



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.

Eligible Projects

The project must involve a minimum investment of \$100,000 and create at least 15 new full-time jobs for persons subject to Kentucky income tax. 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, and manufacturing equipment. The project's real estate must be acquired by the approved company through either the transfer of title to the company or through a capital lease as defined under FASB13. Eligible manufacturing equipment cost is limited to \$10,000 tax credit for every full-time job created over a two-year period.

Tax Incentives

A KIDA approved company is eligible to receive up to a 100 percent credit against the Kentucky income tax liability generated by the project OR to utilize a 3 percent Job Development Assessment Fee (JDAF). The JDAF entails a withholding from the employees hired as a result of the KIDA 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 amount withheld. Either option is limited to the KIDA eligible investment costs authorized in an investment agreement. The tax credit or JDAF remains in place until the authorized incentive amount is realized or for a period of ten years, whichever occurs first. Unused credits may be carried forward for the term of the KIDA agreement, however, unused credits expire at the ten-year maturity of the incentive agreement.

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.

The Process

- ◆ The company makes application to KEDFA.
- ◆ The total amount of incentive available to a project is negotiated with the Cabinet.
- ◆ KEDFA designates the applicant as a preliminarily approved company, approves the project, and enters into a memorandum of agreement with the company setting forth the maximum



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incentives available under KIDA.

- ◆ The company completes its project and provides KEDFA with documentation in connection with the project's KIDA eligible costs.
- ◆ The company chooses either the income tax credit or wage assessment option under KIDA.
- ◆ A KIDA Tax Incentive Agreement is approved by KEDFA that authorizes the KIDA incentives for the company.
- ◆ The company activates the Tax Incentive Agreement, initiates its 10-year recovery period and begins to utilize the KIDA incentives.

Fees

There is a \$500 non-refundable application fee 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 $\frac{1}{4}$ of 1 percent (\$40,000 maximum) of the incentive amount authorized in the Tax Incentive Agreement. In addition, the company will incur legal fees necessary for the preparation of the 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.
- ◆ The company will employ 45 people. ($45 \times \$10,000 = \$450,000$ eligible equipment cost)
- ◆ The total eligible investment under the program equals \$1,500,000. (\$1,050,000 for land and building and \$450,000 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 benefits provided to the company through the program are calculated as follows:

- ◆ The \$1,000,000 annual Kentucky taxable income produces \$77,625 of Kentucky income tax liability annually.
- ◆ Assuming the Kentucky taxable income remains constant throughout the 10-year term, the company realizes \$776,250 in income tax credits over the 10-year recovery period.

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