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ASSURANCE · TAX · ADVISORY SERVICES

Why Connecticut

State of Connecticut
Tax Incentive & Compliance Programs
for Inbound International Companies

- Refundable Research & Development Tax Credits
- Capital Investment Corporate Tax Credits
- Digitial Media Tax Credits
- Enterprise Zones
- Angel Investor Tax Credit
- Common Tax Issues for EU Companies Inbound to the U.S.
- Common Tax Issues for EU/APAC/Canada Employees Traveling to the U.S. for Work

A brief overview of some of the numerous tax credits and incentives available to inbound companies seeking to do business in Connecticut, prepared specifically for the 2019 Venture Clash finalists by FML.

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COMPANY OPPORTUNITIES

Refundable R&D Tax Credits in the State of CT

State of CT "Incremental Credit" – Incentivizes increased year over year R&D spend

- 20% of year over year increase
  Example: $400k spend in 2019, $300k spend in 2018 = $100k increase = $20k credit
- Ability to refund entire credit at 65 cents on the dollar (even if there is $0 income tax liability)
  i.e. $20k credit = $13k cash refund

State of CT "Non-Incremental Credit" – Incentivizes R&D Spend Overall

- 6% of yearly spend without double dipping on the Incremental Credit
  i.e $400k spend in 2019, $100k increment, leaves $300k eligible; $ 300k x 6% = $18k credit.
- Ability to refund 1/3 of credit at 65 cents on the dollar and carry forward 2/3 against corporate tax (even if there is $0 income tax liability)
  i.e. $18k credit, company can exchange $6k for a $3.9k refund, and apply the remaining $12k against corporate taxes

U.S. Federal R&D Credit – 20% Regular Credit or Alternative 14% Calculation

- Qualified costs for R&D in the U.S. including salaries, wages, supplies and generally 65% of consulting fees although percentage can vary
- Up to $250k per year may be used to reduce U.S. payroll taxes which is beneficial for start-ups in loss positions (and can be used for income taxes)

Capital Investment Corporate Tax Credits

Fixed Capital Investment Tax Credit – Tax credit of 5% of qualified fixed asset purchases for use in CT

Machinery and Equipment Expenditure Tax Credit – Credit for 10% of the increment of machinery purchases for use in CT (for less than 250 employees)

Human Capital Investment Credit - Credit of 5% of amounts paid for job training/education programs in State of CT

Digital Media Tax Credits

Require Application with the Connecticut Department of Economic and Community Development (DECD)

Film Production Tax Credit Up to 30% of production costs to offset State of CT corporate tax.

Qualified businesses include: motion pictures; documentaries; long-form, specials, mini-series, series, sound recordings, videos and music videos and interstitials television programming; interactive television; relocated television production; interactive games; videogames; commercials; any format of digital media, including an interactive web site, created for distribution or exhibition to the general public

Digital Animation Tax Credit – Up to 30% of digital animation costs to offset State of CT corporate tax.

Film Production Infrastructure Tax Credit - Up to 20% of infrastructure cost.

Enterprise Zones

Benefits for establishing presence in specified economic zones in State of CT. Require Application with Department of Economic and Community Development (DECD)

- Enterprise Zone credit
- Service and Manufacturing Facilities Credit

Other Tax Credits – Many additional gtax credits and incentives are available to Connecticut-based businesses. Please reach out to FML to find out more about the programs offering the most return to you.

INVESTOR OPPORTUNITIES

Angel Investor Tax Credit

- Accredited investors are eligible for State of CT tax credit of up to 25% of their $25k-$1 million investment.
- Investment must be an equity investment in a qualified CT company
- Qualified Activities – Bioscience, Advanced Materials, Photonics, Information Tech, Other
- Other Company Requirements:
  - Less than $1 million in revenue
  - Fewer than 25 employees, of which 75% reside in State of CT.
  - Company is less than 7 years old
- Company must apply in advance and investor must reserve a credit in advance.

TAX ISSUES YOU MAY ENCOUNTER

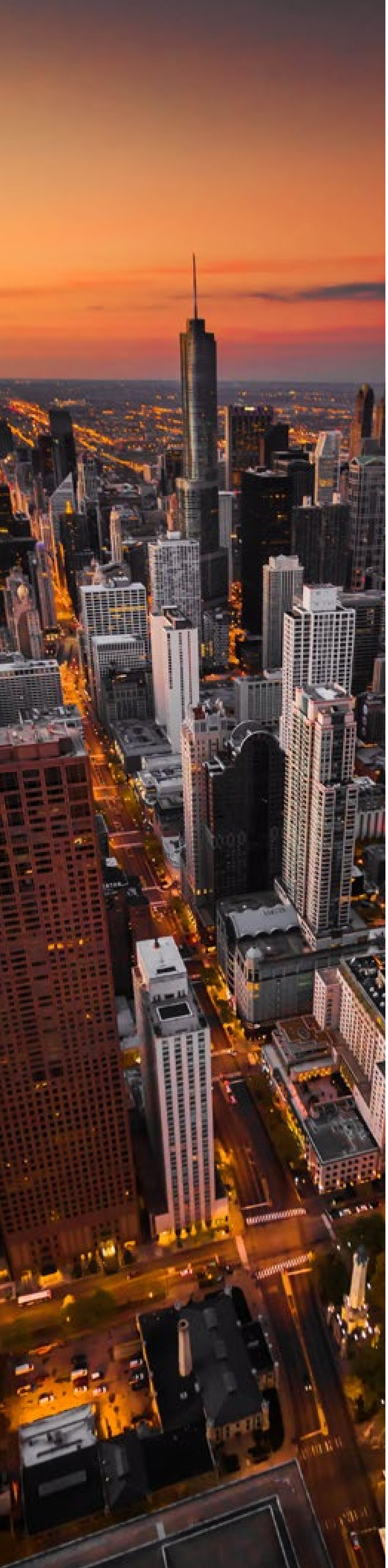
Common Tax Issues for EU Companies establishing a U.S. presence ("Inbound" Companies)

- Establishing U.S. legal entity as a subsidiary, considering the various entity types and tax classifications in the United States (corporation, LLC, LP, etc.)
- Establishing separate accounting for transactions and payroll of the U.S. subsidiary
- U.S. GAAP versus IFRS/EU statutory accounting
- Transfer pricing, intercompany cash planning and funding (debt/equity) and overhead allocation between U.S. entity and EU parent
- U.S. entity income tax returns including international disclosures (Form 5472 to disclosure significant EU shareholders)
- Understand cross-border transactions and treaty application (between U.S. and international parent)
- U.S. entity tax credits and incentives to reduce U.S. income or payroll tax (explained above)
- U.S. bank account reporting related to U.S. company's ownership/signatory in EU bank accounts (including requirements for U.S. officers with signatory rights on EU parent accounts)
- U.S. entity sales, payroll and/or property tax returns (applies in the U.S. in addition to income tax returns).
- U.S. tax reporting for payments to U.S. subcontractors (Form 1099 reporting)
- U.S. income considerations for EU personnel entering the U.S. for short periods

Note: There are additional reporting/disclosures for U.S. entities with outbound transactions (payment by U.S. entity to non-U.S. vendors including parent company, ownership in non-U.S. entities, asset transfers from U.S. entities to non-U.S. entities)

Common Tax Issues for EU (or APAC/Canada) employees traveling to U.S. for work

- EU citizen with substantial presence in U.S. is taxed in the U.S. on all worldwide income, similar to a U.S. citizen (with double-tax relief available through exclusions/foreign tax credits). Test is:
- 31 days present in U.S. in current year, and
- 183 days present in 3-year window (calculated with a special weighted formula)
- EU citizen without substantial presence is a "nonresident," and typically taxed in the U.S. only to the extent income is earned in the U.S.
- Company will need to consider transfer pricing for U.S. sub's use of EU employee, and may eventually switch employer entities to the U.S.
- EU/U.S. Company will need to assess the income tax withholding treaty between U.S. and the EU home country
- EU/U.S. Company will need to assess the social security (i.e. government pension) tax treaty between the countries
- EU citizen will need to assess the effect of the treaties when completing tax returns in the EU and U.S
- An EU citizen that is deemed a U.S. resident may have foreign bank disclosure requirements to U.S. government



FML CAN ASSIST YOU

Fiondella, Milone & LaSaracina LLP (FML) is an independent accounting firm specializing in assurance, tax, and advisory services. Founded in 2002, the firm based in Glastonbury and has offices in Stamford and New Haven and serves customers locally, regionally, and nationally. The firm has nine partners and a staff of 65 professionals.

As an accounting and tax services provider, we can assist you with all aspects of the formation, accounting, reporting and tax compliance for your U.S. entity. This includes:

- Advising on U.S. tax implications of your U.S. entity formation
- Outsourcing of the transactional accounting of the U.S. entity (invoicing, cash receipts, cash disbursements, payroll),
- Maintenance of U.S. GAAP accounting records and assistance with conversion to IFRS
- Monthly/quarterly reporting back to your non-U.S. parent company
- Advising on U.S. payroll issues as they arise
- Preparation of U.S. tax returns
- We have a long track record of success for accurately capturing the refundable CT and Federal IRS research and development tax credits
- We have the expertise to handle the detailed U.S. tax reporting that is required for entities with inbound and outbound international activities

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