Strategic Tax Planning: Vital When Expanding or Relocating

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When planning to relocate or expand their business, owners and CEOs look at a variety of different factors that will impact the cost of the relocation or expansion. These include such factors as infrastructure, raw materials, equipment, skilled labor, land costs, utilities and site improvements.

One important expansion or relocation cost factor that is frequently overlooked by owners and CEOs is taxes. These represent a large cost of operating an enterprise — however, they often are not considered when owners and CEOs are evaluating a business expansion or relocation. Unfortunately, this oversight can end up being extremely costly in terms of tax inefficiencies.

Especially Challenging for SMEs
This problem is especially acute among small and medium-sized enterprises (SMEs). Most large corporations have dedicated tax departments whose job it is to analyze and assess the tax impacts of any planned expansion or relocation. These experts can help minimize tax risk and liabilities and secure business tax incentives, thus giving decision makers a more complete and accurate picture of the expansion or relocation and helping them make better-educated decisions.

However, few SMEs have the luxury of these kinds of dedicated tax resources on their staff. Therefore, it's critical that SMEs bring in outside tax-planning expertise in the form of a CPA or outsourced CFO to provide the kind of in-depth analysis and assessment that are critical to minimizing the potential negative tax consequences of an expansion or relocation.

The first thing a CPA or outsourced CFO should do when assessing the feasibility of an expansion or relocation is perform an analysis of your current facility's capacity. This analysis will discuss such issues as your facility potential production capacity, the configuration of operations to improve efficiency, the types and amounts of labor required at the new facility, the existence of sufficient infrastructure that can support projected production capacity, and possible effects of the expansion or relocation on your supply chain.

Next, a comprehensive cost analysis should be prepared to determine the upfront costs of the various factors noted above. Importantly, this analysis should include the potential tax effects related to any expansion or relocation site locations. Tax rates can vary significantly between different states and cities, which can change project costs drastically. Therefore, it's critical that these potential tax effects be accurately projected by the CPA or outsourced CFO.

Tax Issues Requiring Attention
In their recent article on CFO.com[1], Sharon Welhouse and Melissa Munoz discussed examples of common tax issues to address as part of your facility expansion or relocation cost analysis:

Site and building considerations — You may be able to deduct expenses incurred for improving, repairing, clearing or maintaining land that's being prepared for a new facility. Also consider different tax rates for properties in different jurisdictions, which could override cost differences in the properties themselves. Finally, keep in mind that jurisdictions may offer infrastructure improvement programs like low-interest loans, tax refunds and credits, and property tax abatements that should be factored into your decision.

Machinery and equipment (M&E) — This is especially important for manufacturers since different states have different tax applications for the treatment of manufacturing equipment, including sales tax exemptions. Project costs could increase substantially in a state with a high sales tax rate and no manufacturing exemption. Some states also offer tradable permits and tax credits or exemptions for pollution control equipment, energy conservation and alternative green energy utilization that can result in viable tax-saving opportunities.

Labor — Enterprise Zone Incentives and the Work Opportunity Tax Credit (WOTC) utilized by the federal government to stimulate economic growth can offer significant tax-saving opportunities for facility expansion and relocation projects. However, more than half of all such incentives and credits are not claimed each year. So your analysis should determine if a potential expansion or relocation site is located near a renewal community, empowerment zone or enterprise community in order to take advantage of these offerings.

In addition, a number of states and municipalities offer tax incentives like grants, reimbursements and credits for creating jobs, training and retention. To take advantage of these incentives, the terms usually must be completed prior to beginning a relocation or expansion project. This makes it critical to get a CPA or outsourced CFO involved early so the incentives and credits are negotiated and secured on time.

Hiring a CPA or outsourced CFO to analyze and assess the potential tax effects related to an expansion or relocation site can result in a number of benefits for your business. These include tax savings, reduced fees, a more educated decision-making process, and total cost savings for the project.

Concluding Thoughts

Owners and CEOs look at a variety of different factors when planning to expand or relocate their business, but one factor that's often overlooked is taxes. Unfortunately, this oversight can end up being extremely costly in terms of tax inefficiencies. An outsourced CFO services provider can conduct a comprehensive cost analysis that assesses the potential tax effects related to any expansion or relocation site locations, thus helping companies save tax dollars and realize a host of other benefits.

1 Expanding or Relocating? Bring in the Tax Department; Sharon M. Welhouse & Melissa Munoz, Contributors; CFO.com; April 29, 2016; ww2.cfo.com/tax/2016/04/expanding-relocating-bring-tax-department/

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