

Tax Incentives for Corporate Relocation Include Hidden Pitfalls

- *Moss Adams experts explain strategies for moving corporate HQs*
- *Using tax breaks requires balanced approach, due diligence*

Tax incentives for corporate relocations typically are either praised as tools to catalyze business growth and investment in communities, or criticized as ineffective and costly subsidies with little influence or effect.

Regardless of public perception, 465 corporations relocated their headquarters within the US between 2018 and 2023, based on CBRE data. Of the relocations, 122 companies cited business climate, lower taxes, or other incentives as driving factors.

Tax abatements, credits, exemptions, and cash grants all aim to attract businesses to specific regions, foster job creation, and stimulate economic development. But the allure of relocation tax incentives comes with potential challenges that businesses must navigate carefully.

Business leaders should understand two lesser-known aspects of relocation incentives before pursuing them: the complexities of transitioning corporate domicile and the risks associated with incentive compliance.

Corporate Domicile

When businesses plan to move headquarters or operations to a new location, a critical component is navigating corporate domicile—the legal home state where a corporation was incorporated or where it conducts its main business operation.

Beyond registering the business with state and local authorities, companies must comply with state and local tax laws, employment regulations, and other requirements. Each jurisdiction has its own set of potential hurdles that may affect a business.

Relocating employees and bridging between locations could pose additional problems. Employee relocation may involve cost of living changes, geographic compensation issues, and an unwillingness to move.

Companies may need to offer robust relocation packages to encourage key employees to relocate. Part of this evaluation likely includes hybrid and flex arrangements, particularly where companies have geographically diverse facilities or multiple headquarters.

Compliance Risks

While tax incentives can reduce operational costs temporarily and improve cash flow, they often come with stringent compliance requirements and performance benchmarks.

The range of those requirements is expanding outside of traditional metrics of hiring and investment. The criteria sometimes include assuring a certain percentage of contracted work with local vendors, disclosing sensitive data such as employee demographics and compensation, and even guaranteeing certain behavioral performance by company leaders.

One recent example is Rivian's \$827 million incentive package from Illinois, which includes a requirement that none of the company leaders face any "founded allegations" of sexual harassment in the last five years or any time during the incentive agreement.

Failure to comply with such requirements can lead to the recapture of benefits, penalties, and interest, which may turn what was once a financial boom into a costly pitfall. Perhaps worse is the risk of reputational damage, impaired trust with government authorities, and uncertainty among employees when business strategies shift.

In another example, Oracle announced in December 2020 that it was moving its world headquarters from Redwood Shores, Calif., to Austin. Then in April 2024, Oracle chairman Larry Ellison said the company would move its world headquarters again to Nashville, which had offered Oracle \$175 million in incentives.

Tennessee had offered an additional \$65 million to build a campus in the city, where Oracle pledged to create 8,500 jobs. This series of events has raised questions about what presence, if any, Oracle will maintain in Austin. The tech giant currently has more employees in California than Texas.

Mitigation Strategies

Complying with the legal requirements of incentive packages, and understanding how to mitigate risks, are essential to realizing the benefits of a successful relocation. This includes assessing how incentives align with the company's long-term strategic goals, potential impact on recruiting and retention, thorough contract review, implementing compliance best practices, and maintaining proactive communication with authorities.

By establishing a comprehensive assessment and compliance strategy and regularly monitoring performance against benchmarks, businesses can be better prepared to fully realize incentive agreements.

The best incentive strategies start well before negotiations, with a holistic understanding of the implications related to state and local politics, public perception, employee morale, the long-term economic impact on the community, and strategic positioning for future growth.

Businesses should thoroughly analyze the political stability of the new location and understanding whether local government policies and political climates may evolve over time, which can affect the incentive programs.

Public perception also plays a critical role. Gaining community support can ease the transition and foster goodwill, while negative public opinion can lead to resistance and potential backlash.

Considering employee morale is crucial. Relocating or splitting headquarters can create uncertainty among employees, affecting productivity and retention. Companies will want to evaluate the availability of local talent as well as the potential impact on existing staff. Employees' unwillingness to relocate and adapt may sink a potential relocation plan.

It's also important to consider the new facility's long-term economic impact on the community, including impact on local infrastructure, housing markets, and small businesses. Understanding the broader implications for the area and ensuring the relocation will support long-term growth are important to evaluate early.

By addressing these factors comprehensively, companies can develop strategies that help maximize the benefits of tax incentives while mitigating risks and fostering positive relationships with all stakeholders. Every incentive negotiation shapes a company's relationship with its community, affects its relationship with its employees, and positions it for future growth.

Outlook

Tax incentives can offer substantial opportunities for business growth and profitability, but they require a balanced approach and thorough due diligence. Companies should weigh the immediate financial advantages against potential long-term challenges and ensure that any move aligns with broader business strategy and values.

Successful relocation incentive strategies align seamlessly with a company's broader business goals, cultivate strong community relationships, and provide employee stability for continued performance. A mindful approach to relocating captures immediate financial incentives for sustainable growth and long-term success.

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Author Information

Tam Vo is director at Moss Adams and focuses on strategic negotiation of state and local tax credits and discretionary incentives.

Chris Parker is partner at Moss Adams and leads its state and local tax controversy practice.

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To contact the editors responsible for this story: Rebecca Baker at rbaker@bloombergindustry.com; Melanie Cohen at mcohen@bloombergindustry.com

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