

ALABAMA DEPARTMENT OF REVENUE
REVENUE RULING 01-009

This document may not be used or cited as precedent. Ala. Code §40-2A-5(a).

TO: COMPANY A.

FROM: Cynthia Underwood, Commissioner of Revenue
Alabama Department of Revenue

DATE: August 13, 2001

RE: Whether the acquisition of an Approved Company will allow the acquiring COMPANY A to be eligible to continue receiving the benefits of Ala. Code §40-10-44.8.

FACTS

It has been represented to the Department that COMPANY A is to be formed as a FOREIGN STATE single member limited liability company. The sole member of this entity is COMPANY P. COMPANY A will be formed for the purpose of acquiring substantially all of the assets and business, and assuming substantially all of the obligations and liabilities, of COMPANY T, an Alabama corporation.

COMPANY T is in the business of designing, engineering, fabricating, selling and installing automation equipment and material handling systems. In connection with the expansion of its activities, COMPANY T applied to become and was approved as an Approved Company under Act 93-851 (the "Act"). Pursuant to the provisions of the Act, the State Industrial Development Authority ("SIDA") issued its bonds and lent the proceeds thereof to COMPANY T pursuant to a Loan Agreement between SIDA and COMPANY T. Pursuant to Alabama Code Section 41-10-44.8, COMPANY T has been receiving a corporate income tax credit and collecting job development fees from its employees in amounts needed to pay its debt service obligations under the Loan Agreement.

COMPANY A represents that it has entered into negotiations for the acquisition of COMPANY T with a final agreement and closing anticipated on or before August 30, 2001. While the definitive Asset Purchase Agreement is not yet finalized and executed it is anticipated that COMPANY A will purchase substantially all of the assets and assume substantially all of the liabilities of COMPANY T.

COMPANY A represents that it will continue the present operations of COMPANY T in Alabama, will retain substantially the same employees, manufacture

substantially the same products, sell to the same customers, and in all other respects succeed to the business and goodwill of COMPANY T. In addition, COMPANY A represents it will be assigned all COMPANY T's rights in and will assume all COMPANY T's liabilities under the Loan Agreement with SIDA and will assume substantially all of COMPANY T's liabilities for trade accounts payable and accrued liabilities.

ISSUE

Whether COMPANY A will succeed to COMPANY T's status as an Approved Company under the Act eligible to continue receiving the benefits of Ala. Code §41-10-44.8.

ANALYSIS

Act 93-851 is codified in Sections 40-10-44.1 to 40-10-44.15 of the Alabama Code. Section 40-10-44.1 sets forth the legislative purposes of the Act.

The legislature has found and determined that the economic well-being of the citizens of the State of Alabama will be enhanced by the increased development and growth of industry within the state and that it is in the best interests of the state to induce the location or expansion of industrial and research facilities within the state in order to promote the public purpose of creating new jobs within the state.

The section concludes by stating "[t]his article shall be liberally construed in conformity with the intentions of the Legislature expressed above."

The Alabama Code is silent as to whether an Approved Company (as defined in Section 41-10-44.2 of the Code) may assign its rights to take advantage of the incentives provided by the Act in conjunction with the sale of a Project (as defined in Section 41-10-44.2 of the Code) or the transfer of a Project as part of a sale of substantially all of the assets of the Approved Company.

The Alabama Court of Civil Appeals faced a similar issue regarding the transfer of tax incentives in International Paper Company v. Broadhead, 662 So. 2d 277, (Ala. Civ. App. 1995). In International Paper, the court reversed the lower court and held that certain tax incentives (franchise tax credits in that case) granted a corporation survived the merger of the corporation into another corporation despite language in the incentive agreement with the Department of Revenue prohibiting assignment or transfer of the agreement without the consent of the state (which had not been obtained). After reviewing the relevant corporate law, the court held that a merger was not a transfer or assignment for purposes of prohibiting the survival of the tax incentives. The court went on to support its decision by stating:

The purpose of §40-14-41(d)(2)(d) was to increase jobs in Alabama counties in which the unemployment rate was above the national average. This statute was created to induce foreign corporations to invest heavily in certain economically depressed counties of Alabama during 1985-1990. The objective of this statute could not have been merely to bring temporary jobs to these counties, but also to continue, if not increase, these employment opportunities. Hammermill Penn invested \$107 million in Dallas County in order to qualify for the credit. It is undisputed that PCO subsequently took over all of Hammermill Paper Company's assets and assumed its liabilities, as well as its work force. The objective of the statute would clearly be thwarted if IPCO is denied the right of its predecessor's statutory credit.

While this ruling request presents a somewhat analogous situation, International Paper is not dispositive of this question. While the parties have not structured the acquisition as a statutory merger, COMPANY A represents it is succeeding to COMPANY T's assets, assuming COMPANY T's liabilities, and assuming COMPANY T's work force.

In contrast to International Paper, the relevant documents including the Loan Agreement between COMPANY T and the SIDA do not prohibit assignment. In fact, COMPANY A has represented that no Loan Default under the Loan Agreement or any event which upon notice or lapse of time or both would constitute such a Loan Default, shall have occurred and be continuing at the time of the assignment from COMPANY T to COMPANY A and that COMPANY A will obtain all necessary consents and approvals set forth in Section 6.5(b) of the Loan Agreement to have COMPANY A assume COMPANY T's liabilities and obtain COMPANY T's rights under the Loan Agreement. COMPANY A further represents that it shall assume the performance and observance of every covenant and condition of said Loan Agreement to be performed or observed by COMPANY T.

Section 6.5(c) of the Loan Agreement provides that upon conveyance of COMPANY T's property substantially as an entirety, COMPANY A as the successor shall succeed to, and be substituted for, and may exercise every right and power of COMPANY T under the Loan Agreement with the same effect as if COMPANY A as successor had been named the Company in the Loan Agreement. Since the Loan Agreement contemplates assignment and the statute granting benefits to an Approved Company is silent as to transfers, one must assume that the benefits can be transferred as long as the business remains substantially the same as when it qualified.

As related to the legislative intent to increase investment and create jobs in Alabama, the instant transaction does not represent any substantive change. COMPANY A represents that it will continue COMPANY T's capital investment and will continue to provide the jobs that the Legislature intended to encourage.

CONCLUSION

Based on the facts and analysis discussed above, COMPANY A is entitled to succeed to COMPANY T's status as an Approved Company under Ala. Code §41-10-44.2 and to receive the related tax incentives under Ala. Code §41-10-44.8. COMPANY A shall be restricted to receiving the tax incentives under the same constraints as was COMPANY T including but not limited to the limitations of §41-10-44.8. It is noted that because COMPANY A is a single member limited liability company, the income tax credit pertaining to this project through §41-10-44.8(a)(1) will be unavailable to it or its sole member. However, the Taxpayer's status as a single member limited liability company will not disqualify it for the job development fees so long as COMPANY A is the employer.

CYNTHIA UNDERWOOD

CU:DEA