annual performance requirements](#)” defined?
- A. To “meet” annual performance measures means:
- To maintain base payroll and headcount; *and*
  - To meet the new qualifying payroll performance requirement; *and*
  - To meet *either* the new qualifying employment *or* the new qualifying capital investment performance requirements.
- Q. So a company can meet only the new qualifying payroll and new qualifying employment performance measures each year and still earn the incentive?
- A. Yes. However, because the incremental tax revenues of the new capital investments related to the project were included in the incentive calculation, statute requires a reconciliation at the end of the authorization period. If the total capital investment performance requirement (total of all annual capital investment performance requirements) is not met, the remaining incentive installments must be adjusted by the same percentage as the shortfall in capital investments. If the remaining incentive installments will not cover the adjustment, then a recapture must occur.
- Q. Can the incentive be partially earned (i.e. prorated amount) if the performance requirements are partially met?
- A. No. But the program includes “grace periods” during which Performance Requirements may be met and still earn the incentive. No incentive is paid until the performance requirement is met.
- Q. What is new “qualifying payroll”?
- A. Only the new payroll generated by the creation of new [qualifying jobs](#) can be counted in the incentive calculation. A new qualifying job is a job created because of the incentive for employment in Vermont, that:
- Is full-time (35 hours or more per week);
  - Is permanent (not part-time, seasonal, contract, agency);
  - Is not an owner;
  - Will earn a wage or salary that is *above* the [VEGI Wage Threshold](#); *and*
  - Qualifies for certain employer-supported benefits.

**Q.** How is the incentive amount calculated?

**A.** Click [here](#) for an illustration of how the VEGI calculation works and the incentive is paid out.

**Q.** How is the cost-benefit modeling performed?

**A.** VEPC employs an economic consultant to operate a model that has been approved by the Joint Fiscal Committee of the Vermont General Assembly. The model uses the applicant's existing and prospective employment, payroll and capital investment data as inputs in an economic input-output model that calculates the multiplier effect on the Vermont economy. The model then translates that economic impact into the new tax revenues that will be generated for the State of Vermont by the activity. The total net tax revenue benefit generated to the State of Vermont for the five-year authorization period becomes the starting point to calculate the incentive amount. Click [here](#) for a more detailed description of the cost-benefit model. And click [here](#) for an illustration of how the calculation works and the incentive is paid out.

**Q.** How is the background growth rate determined?

**A.** The background growth rates utilized in the incentive calculation are determined and published annually using 15 years of historical data for each North American Industrial Classification System sector. The rates are in effect for each calendar year and are multiplied against the company's base full-time payroll to determine the level of new payroll to be considered background or organic growth. For example, if an applicant is a sector with a 3% Background Growth Rate and has \$10,000,000 in base Vermont full-time payroll, the applicant would need to create \$300,000 in new qualifying payroll before an incentive could be calculated for that year. Only new, qualifying payroll created above the \$300,000 background amount can be counted to calculate the incentive. Click [here](#) for more detail on how the background growth rates are set each year. Click [here](#) for the current NAICS-based background growth rates for the program.

**Q.** If the annual performance measures are met, how will the earned incentive be paid to the company?

**A.** The earned incentive will be divided into five installments and paid out to the company as a cash payment, if the performance requirements are maintained. The first installment of each earned incentive will be adjusted for partial year hiring.

**Q.** Are the incentive payments taxable?

**A.** Yes. The cash incentive payments are considered taxable income by Vermont and the IRS.