





# Overview

The purpose of this presentation is to provide a comprehensive overview of financial incentives available to aerospace & defense companies.

This includes both existing (pre-covid) incentives as well as new incentives resulting from the COVID stimulus bills:

- Coronavirus Aid, Relief, and Economic Security Act (CARES) signed into law on March 27, 2020
- · American Rescue Plan Act signed into law on March 11, 2021
- · Various state bills

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# Air Transportation Payroll Support (PSP)

Originally passed in the CARES Act but received additional funding in the ARPA:

- ARPA extended \$15B to the program for air carriers and supporting functions
- Extended \$3B to aviation manufacturing contractors (MROs & component mfgrs) to facilitate retention/rehire of employees.
- Eligibility: (1) Involuntarily furloughed or laid off at least 10% of its workforce in 2020 over 2019, (2) experienced a +15% decline in revenue in 2020 over 2019
- Can cover up to 25% of the company's workforce
- Restrictions: cannot double dip with ERTC or PPP

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# Research Credit Overview

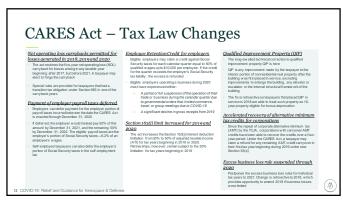
- · One of the most lucrative tax incentives available to A&D companies
- Most states with income taxes also offer an R&D credit (e.g. CA, AZ, ID, UT, TX, etc.)
- · Expense driven credit (e.g. wages, supplies, contract research, etc.)
- Definition of R&D is more expansive than most people assume
- Not limited to just IRAD (work under contract can also qualify)
- Generally companies claim this credit year-after-year
- · Fairly strict documentation requirements
- Certain start-up companies can use the credit to offset payroll taxes.

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# **Cost Segregation**

- Tax deferral strategy that frontloads depreciation deductions into the early years of real estate ownership
- Identifies, separates, and classifies real and personal property assets or buildings and equipment components into shorter recovery periods
- Significantly shorter tax lives—5-, 7-, and 15-years—rather than the standard 27.5- or 39-year depreciation periods
  - 27.5-year property: Residential rental property, such as multifamily properties and senior housing (independent living, assisted living, memory care)
  - o 39-year property: Nonresidential real property all other commercial property
- Increase current and future deductions, as well as catch-up "missed" deductions for past depreciation
- · Reduces current tax liability time value of money

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# Other Federal Tax Strategies

Additional tax strategies to generate cash to help your organization grow during challenging times:

- · Quick Refund Claims available for C corporations
- Accounting Method Changes for Inventories, Supplies & Rotable Parts

# Federal Employment Incentives

#### **Employee Retention Tax Credit (ERTC)**

- · Various acts clarify, expand, and extend the ERTC enacted by the CARES Act
- · ARPA: Extended through December 31, 2021
- · Enhancements for qualifying employers beginning January 1, 2021, not retroactive to 2020
- Retroactive changes available for PPP recipients waiving the restriction on their ERTC
- New employers not in existence for all or part of 2019 may claim the credit

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Federal Employment Incentives Employee Threshold for Determining Qualified Wages
For employers with 100 or fewer full-time employees, mea-

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# Federal Employment Incentives

### Work Opportunity Tax Credit (WOTC)

- · Wage-based credit available to employers who hire individuals who may be facing barriers to employment and qualify under a specified target group
- Non-Refundable federal income tax credit; dollar for dollar reduction

GENERAL TARGET GROUPS	MAX CREDIT AMOUNT	VETERAN TARGET GROUPS	MAX CREDIT
Short-Term TANF Recipient	\$2,400	Food Stamp Recipient	\$2,400
Long-Term TANF Recipient	\$9,000 (over 2 yrs)	Receiving compensation for a service-connected disability AND	
Food Stamp Recipient (ages 18-39)	\$2,400	<ul> <li>Hired within one year of discharge from active duty</li> </ul>	\$4,800
Vocational Rehabilitation Recipient	\$2,400	OR	
Rural Renewal Community Resident	\$2,400	<ul> <li>Unemployed for at least 6 months</li> </ul>	\$9,600
Felon	\$2,400	Unemployed	
SSI Recipient	\$2,400	At least 4 weeks	\$2,400
Unemployed for at least 27 weeks	\$2,400	OR At least 6 months	\$5,600

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# Federal Employment Incentives

### Work Opportunity Tax Credit (WOTC) (cont'd)

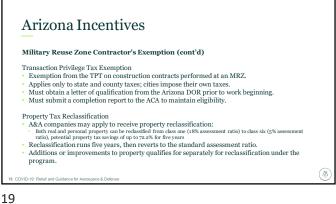
- Requires employers to screen new hires to determine qualification and file applications within 28 days from new hire's start date
- · Typically integrated as part of automated onboarding systems
- · Applications file with State WOTC Coordinators
- · Verify qualification and issue certifications
- As businesses begin to reopen and hire new employees, many may be able to take advantage of
- · Furloughed employees currently ineligible
- · Rehired employees currently ineligible

**Arizona Incentives** 

### Military Reuse Zone Contractor's Exemption

- · The Arizona legislature established the Military Reuse Zone Program to lessen the impact of military base closures. The program achieves this goal by providing tax incentives to aviation or aerospace (A&A) companies, insurers and airport authorities located within a Military Reuse Zone (MRZ).
- The current Arizona military reuse zones are the Williams Gateway Airport and the Phoenix/Goodyear Airport.
- The Arizona Commerce Authority (ACA) accepts applications year round.
- A prime contractor must apply for a letter of qualification from the Arizona DOR prior to work ning on each contract to receive the exe
- Annual reporting to the ACA is required for each contract through completion.

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California Incentives · 2020 - 2021 fiscal year allocation - \$231 million · Annually three application rounds (July, January, March timeframe) · Discretionary, extremely competitive · GO-Biz treating as a deal closing program. Application needs to be presented in a site selection Demonstrated out of state competition is critical. Economic impact analysis, sensitivity analysis, strongly encouraged

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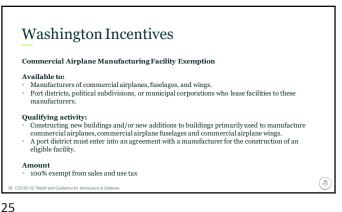
# California Incentives Employment Training Panel – Training Grant $\bullet \ \ ETP \ is \ a \ discretionary, competitive, grant \ reimbursement \ program \ offering \ cash \ grants \ for \ a \ discretionary \ description \ for \ description \ description$ certain eligible employee training · Reimbursed by set rate per hour of eligible training: \$9/hour for on-line, computer-based training \$20 - \$23/hour for classroom based and/or productive lab training \$23/hour - new hire training, critical proposal, priority industry \$20/hour - incumbent employee training Awards executed in, prospective, two –vear contracts (W

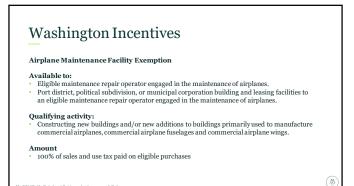
**Texas Incentives** Texas Enterprise Fund Discretionary, competitive cash grant State's deal closing fund Focus on attraction Texas Enterprise Zone Highly discretionary, competitive, sales tax refund Requires local nomination, local jurisdictions have limited number of nominations. Applications due quarterly

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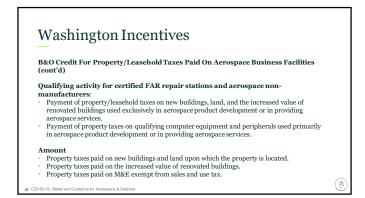


**Washington Incentives Exemption for Aerospace Manufacturers for Computer** Hardware/Software/Peripherals Available to: Manufacturers and processors for hire of commercial airplanes or component parts. Non-manufacturers engaged in the business of aerospace product developmen Certified FAR repair stations. Aerospace tooling manufacturers Qualifying activity: Purchases of computer hardware, software, and peripherals, and charges for labor and services related to the installation of such equipment used primarily in the development, design, and engineering of aerospace products or in providing aerospace services. Amount
• 100% exempt from sales and use tax



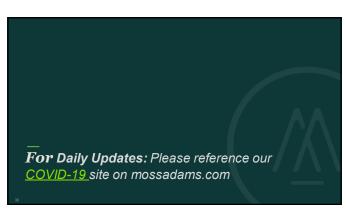


# **Washington Incentives** B&O Credit For Property/Leasehold Taxes Paid On Aerospace Business Facilities Available to: Manufacturers /processors for hire of commercial airplanes or component parts. Non-manufacturers engaged in the business of aerospace product development. Certified FAR repair stations. Aerospace tooling manufacturers Qualifying activity for manufacturers and processors for hire: Payment of property/leasehold taxes on new buildings, land, and the increased value of renovated buildings used exclusively in manufacturing commercial airplanes or compon or in manufacturing tooling specifically designed for use in manufacturing commercial airplanes or components of such airplanes Payment of property taxes on equipment eligible for the machinery and equipment (M&E) exemption multiplied by a fraction for qualifying use.

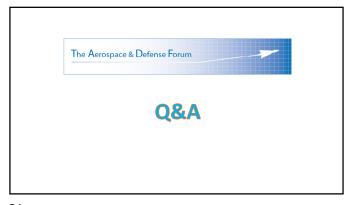


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The Aerospace & Defense Forum

### **Upcoming Chapter Webinars/Meetings**

#### Webinars start at 8:00am Pacific Time unless otherwise stated

- May 19: "Post-COVID Aerospace Market Outlook"; Peter Zimm and Cliff Collier Principals, Charles Edwards Management Consultants | Los Angeles Chapter
- May 27: "How To Be Innovative and Creative", Dan Curry visual effects producer
  and supervisor on Star Trek: The Next Generation, Star Trek: Deep Space Nine,
  Star Trek: Voyager, and Star Trek: Enterprise. His work on these series earned him
  seven Emmy awards. He will speak how the innovativeness and creativity
  required in visual effects can be implemented by A&D organizations. | Ventura
  Chapter NEW Chapter

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- May 28, 5:30-7:00pm: "International Distributorships Pitfalls and Tips"; Mike Patterson, Attorney at Law, Spencer Fane LLP and Molly Ho, Sr. International Trade Specialist, Director - Global Technology Team, U.S. Commercial Service Phoenix, Arizona | Arizona Chapter
- June 9: "M&A Trends in the Aerospace Industry and Guidance for Small to Medium Sized Companies and How to be Prepared", Paul Croci, Managing Director, Head of Aerospace and Defense Investment Banking, Wells Fargo Bank, and Scott Dragicevich, Director, Wells Fargo Bank | Santa Clarita Valley Chapter

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- July 15: "The Future of the Wide-Body"; Jens Flottau, Executive Editor, Commercial Aviation, Aviation Week | Santa Clarita Valley & San Fernando Valley Chanters
- September 23: "A Business Health Assessment Whether Exiting or Not"; Larry O'Toole, Founder, Yosemite Associates | Los Angeles Chapter

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## The Aerospace & Defense Forum

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- Recordings of over 250 chapter and webinar presentations are available for download by A&D
- Opportunities to sponsor chapters or webinars are available.

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For more info: https://aerospacedefenseforum.org/ The Aerospace & Defense Forum



"Increasing Cash Flows during COVID-19"

May 12, 2021