

# MANUFACTURING

## *in Lehman's Terms*

## 2021 Automation Tax Credit Status

I hope everyone has been enjoying the start of spring. In the manufacturing world, activity seems to be strong in North Dakota. Product demand is good and there continues to be a lot of primary sector business expansion both with respect to our existing manufacturers as well as interest in new operations starting up in the state. That being said, supply chains continue to be challenging and workforce continues to be an issue. With respect to workforce, North Dakota is in a little better position than we were prior to the pandemic when the state consistently ran in the top three states for lowest unemployment in the nation. We have since dropped to a three-way tie for 11<sup>th</sup> place with an employment rate of 2.9%. Although this is an improvement for manufacturers from a staffing perspective and helps to attract industry, most manufacturers remain substantially understaffed and are turning toward automation to try to alleviate the staffing woes. Staffing shortages aside, we are seeing automation for the following reasons:



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1. Higher output
2. More consistency in the processes leading to higher quality
3. Automating processes can help to upskill the workforce justifying higher wages on par with our current inflationary environment
4. Safer work environment with less fatigue and repetitive motion injuries

As manufacturers automate, one of the most popular programs available for these projects continues to be the Automation Tax Credit. Set to sunset after 2022, this program provides up to a 20% tax credit for those applicants with qualifying equipment purchases. The equipment must automate a previously manual value-adding process, and the title to the equipment must have been taken during the tax year being applied for. Common types of automation might be robotics, automated material handling systems, computer numerical control (CNC) equipment, etc. When the program was reinstated during the 2019 legislative session, there was \$1 million set aside each year for the program. Once demand reaches \$5 million, the tax credit is prorated amongst those approved projects. Demand for the program has been very strong every year, and this year is no exception with 30 applications being submitted totaling \$16 million in equipment purchases. Of these applications, 21 of them qualified resulting in approximately

\$12.5 million of equipment being approved. After taking the proration into consideration, companies will be receiving a tax credit amounting to roughly 8% for the approved equipment purchases. While this is quite a bit lower than the 20% maximum credit, it is still worth the effort for most projects.

The future of the program after 2022 is uncertain and will be decided during next year's legislative session. While nothing is guaranteed, it continues to remain a popular program, and as states race to automate their operations in a labor-constrained environment, there is a realization that we need to continue to automate to maintain market share and remain competitive with the rest of the world. In the meantime, for those manufacturers looking to get automation projects in before the program sunsets, please keep in mind that you will need to provide invoices, proof of payment, proof of delivery/title, etc. when you submit your applications. The applications for this year's projects will be due by Jan. 31, 2023.

Lastly, if you are interested in automating your processes and are unsure of whether a potential project would qualify for the automation tax credit, please reach out and I can talk you through the process and help you get a feel for whether your project would be a candidate.

For additional information regarding this or other incentives applicable to your manufacturing operation, please feel free to reach out and I will point you in the right direction. Also, if you are considering an expansion or relocation to North Dakota, I would be happy to work with you to make that a reality!

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