United Nations Development Programme

Bosnia and Herzegovina

Srebrenica Regional Recovery Programme (UNDP/SRRP)

Backward Fiscal Cash Refund

A new UNDP BiH Approach to Poverty Reduction[1]

Technical Brief for Non-specialists
Business Development Services (Tax Incentive)
UNDP/SRRP Decentralization and Poverty Reduction Initiative

This paper explores the requirements for the start-up of UNDP tax incentive mechanisms in the form of Backward Fiscal Cash refunds, which offer an interesting alternative to traditional business support grants and 'subsidized credit' by formalizing micro and small enterprises, diminishing liquidity risks, creating new jobs and increasing local tax revenue collection.

A UNDP Backward Fiscal Cash Refund is a reimbursement of tax paid in the previous fiscal exercise by means of a bank transfer. The calculation method of this incentive is allocated to a certain portion of taxes incurred as defined by UNDP and the local tax administration.

Since the Autumn 2004, UNDP/SRRP in Srebrenica, Bosnia and Herzegovina has field-tested a Backward Fiscal Cash Refund Mechanism to stimulate growth of local enterprises and sustain the local employment base. Srebrenica's economy has been significantly deterred by the armed conflict and genocide and is characterized by regional disequilibrium unemployment, and the approach appeared to work effectively. In 2005, this mechanism will again be trialed, this time in supporting the forest products cluster.

At the request of the Secretary General, Kofi Annan, UNDP/SRRP has been put in place to initiate regional recovery activities encompassing multi-sector interventions. As a complementary activity, this tax incentive mechanism serves to bundle local governance and microfinance with business development services' (BDS') best practices.

This BDS innovation was timely with the UN International Year of Microcredit 2005 in providing a new alternative to market distortions created by grants and 'groans'. Fiscal incentives are neutral, more accessible and predictable, involve lower administration costs, and avoid rent-seeking by reinforcing fiscal compliance.

[1] The opinion expressed and arguments employed in this paper are the sole responsibility of the authors and do not necessarily reflect those of UNDP BiH or of the United Nations.

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1. What is a backward fiscal cash refund?

A UNDP Backward Fiscal Cash Refund is a reimbursement of tax paid in the previous fiscal exercise by means of a bank transfer. The calculation method of this incentive is allocated to a certain portion of taxes incurred as defined by UNDP and the local tax administration.

Reimbursement of previously paid taxes offer an interesting alternative to traditional business support grants and subsidized credit or so called 'groans[2]' by formalizing micro and small enterprises, diminishing liquidity risks, creating new jobs and increasing local tax revenue collection.

2. Where have they been used the first time by UNDP?

In Autumn 2004, UNDP/SRRP in Srebrenica, Bosnia and Herzegovina has field-tested a Backward Fiscal Cash Refund Mechanism to stimulate growth of local enterprises and sustain the local employment base. Srebrenica's economy has been significantly deterred by the armed conflict and genocide and is characterized by regional disequilibrium unemployment.

At the request of the Secretary General, Kofi Annan, UNDP/SRRP has been put in place to initiate regional recovery activities encompassing multi-sector interventions. As a complementary activity, this tax incentive mechanism serves to bundle local governance and microfinance with business development services' (BDS') best practice.

UNDP/SRRP is an integrated and comprehensive framework, which seeks to revitalize the human and physical capital of the region and comprises five interrelated components: Economic Development, Local Government, Civil Society, Gender Mainstreaming and Infrastructure. The economic development component includes four strategic orientations including: (i) micro-Finance, (ii) business development services, (iii) agriculture, and (iv) sustainable use of the environment. Under the business development services orientation the economic development component is using two selective instruments: technical assistance and grants (herein defined as *fiscal cash refund*).

While the South-Eastern Republika Sprska economy is extremely slow in recovering, employment opportunities continue to be uneven and not supplying the demand for urban and rural areas. This is creating two different types of afflicted areas: the rural areas are confronted with inadequate infrastructure to support the development of employment opportunities; and, the urban areas are concentrating employment opportunities without meeting all the urban demand. It is clear that if jobs are scarce, they can also be a cause of unrest and crime.

In order to address these problems, UNDP/SRRP intends to build on local government strengths, while addressing threats to: inequality and potential civil unrest, growth and prosperity. UNDP/SRRP seeks policies of inclusion that lessen sharp disparities in incomes and assets, enhance human capital accumulation and employment opportunities, and help provide safety nets for the more vulnerable elements of society from an increase in local municipal revenues.

3. What is the comparative advantage of UNDP in using tax incentives?

This BDS innovation is timely with the UN International Year of Microcredit 2005 in providing a new alternative to market distortions created by grants and 'groans'. Fiscal incentives are

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[2] As proposed by the Consultative Group to Assist the Poor (CGAP), 'groans' qualify subsidized loans with or without interest rates that include capital grants. The Pink Book does not recognize this financial remnant as a part of the agreed upon microfinance donor best practice.

neutral, more accessible and predictable, involve lower administration costs, and avoid rent seeking by reinforcing fiscal compliance.

UNDP, acting as a "*supra-national equalization agent*" and while taking up a positive role in policy feedback for which UNDP has a landmark, can significantly offer tax incentives in the form of backward fiscal cash refund without endangering systems of tax revenue collection.

UNDP should expect that its fiscal incentive tools will favor the Small and Medium Enterprise (SME) sector by increasing business flows and foster tax collection and should prevent low-cycles of investments from current punitive tax regimes. Least Develop Country (LCD) Governments at all levels - local, subnational, national - have recognized that SMEs are a critical part of the economy. Many programmes are in place to encourage the formation and survival of SMEs. These need revitalization and greater coordination. UNDP tax incentive tools can offer this window of opportunity.

However, there are two areas where UNDP should remain pessimistic over the future impact of government policy and regulation. Governments continue to shy away from radical simplification of their tax regime. Indeed, complexity may be exacerbated by anti-avoidance measures that might erode the traditional business tax base.

It is crucial for the UNDP to act as a "*supra-national equalization agent*" to decide what type of companies to support (as long as it thoroughly collected enough micro level data on specific industries). It is important to mention that there should not be more than one donor supporting this methodology in one specific region else this methodology may create market distortion a bit what random grants are doing at the moment. Otherwise, it is not sure that it would work in creating effective participation of tax officers. A UNDP Tax Project can have a value-added in doing feedback on fiscal policies at both Central and Subnational levels.

In order to take full advantage of the neutrality of a fiscal policy, the targeting of specific companies should be limited to the size criterion only. Neutrality is actually the main advantage of UNDP compared to direct state financial policies. In principle, either the policy is accessible to all companies, irrespective of their size, or it is limited to or more generous with small and medium-sized companies. In putting into place this focus, UNDP has access to many different tools.

- First, it can limit the access to a certain group by tailoring the access conditions;
- Second, in order to target small and medium sized companies, UNDP can also put in place upper limits on the amount of tax credit that can be claimed by a company. Such upper limits are much more likely to be attained by larger companies than by small and medium-sized companies; and
- Thirdly, the policy can be designed to be more generous with small and medium-sized companies. This can be achieved through a higher tax credit rate for small and medium-sized companies or by offering them more flexible features such as cash refunds of unused credits.

4. What is the rational behind tax incentives and services they require?

The rationale behind this activity is in relation with the most common problem local entrepreneurs face: lack of access to investment capital to operate and expand their current business activities. This activity is designed to provide financial and technical support to formally registered entrepreneurs. The proposed activity consists of two elements:

- Grants in the form of ***backward fiscal cash refund*** to formally registered entrepreneurs for additional asset acquisitions and liquidity safeguard in order to protect and create employment (a Fund Custodian should be competitively selected to assume this function); and

- Business counseling and financial management training from a competitively selected Business Development Service Provider.

As experienced, short-term direct expansion subsidies to enterprises may not create formal job opportunities; neither have they provided data on the potential of local municipal revenues in the medium-term. UNDP proposes to use tax incentives in order to increase competitiveness of the domestic industry while following their impact on local government revenues.

UNDP is cautious in not developing negative impacts that might erode local fiscal revenues[3]. Rather, than introducing municipal tax deferral and waiver mechanisms, UNDP BiH suggests introducing medium-term tax incentive projects that would be operated on a "cash refund" basis from UNDP in collaboration with local fiscal authorities. Such a mechanism is innovative and enables observations at the municipal revenue interfaces, while avoiding political and rent-seeking interferences.

5. How to make the tax incentive programme accessible to smaller companies?

It was felt that a higher score for smaller businesses would encourage preferential support for smaller companies. This is important, as previous work has indicated that poverty reduction impact is higher when support is given to small companies.

A low threshold for the award needs to be set to ensure that smaller companies are not excluded from the application process – it is suggested that a lower limit of $10,000 US paid in taxes (total tax burden) will allow small companies to submit applications whilst allowing the scheme to operate.

It is important to raise awareness through publicizing the support mechanism as widely as possible – beyond the larger companies who are already involved in the cluster program through search conferences etc. This will ensure that all companies in the sector have a chance to apply (there are not sufficient companies to overwhelm the process), and also increase outreach through identifying more companies in the forest forests sector.

6. How to make pro-poor?

It is critical that the tax reimbursement mechanism is pro-poor in its design. If not, a may be successful in economic and financial terms but fail to adequately address the purpose and goal of the programme. From our findings, it was found that an effective pro-poor intervention needs to comply with the following actions:

a) Tie in with job creation
b) Tie in with job creation for beneficiaries
c) Examine the sustainability of employment
d) Examine the quality of employment – pay, health and safety

Even if this pilot program is unlikely to correctly address all of these in the first instance, but the application form has been developed to try and assess each of these, and the effectiveness of the pilot intervention will be evaluated prior to scaling up.

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[3] It is important to note that UNDP BiH does not want to prone a solution that will go against fiscal austerity policy promoted by the Central Government and the multilateral financial institutions, the World Bank and the International Monetary Fund namely.

7. When are tax incentives appropriate?

Tax incentives are most appropriate in underdeveloped environment where unemployment is extremely high. The location should be constrained within a very specific area in order to avoid an overflow of applications. The implementation of tax incentives pre-require a thorough business cluster appraisal focusing at identifying existing value-added chains for which there is a clear comparative advantage. Such a study enables the selection of industries that need support. Maximizing job creation, as a result of tax refunds, is the main success factor and cost-effectiveness element such a mechanism targets.

8. When are tax incentives inappropriate?

The authors are in the opinion that tax incentives are inappropriate if operated by municipalities themselves and as agreed among critics of special tax breaks for businesses that create new jobs, tax incentives can engage a costly economic war among local governments. In most Western countries, a long history of conflicting judicial rulings and governments' defiance of those rulings suggests that the local governments will continue to battle each other for business investment. States that use tax incentives to attract business investments to certain local areas may disrupt the free flow of interstate commerce. During the transition to a market lead economy such a difficult process should not be stopped in order to let enterprises relocate in areas where they can increase their comparative advantage. At this point in time, where fiscal receipts are not sufficient to cover all expenditure assignments, it would not be wise to introduce governmental fiscal incentives since it would send a wrong signal to entrepreneurs and politicians that would erode revenues and could produce an even more expensive economic arms race.

9. Where can we offer tax incentives?

UNDP Tax incentives can be used in transitional economies and in post-conflict environment where the war contributed to large enterprise asset losses. Most assets used before the transition or the war can be now more than depreciated if not stolen or destroyed and current loan product offerings for asset acquisitions are not designed to target entrepreneurs' needs.

In addition, Backward Fiscal Cash Refund can be interesting where demand for goods are outsourced in other municipalities neighboring a deprived area, which cause two perverse effects: First, a reduction in revenue collection for the municipality who does have to provide public services to its population with a poor locally-based fiscal receipt. Second, a limitation in the number of jobs available in the Municipality.

10. Who benefit from tax incentives?

Eligible applicants should be entrepreneurs located within specific geographic boundaries and sectors of activity. Each applicant should meet all eight eligibility criteria shown next page.

1. Entrepreneur with a sound business idea (returnees and residents).
2. Entrepreneur holding an identification card issued by either the Police Station or CISP.
3. Entrepreneur with an extensive experience and holder of a high school diploma.
4. Entrepreneur formally registered and operating in the selected area.
5. Entrepreneur registered last year but informally operating for a minimum of two years.
6. Business location within the selected geographic boundaries (for example, along the main road).
7. Tax payment proofs or vouchers issued by the municipal fiscal authorities and the regional tax revenue officer.
8. Entrepreneur who has not received any grants from UNDP.

Priority are given to following business segments:

- women,
- youth entrepreneurs, and
- entrepreneurs who have been or are users of a loan from a financial institution.

The employment impact can be measured at two levels the number of jobs sustained and the ones that were created from the tax incentive disbursement. By applying a commonly accepted 2.5 multiplier (for related support jobs in the community) a greater number of new jobs directly and indirectly attributable to the project can be shown.

11. Why should UNDP provide a tax incentive to an enterprise that uses loans?

A UNDP Tax Incentive Project should be a short- to medium-term mechanism that stimulates micro, small and medium size enterprises to expand activities, maintain and create new jobs. By doing so, UNDP creates assets that can increase the loan amount an entrepreneur can apply to in a subsequent business cycle. This is very important in countries were collateralization requirements are set high and represent a 'red tape' on growth.

It is important to mention that the methodology involves an important financial-management-training component that should be provided by a Business Development Service Provider. The budget forecast required the use of activity based costing to determine cost drivers and cost pools. As an end-result, entrepreneurs better understand their numbers and business risks. In addition, the credit manager of the financial institution that sits on the steering committee is introduced to new financial tools that can be used to improve loan appraisal technique.

Moreover, this selection criterion allows UNDP to select enterprises that seek growth and are able to fill application forms and financial reports. As well, this enables UNDP to limit the number of applications filled by rent-seekers or mal-intentioned opportunists. As for many organizations, often the number of applicants to a grant-tender overflows the staff capacity to conduct appropriate due diligence operations leading to a successful award decision-making process.

12. What type of expenditures can be eligible for a tax refund?

UNDP in their coordination with Municipalities (Herein defined as UNDP Tax Credit Authority) also need to define the types of expenditure that qualify for the fiscal incentive. At this point, there might be mainly seven tax credit options that should be envisioned: Job Creation, Job Retention, Training, Manufacturing Machinery & Equipment Investment, Technology Investment Tax Refund, Enterprise Zones, and Community Reinvestment Areas. These are discussed and studied in Table 1 as shown in Annex 4: UNDP/SRRP Tax Incentive Options and Designs.

13. What Taxes are paid and which are most important?

There was detailed discussion during the brainstorming events as to whether the backward fiscal cash refund should be for a particular tax (employee-related tax) or in response to the general tax burden. The advantage of a refund for employee related tax is it could encourage more employment through alleviating the very high tax burden associated with pay rolled staff, the disadvantage is it makes the system more complicated for SMEs. After due consideration it was felt that the general tax burden provided easier entry for small companies with only a few employees, who otherwise might not reach the threshold tax levels. This will be evaluated during the pilot phase. For each applicant, need a breakdown of all taxes paid (with proof) and a full rebate can be made up to $50,000 US.

14. What are the issues regarding the application form?

This section details key questions that need to be included in the application form to ensure that the fiscal incentives meet the requirements of SRRP and are focused on poverty reduction. This technical note does NOT detail the final application form, which needs to be developed around these questions and procedure.

The fiscal incentive program needs to be advertised as widely as possible, outside of the companies already identified as cluster members. This will ensure that there are no claims of favoritism or nepotism, and will provide details of more companies within the forest products cluster. These factors outweigh any concerns of 'too many applications'.

The lower limit for the grant should be set at a maximum of $10,000 to allow smaller companies access to the scheme.

Questions that need to be included in the application form include::

a) Size of company (with preferential scoring for small companies);
b) Details of the taxes paid (with evidence to be supplied either at this stage or before the grant is awarded);
c) How the grant will be spent (what activities, equipment or services will be purchased and why);
d) Details of the business plan (12 month detail, 5 year outline, with a sound rationale for the business plan);
e) How a fiscal incentive grant will create more employment (directly and indirectly);
f) If and how employment created will be targeted at returnees;
g) Employment conditions of staff (insurance, health and safety, compliance with International Labor Organisation requirements);
h) Environmental impacts (positive and negative) of the activities, equipment or services to be purchased; and
i) Information, training and support that would be beneficial for the organisation in the future.

15. How to use tax incentives?

There are many issues underlying the design of a good fiscal policy to business. Beside the general fiscal environment (fiscal incentives are much less effective in a country with a low corporate income tax rate), the first choice to make is the selection of the target group (by firm size for instance) and the definition of the eligible expenses (current expenses, labor costs, total expenses, innovation expenditures, collaborative or outsourced research…). For a new UNDP team to use this mechanism, it is strongly suggested to perform a small scale field-test similar to the one in Box 1. In accordance to the lessons learned from this field-text, UNDP has initiated in October 2005, a full-scale medium size enterprise tax incentive call for proposal amounting USD 250,000 which targeted the wood-processing and logging industry in the municipalities of Bratunac, Milici and Srebrenica.

Box1: Field-test

In November 2004, UNDP/SRRP in Bosnia and Herzegovina, as a field-test experiment, made available funds (USD 45,000) for backward fiscal cash refunds, training and technical assistance to the interested formally registered crafts-entrepreneurs operating within the boundaries of the Srebrenica Town exclusively. The targeted crafts-entrepreneurs needed to fall under the following definition: Businesses that formalized their operation before 2003. The available backward fiscal cash refunds to be disbursed per competitively selected entrepreneurs were determined to be no greater than **USD 7,500**. This backward fiscal cash refunds were designed to be used for either liquidity reserve or new asset acquisitions, which meant equipment purchases

It is important to underline that both the total budget of the Tax Incentive Activity is **fixed to a maximum amount to be shared among a fixed number of most competitive applications**[4]. This means that a project using such a methodology must do thorough field-assessments before launching a call for proposals in order to leverage the most suitable sector and forecast the maximum number of applicants that may submit an application.

[4] For the particular interest of Economist, the idea here is to create a critical mass within a sub-sector to make sure that value-added chains supported by the tax incentive follow Pareto optimal scenarios.

Depending on the focus of the policy pursued by UNDP, it might also be justified to impose minimum and maximum thresholds on the amount of expenditure that needs to be undertaken to qualify for the tax incentive. Imposing maximum thresholds can be effective to orient the policy towards a specific target group. However focusing on small and medium-sized companies should not exclude imposing minimum thresholds as well. This can be useful to increase the efficiency and cost-effectiveness of the policy if the administrative costs to UNDP are judged to be too high for small applications. A UNDP Tax Incentive Mechanism should use the following procedures:

1. A public information campaign disseminates information on the activity and entrepreneurs fulfilling the defined criteria invited to submit applications. Deadline for application is specified.
2. All interested entrepreneurs are requested to fill in an application form available in Annex 3 (either craft or SME samples) and submit supporting documentation as described in Annex 1.
3. A first application screening is carried out by a selection committee, which selects applicants who fulfilled all eligible criteria. During the first week following the application deadline, the selection committee holds sessions that is chaired by UNDP Programme Manager (see Annex 2 for more information on the committee members and modus operandi).
4. UNDP staffs carry out field visits and meet eligible crafts-entrepreneurs to confirm the accuracy of the information enclosed in their applications.
5. All eligible applicants who went through the field visits successfully are sent to business center to be trained in financial management and assisted in preparing their financial projections.
6. UNDP staffs provide comments on the financial projections.
7. The final evaluation and selection take place as soon as the eligible entrepreneurs submit their completed financial projections. This evaluation follows the selection criteria outlined in Table 2a and Table 2b below.
8. The selection committee will approve the final selection of the beneficiaries and award contracts will be signed with the selected crafts-entrepreneurs only if they had registered before the contract signature.

Table 2a: UNDP Tax Incentive Activity for Crafts-enterprises

Criteria	Indicators	Points
Financial viability or venture sustainability based on 200x financial projection that should include UNDP Tax Incentive.	❑ Return on Equity (max.50) ❑ Return on Asset (max.50) ❑ Working Capital (max.50) ❑ Asset Turnover ratio (max.50) ❑ Current Profit/Sales (max. 50)	250
Owner's management and craft skills.	❑ Years of experience Without experience = 0, ≤ 1years = 10, ≤ 2 = 20 ≤ 3 = 50 ≤ 4 = 80 ≥ 5 years = 100	100
Social Impact	❑ Entrepreneur's age (79 –age) ❑ Women (50) ❑ Number of household members (1 member=10, > 6 =100) ❑ Dependents (children, elderly) (1 dependent =20, >4 =100)	350
Employment	❑ Number of regulated employees (1 employee =20) ❑ Number of new jobs created (1 job =40)	200
Access to Financial Services	❑ Business using a loan or who has applied for loan	100
	Total	

Table 2b: UNDP Small and Medium Tax Incentive Activity		
Criteria	**Indicators**	**Points**
Financial viability or venture sustainability (Measured by the Altman's Z-score Analysis and based on 2004 and 2006 financial projection that should include UNDP Grant)	Altman's Z-score Analysis[5] ❑ 2004 Z-score ❑ 2006 Z-score If Altman's Z: > 2.7 = 500 [1.8,2.7] = 100 < 1.8 = Rejection of the Applicant Total Score = (2004 Z-score + 2006 Z-score)/2 Altman's Z = $0.012\ X_1 + 0.014\ X_2 + 0.033\ X_3 + 0.006\ X_4 + 0.999\ X_5$ X_1 = Working capital / Total assets X_2 = Retained earnings / Total assets X_3 = Earnings before interest and tax / Total assets X_4 = Market capitalization / Book value of debt X_5 = Sales / Total assets	
Management Experience	Director or Manager's number of years of experience: ≤ 1years = 0, ≤ 2 = 20, ≤ 3 = 50, ≤ 4 = 80, ≥ 5 years = 100	
Current Social Impact (Sum of all five indicators)	**Gender** ❑ (Number of female employees * 100)/ Total number of employee **Employee Age Strata** ❑ (Number of employees [16,25 years of age] * 100)/ Total number of employee ❑ (Number of employees [26,35 years of age] * 50)/ Total number of employee ❑ (Number of employees [36,50 years of age] * 25)/ Total number of employee ❑ (Number of employees [51, + years of age] * 5)/ Total number of employee	
Employment (Sum of all two indicators)	❑ (Number of regulated permanent employees * 20)/ Total number of employees ❑ (Number of new regulated jobs created * 50)/ Total number of employee	
Export Promotion	((Amount of exported sales revenues- receivables)*10) /(Total sales revenues)	
Access to Financial Services	Number of loans used in 2004 * 100	

[5] Herein the Z-score technique is employed to overcome some of the limitations of the traditional ratio analysis. It evaluates corporate stability and, more importantly, predicts potential instances of corporate failure. All the forecasts and predictions are based on publicly available financial statements. Z-scores attempts to replace various independent and often unreliable and misleading historical ratios and subjective rule-of-thumb tests with scientifically analyzed ratios which can reliably predict the future events. The aim is to identify potential failures so that "the appropriate action to reverse the process [of failure] can be taken before it is too late". Z-scores provide a single-value score to describe the combination of a number of key characteristics of a company. Some of the most important predictive ratios are weighted according to perceived importance and then summed to give the single Z-score. This is then evaluated against the identified benchmark. The revised Altman's Z-score identified two benchmarks. Companies scoring over 2.7 are unlikely to fail and should be considered safe, while companies under 1.8 are very likely to fail. Other Z-scores between 2.7 and 1.8 fall into the grey area. This financial analysis is claimed to be able to distinguish between successes and failures up to two to three years before the event.

Total	

16. What are the roles and responsibilities of each party?

UNDP covers all costs related to:

- the selection of a Fund Custodian, through a Micro-capital Grant Agreement, which will supervise the supply of funds for liquidity reserves, business expansion, and equipment targeting application of new technologies; and
- the provision of financial management training and business counseling for financial statement projections demonstrating the use of *backward fiscal cash refund*. A Business Development Service Provider should enter in a Micro-capital Grant Agreement with UNDP to take this role.

The Municipal Authority and the Regional Tax Revenue Officer provide support and assistance to entrepreneurs whenever needed during office hours; their services will encompass:

- provision guidance and advice to entrepreneurs whenever required for the application to the UNDP Tax Incentive Activity .
- provision of relevant information on entrepreneurs' fiscal responsibilities such as business registration procedures, tax rates, and tax compliance.
- issuance of all required certificates and proofs such as property titles and tax payment certificates.
- issuance of identification card.
- provision guidance and advice to crafts-entrepreneurs whenever required.
- appoint members and participate in projects evaluation and selection.
- facilitate the registration of selected businesses.

The entrepreneur provides all information needed for his/her application that should encompass:

- provision of information required by UNDP, the Fund Custodian, and the Business Development Service Provider;
- participation to the training provided by the Business Development Service Provider;
- disclosure of all relevant information that will enable the projection of their financial statements; and
- access to the production or sales unit during due diligence missions (herein defined as asset valuation missions).

17. What is the ideal team UNDP should bring together?

The primary key success factor for UNDP is to bring together the team that can deliver this mechanism efficiently. Ideally and as shown in the table 3, the team should be composed of the following personnel.

Table 3: UNDP Fiscal Incentive Mechanism Ideal Team		
Position/Title	**Skill Set / Role**	**Contract/Experience**
Programme Manager	**Efficient Manager** Past experience involving economics or sectoral expertise. Skills in industrial research and development Strong accounting capacities Strong background in financial management ▪ Lead the team towards success. ▪ Hold Programme budget within limits. ▪ Monitor Programme risks and pitfalls. ▪ Quarterly progress reporting.	(1) International ALD / 5
Sector Analyst	**Business Cluster Mapping** **Industrial trend analysis**	(1) ALD / 3 (relevant)

<table>
<tr><td></td><td>Econometrics
Macroeconomics
Proficient in English

▪ Assess poverty pocket were the Backward Fiscal Cash Refund Mechanism will be of best use.</td><td></td></tr>
<tr><td>Financial Management Specialist</td><td>Chartered Professional Accountant
Portfolio Analyst
Cost Allocation Specialist
Proficient in English

▪ to analyze applicants financial reports.
▪ to perform due diligence and asset valuation at pre-selected applicant’s enterprise location.
▪ to select Business Development Service Providers.
▪ to design financial management training curriculum.
▪ to train Business Development Service Providers</td><td>(1) ALD / 3 (relevant)</td></tr>
<tr><td>Business Cluster Officer</td><td>Economist, bookkeeper or business administrator
Proficient in English

▪ to collect value-added chains’ micro level data
▪ to identify business cluster for which a clear value-added chain exist within the Programme geographic perimeter.
▪ to assist due diligence and asset valuation missions
▪ to follow-up grantees’ uses of funds.
▪ to report on sub-sector trends.</td><td>(5) SSA / 1

Young and full of energy</td></tr>
<tr><td>Research and Development Technologist</td><td>Graduate of a technical school
Proficient in English

▪ to research technical inefficiency and propose solutions to applicants
▪ to assist due diligence and asset valuation missions
▪ to monitor procurement of equipment</td><td>(2) SSA / 5

Need to be well geared-up</td></tr>
<tr><td>Executive Secretary</td><td>Graduate of a technical school
Proficient in English</td><td>(1) SSA / 5</td></tr>
<tr><td>Bookkeeper</td><td>Experienced Applicant
Proficient in English</td><td>(1) SSA / 5</td></tr>
<tr><td>Driver</td><td>Experienced Applicant
Proficient in English</td><td>(3) SSA / 0</td></tr>
</table>

18. Why should UNDP mandate an external Service Providers?

There are three reasons why UNDP should use external Service Providers (Fund Custodian and Business Development Service) when implementing a Backward Fiscal Cash Refund mechanism:

- The establishment of such a Programme is an opportunity to strengthen local capacities in the provision of financial management services in most deprived areas – this is an important sustainability angle to consider;
- In addition, working with an external provider may reduce risk of collusion of interests between entrepreneurs and staff during due diligence and asset valuation missions; and
- Moreover, using local providers can significantly reduce Programme operational costs linked with transportation and staffing.

19. How does an entrepreneur claim the tax credit?

In order to claim the tax credit, three different options exist. Companies can be obliged to submit their tax payment forecast for approval before undertaking them. Alternatively, companies can claim the tax credit at the end of the year, after all tax spending has been incurred. The third option is similar to the second with the difference that companies can obtain an upfront ruling on the eligibility of their tax payment forecasts.

The main difference between requiring upfront versus ex post applications is a trade-off between certainty and flexibility. Mandatory upfront applications eliminate all possible uncertainty regarding what kind of tax payments are eligible for the fiscal incentive. However, it lacks flexibility concerning unexpected changes in expenditure during the year. Additionally an upfront ruling system is likely to require more workforces to deal with all the applications.

For policies with ex-post applications companies do not need to plan and estimate their activities in advance but can adjust the final amount of the application at the end of the year to meet economic reality. On the downside, there is a risk of uncertainty in case companies are not sure what kind of expenditures is eligible. However, some practical evidence indicates that there is a quick learning process among companies on this subject.

20. How does UNDP disburse its tax incentives?

In order to disburse its tax incentives smoothly, UNDP must outsource this function to a Fund Custodian. The competitively selected Fund Custodian will in turn use the most common solution, which consists in **cash refunds** via bank transfers.

But the time value of money needs to be also taken into account, especially for cash constrained small and medium-sized companies. This implies that the timing of the cash refund is as important as the refund itself. **Monthly refunds** are better than quarterly ones and quarterly refunds are better than refunds granted after the end of the fiscal year to which the expenditure relates. At all cost, delays much beyond the end of the year should be avoided. The scale and volume of operation of a UNDP tax incentive project will determine which refund period is best; there is an overhead cost implication here for which UNDP should be concern with in designing its projects.

21. Where lays the risk of fraud?

It should be no surprise that some companies, in response to the introduction of tax incentives, will try to “re-label” some expenditure in order to qualify for the credit. Unfortunately, the degree to which this happens in reality is unknown[6]. It is more likely to occur if the project is set to last only one year. A three-year project would enable to reduce that risk because an entrepreneur would like to benefit from this incentive more than once. As for equity investment, multi-stage influxes are more likely to induce appropriate patterns of investment in performing assets. In addition to the results of Mansfield noted in the below footnote, Hall (1996) finds the “re-labeling” risk to be relatively small. In case the threat of “re-labeling” really becomes an issue, it can be interesting to look if this threat can be avoided by narrowing the definition of qualifying expenditure to labor expenditures only. This could be an advantage if wages and salaries of workers are easier to control than other, more vague, expenses such as overheads.

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[6] Mansfield (1986) estimates, on the basis of a survey conducted in Canada, Sweden and the US that in the first years after the introduction of a tax credit, 13% to 14% of the increase in expenditure is actually due to “re-labeling”. <u>The R&D Tax Credit and Other Technology Policy Issues</u>, The American Economic Review, 76/2, Papers and Proceedings of the Ninety-Eight Annual Meeting of the American Meeting of the American Economic Association (May, 1986), 190-194.

22. What are the main risks, and how to minimize them?

Here below, there can be listed six main risks and minimizing strategies associated with tax refund mechanisms:

Job Substitution: Grant reduces employment through providing new machinery requiring smaller workforce. Reduce by: Link grant to job creation criteria, including indirect job creation.

Job Sustainability: No medium/long-term sustainability of job creation or enhanced economic activity. Reduce by: Outline business plan demonstrating growth and sustainability strategy, with a solid rationale.

Market Volatility: Market prices falls for products. Reduce by: This is primarily an externality, however good market information and support through the Cluster Support Programme will help to minimize this risk.

Natural Epidemics: For example, there is forest disease or fire reducing timber availability. Reduce by: This is primarily an externality.

Systemic Risks: Financing companies (particularly Forest Enterprises) engaged with or permitting corrupt, illegal or environmentally damaging activities. This is a major concern as the Forest Enterprises have been linked with corrupt practices and lack transparency. Reduce by: Linking grants with conditionalities, associated with assessing environmental performance. Grants should support improving practices, such as business planning, budgeting, forecasting and impact assessment, rather than just road building, which should be affordable within existing budgets if the planning was adequate.

Market Distortion: Financing companies (particularly State-owned Enterprises), enabling them to avoid essential restructuring/planning (funding inefficiencies). Reduce by: Linking grants with conditionalities.

23. What is the limitation of tax incentives?

Essentially all policies affect the corporate income taxes, i.e. the taxes due on positive corporate earnings. Typically such taxes are calculated at the end of the fiscal year, after the company has made its income tax return. Depending on the legislation, the efficiency of the fiscal authorities and other factors, the exact moment when corporate income taxes become due can be relatively long from the fiscal year to which it relates. This can be an important disadvantage for small and medium-sized companies because it affects the timing of the cash flows resulting from the policy (the authorized threshold for tax claim and if any, the cash refunds).

UNDP can partially solve this situation by using the **wage taxes and social security contributions**; because those taxes are mostly due on a monthly or quarterly basis. Another advantage of such a selection is the fact that every company, irrespective of whether it is in profit or loss, is liable to withhold wage taxes and pay social security contributions. Additionally it also reduces administrative costs since monitoring would be relatively easier if UNDP enter in collaboration with the local employment office.

Annexes

Annex 1: Guidelines for Application and Required Supporting Documents

Application Guidelines:

1. Once the UNDP Tax Incentive Activity for businesses located in [*Location Name*] will be publicly released, all the interested entrepreneurs will be invited to collect appropriate application forms from [*Fund Custodian Name*] in [*Location Name*].

2. The application form will be available at [*Fund Custodian Name*] Secretary's desk and can be collected from 9:00 to 18:00 on every working day.

3. Eligible crafts-entrepreneurs are invited to submit an application, no later than [Date] at 17:00.

4. During the application period applicants are invited to ask for clarifications on every working day form 9:00 to 12:00.

5. The field application including all required supporting documentation shall be submitted to the [*Fund Custodian Name*] Secretary Desk in two separate copies sealed in two different envelops.

6. The Secretary will record applications and issue application receipts to all applicants. The receipts will include name, address and telephone number, identification card number, date an hour of the application.

7. All applications will be opened only when the selection committee will meet for the eligibility selection and the evaluation approval.

8. Application form that will not have their entire data entry filled will be rejected (if a data field is nil indicate zero (0)).

Required Supporting Documentation:

1. Authentic copy of applicant's identification card sealed by official authorities.
2. Last three electricity bills paid by the applicant.
3. Family member list issued by the [Name] municipal authorities.
4. Authentic copy of diploma of Craft High School or others sealed by official authorities.
5. Property title of craft shop space or rent contract.
6. List of assets related to craft activities owned by the applicant including estimated asset values.
7. Proof of years of experience.
8. Proof of loan disbursement and/or repayments.
9. Proofs (receipts) of taxes paid to [Name] Municipality and to the Tax Revenue Office.
10. Proofs of salary contributions for employees.
11. Copy of craft shop registration.

Annex 2: Selection Committee Membership and “*modus operandi*”

Composition

Chairperson	(non-voting):	Programme Manager, UNDP
Secretary	(non-voting):	Business Development Provider
Member 1	(voting):	Economist, [*Fund Custodian Name*]
Member 2	(voting):	[Staff Name] Municipality
Member 3	(voting):	[Name] Municipal Fiscal Authority
Member 4	(voting):	Tax Revenue Officer
Member 5	(voting)	Financial Institution Bank or Microcredit Organization
Observer 1	(non-voting):	Mayor of the [Name] Municipality
Observer 2	(non-voting):	Director, Business Development Provider
Observer 3	(non-voting):	Local Entrepreneur which has not applied
Observer 4	(non-voting):	Technical Staff, UNDP
Observer 5	(non-voting):	Representative of another organization
Observer 6	(non-voting):	Technical Staff, [*Fund Custodian Name*]

Purpose of the Selection Committee

UNDP, abiding by its transparency trademark rule, has established a Selection Committee for the approval of crafts-entrepreneur beneficiaries of this activity in order:

- to ensure a transparent selection process in accordance to the defined criteria,
- to ensure the decision-making involvement of the key stakeholders; and
- to increase programme ownership from all local partners.

Scope of Work

The selection committee’s scope of work covers the following tasks:

- to verify if all applications are in accordance to the guidelines for application and if they include all required supporting documentations;
- to ensure that the eligible applicants will be selected in accordance with the priorities set in the formulation of this activity and with the eligibility criteria; and
- to make sure that the final selection of the best applicants will be in accordance to the scoring system defined in the procedural Statement 7.

Selection Process

The selection committee will select the best applicants following two stages.

- **1st Stage - Eligibility Screening of Applicants**: all applications will be reviewed by the Selection Committee which will approve if they fulfilled the eligible criteria. Only the eligible applications will be invited to the 2nd Stage for the final evaluation of their candidacy.

- **2nd Stage - Final Selection**: only the best applicants will be awarded a grant based on there elements: attendance to the Srebrenica Business Centre financial management training, submission of financial statements, and compliance to the most competitive applications based on the scoring system detailed in the procedural Statement 7.

Composition of the Selection Committee

- The Selection Committee is composed of a chairperson, two secretaries, 5 voting members and 6 observers.

- The chairperson and the two secretaries are non-voting members.

- The chairperson is UNDP's Programme Manager.

- The five voting members are respectively representing [*Fund Custodian Name*] Economic Component, the Regional Tax Revenue Office, Bank or Microcredit Organization, and both the [Name] Finance Department and the Economic Department.

- OHR, the Mayor of [Name], one crafts-entrepreneur as a private sector representative, the Business Development Service Provider, both the UNDP and the [*Fund Custodian Name*] Technical staff will be observers.

- The two secretaries appointed by the UNDP will carry out the following duties:
    a) Make sure that all members are informed about the Selection Committee Meetings;
    b) Keep records and minutes of the Selection Committee meetings;
    c) Make sure that selection forms and minutes are signed by all members; and
    d) Prepare the selection committee report with the assistance UNDP Staff.

Annex 3: Sample Application Forms

UDP – Craft-enterprise Tax Incentive Activity
(for businesses located in [Name])

Signature of the Applicant: ____________________
Place: ____________________
and Date: __________

Business Investment Purpose:			
Requested Amount in (KM):			
Entreprise Name:			
Registration Number (for registered)			
Date of registration:			
Location of the craft workshop:	Street:		
	Settlement:		
	[Name] Municipality		
Information about the Owner:	First Name:		
	Last Name:		
	Gender:		
	JMB:		
	Age:		
	Address:		
	Phone:		
	No of households members:		
	Dependents	No of children:	
		No of elderly:	
Business Type:	1.Auto mechanic		
	2.Auto electric		
	3. Body mechanics		
	4. Carpentry		
	5. Black smith		
	6.Locksmith		
	7. Taxi Services		
	8. Electrician services		
	9. Electrical appliance Service		
	10. Haircut		
	11. Plumber		
	12. Other ______________________________		
Owner's skills	Years of experience:		

Number of Employees:	Current number of employees:	
	Expected no of employees after UNDP tax refund	
Current Employees:	First Name ____________________ Last Name ____________________ ID: ____________________	
	First Name ____________________ Last Name ____________________ ID: ____________________	

	First Name ______________ Last Name ______________ ID: ______________
	First Name ______________ Last Name ______________ ID: ______________
	First Name ______________ Last Name ______________ ID: ______________
	First Name ______________ Last Name ______________ ID: ______________
	First Name ______________ Last Name ______________ ID: ______________

Tax Obligation Review						
Tax Item		2002	2003	2004	2005	Total
Tariff (Lump sum Licensing)						
Special Vocational Tax						
Sales Tax						
Property Tax on Land						
Property Tax on Immobilization (Buildings)						
Profit Tax (_________)%						
Employment Benefits (Social Contribution)	Employee 1					
	Employee 2					
	Employee 3					
	Employee 4					
	Employee 5					
	Employee 6					
	Employee 7					
Employee Personal Tax	Employee 1					
	Employee 2					
	Employee 3					
	Employee 4					
	Employee 5					
	Employee 6					
	Employee 7					
Pension Fund Contribution	Employee 1					
	Employee 2					
	Employee 3					
	Employee 4					
	Employee 5					
	Employee 6					
	Employee 7					
Total Amount of Tax and Benefit Incurred (BAM)						
		2002	2003	2004	2005	Total

Liquidity Forecast					
Cash Item	2002	2003	2004	2005	Total
Trading / Operational Profit					
Current Loan (less than one year)					
Long-term Loan (Large loan on several years) (No. of Years:_____)					
Loan Principal Reimbursement					
Interest incurred and paid					
Amount of Sales on Receivables					
Amount of expenditures on Payables					
Cash balance at the beginning of the period					
Total Cash Balance					

Estimated Business Investment Cost:				
Item	Description of Items	*No of Units*	*Cost of Unit (BAM)*	*Total (BAM)*
Total Estimated Investment Cost				
Please indicate below if there are any other sources of funds beside the amount you are requesting form UNDP/SRRP.				
Craft men contribution:				
Amount Requested form UNDP/SRRP:				
Others contribution:				

Expected results	Number of new jobs created:	
	Increase in number of clients served from 2003 to 2005	%
	Increase in profit in percentage from 2003 to 2005	%

UNDP/SRRP Wood Processing and Logging Enterprises
SME Tax Incentive Activity
For businesses located in [Location Name]

Signature of the Applicant: ________________________ Place: __________ Date: ________

Business Tax Incentive Purpose: *(Please tick only one box. Application with more than one box ticked will be rejected)*	❑ New asset acquisitions, which means equipment purchases for business expansion	
	❑ Registration of new employees, which means a total value of the number of new employees cross the 2004 average of both incurred employment taxes and benefits per employee	
	❑ Liquidity replenishment; only applicable for enterprises that have been formally in business for more than five (5) years which experience liquidity problem	
Requested Amount in (BAM):	***BAM***	
Enterprise Name:		
Registration Number:		
Date of registration:		
Location of the enterprise:	*Street:*	
	Settlement (MZ):	
	Municipality:	
Information about the Principal Owner:	*First Name:*	
	Last Name:	
	Gender:	
	JMB:	
	Age:	
	Address:	
	Phone:	
Business Type:	❑ Wood Processing	
	❑ Logging	
Manager or Executive Director skills	Years of experience:	________ ***years***

Tax Obligation Review					
Tax Item	2002	2003	2004	2005	Total
Sales Tax (highest level)					
Sales Tax (lowest level)					
General Service Tax					
Railways Excise					
Property Tax on Immobilization (Buildings)					
Profit Tax (__________)%					
Other taxes					
Personal Income Tax (Salary)					
Employment Benefits (Social Contribution)					
Pension Fund Contribution					
Total Amount of Tax and Benefit Incurred (BAM)					
	2002	2003	2004	2005	Total

Why have you applied to this backward fiscal cash refund activity? (150 words typed)

Estimated Business Investment Cost:				
Item	Description of Items	*No of Units*	*Cost of Unit (BAM)*	*Total (BAM)*
			Total Estimated Investment Cost	

Please indicate below if there are any other sources of funds beside the amount you are requesting from UNDP/SRRP.	
Business contribution:	
Amount Requested from UNDP/SRRP:	
Others contribution (Name of the sources: ____________________ ____________________ ____________________ _____________)	

Job Creation Expected results		
	Current number of employees:	
	Number of new full-time jobs created	
	Increase in number of clients served from 2003 to 2004	*%*
	Increase in profit in percentage from 2003 to 2004	*%*

Liquidity Forecast as of December 31st					
Cash Item	**2002**	***2003***	***2004***	***2005***	***2006***
Trading or Operational Profit					
Current Loan (less than one year)					
Long-term Loan (Large loan on several years) (No. of Years:______)					
Loan Principal Reimbursement					
Interest incurred and paid					
Amount of Sales on Receivables					
Amount of expenditures on Payables					
Cash balance at the beginning of the period					
Total Cash Balance					

Formally Registered Full-time Employee List **Business Applicant Name:** ______________________ **Date** ____________

No.	Position	Fist Name	Last Name	Identification Number	Number of Dependants	Number of Children	Number of Elderly	Gender	Age Group				Monthly Wage	Monthly Burden
									[16,25]	[26,35]	[36,50]	[51,+]		

Formally Registered Part-time Employee List **Business Applicant Name: ________________________** **Date _____________**

No.	Position	Fist Name	Last Name	Identification Number	Gender	Age Group				Monthly	Monthly
						[16,25]	[26,35]	[36,50]	[51,+]	Wage	Burden

Board Member List **Business Applicant Name:** ________________________ **Date** _____________

No.	Position	Fist Name	Last Name	Identification Number	Gender	Age Group				Monthly	Monthly
						[16,25]	[26,35]	[36,50]	[51,+]	Wage	Burden
1											
2											
3											
4											
5											
6											
7											
8											
9											
10											
11											
12											

List of Owners **(Individual Corporate)** **Business Applicant Name:** ________________________ **Date:** _____________

No.	Position	Fist Name	Last Name	Identification Number /Registration	Gender	Age Group				Monthly	Monthly
						[16,25]	[26,35]	[36,50]	[51,+]	Wage	Burden
1											
2											
3											
4											
5											

Note if an owner is a corporation please fill in the corporate name and the registration number of the company.

Management and Administrative Staff List **Business Applicant Name:** ______________________ **Date** ____________

No.	Position	Fist Name	Last Name	Identification Number	Gender	Age Group				Monthly	Monthly
						[16,25]	[26,35]	[36,50]	[51,+]	Wage	Burden
1											
2											
3											
4											
5											
6											
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Annex 4: UNDP/SRRP Tax Incentive Options and Designs

Table 1: UNDP/SRRP Tax Incentive Options and Designs			
Program Description	**Rate/Terms**	**Benefits**	**Eligibility**
Job Creation Tax Credit Provides corporate franchise or entity income tax credit for businesses that expand or locate in UNDP targeted Municipalities.	UNDP/SRRP Tax Credit Authority determines eligibility and terms. Business must demonstrate to the Authority that the tax credit is a major factor in its decision to go forward with the project. Local community must also provide financial support for the project.	Refundable entity franchise or income tax credits that minimize expenditures to encourage business expansions and/or relocations in UNDP targeted Municipalities.	Businesses that create at least 5 net new full-time positions at a facility in UNDP targeted Municipalities and pay a minimum of 125% of federal minimum wage. In special circumstances company could create as few as 1 new full-time position paying at least 400% of the federal minimum wage.
Job Retention Tax Credit Provides corporate franchise or entity income tax credit for businesses that commit to retain a significant number of full-time jobs.	UNDP Tax Credit Authority determines eligibility and terms. Credits awarded to companies that can demonstrate the tax credit is a major factor in its decision to retain jobs in UNDP targeted areas.	Nonrefundable corporate franchise or entity income tax credits to minimize the costs of maintaining an operation in one UNDP targeted Municipalities.	Businesses that currently employ at least 100 full-time employees and make a fixed investment of at least USD1 million. Corporations, partnerships, limited liability companies and other pass-through entities.
Training Tax Credit Provides tax credits for employers that train existing employees who are at risk of losing their jobs primarily due to skill deficiencies.	USD100,000 in credits available annually with no single business receiving more than USD1,000 per year.	Nonrefundable tax credits to help businesses offset costs of training incumbent workers and improving the business' competitive position.	Businesses must conduct an eligible training program to correct identified skill deficiencies in its existing workforce. Training for management personnel is generally prohibited but considered on a case-by-case basis.
Manufacturing Machinery & Equipment Investment Tax Credit Provides a nonrefundable corporate franchise or entity income tax credit for manufacturer located in UNDP targeted Municipalities that purchases qualified new or retooled machinery and equipment that is used in manufacturing.	Hypothetically, manufacturer may receive a 7.5% tax credit on the excess investment; credit of 13.5% is available in "priority investment areas" (See Cluster Mapping Report.) Total value of credit is divided equally over 2 years. Purchases must be made by Dec. 31, 2006 and installation must occur before Dec. 31, 2007. Credit exceeding USD 100,000 must meet special requirements.	Substantial entity franchise or income tax reductions that minimize capital expenditures to encourage business expansions and locations in [Name] targeted Municipalities.	Corporations, partnerships, limited liability companies or proprietorships. New investment must exceed business' annual average municipal investment in machinery and equipment determined by the filing year. Machinery and equipment must be new to UNDP targeted Municipalities. Retooling qualifies if costs are capitalized for entity tax depreciation purposes.
Technology Investment Tax Refund	Maximum credit of USD 10,000 per investment may be applied to	Investors may reduce their entity taxes by up to 25% of amount	Businesses primarily focused on research and development, technology

Offers a variety of benefits to taxpayers who have invested in small, research and development and technology-oriented forms.	personal income tax, corporation franchise tax, public utility excise tax or tax on dealers' intangibles. Investment for which tax credit is claimed must be a purchase of common stock, preferred stock, membership interest, partnership or other equity position that does not exceed USD 500,000. Investor must incur risk of loss that depends on the company's success for repayment. Annual dividends and interest payments combined may not exceed 10,000 of amount invested. Investor cannot own in excess of 5% stock in the company in which he is investing. Investor must not be delinquent in the entity where they do operate and comply to all local taxes.	invested.	transfer, or the application of a new technology. Business must have gross revenues less than USD1 million, or net book value of less than USD1 million, at the end of most recent fiscal year. Principal place of business and 1/2 of its gross assets and employees must be in the UNDP targeted municipality. Business must have received less than USD500,000 in investments that have qualified for the tax credit.
Enterprise Zones Tax Credit Provides real and personal property tax incentives for businesses that expand or locate in UNDP targeted Municipalities. To secure benefits, non-retail businesses must apply to the local community for local entity income tax incentives.	Up to 75% tax refund in incorporated areas and up to 60% tax refund in unincorporated areas on real property improvements or tangible personal property tax valuation for up to 3 years. Local school board approval is required to exceed these limits.	Substantial tax reductions on new real and/or personal property investment. Reductions apply to the increase in assessed value for real property and items first-used by the business in [Name] for personal property.	Industrial projects (retail/service projects are eligible in limited areas). Business must finalize agreement to retain or create employment; establish expand, renovate or occupy a facility in an Enterprise Zone; and invest in new real and/or personal property prior to project initiation.
Community Reinvestment Areas Provides local real-property tax incentives for residents and businesses that invest in designated areas of UNDP. Investors meeting the local criteria must apply for the real property tax refund.	Up to 100% tax refund of the improved real property tax valuation. UNDP/SRRP Tax Credit Authority establishes rates and terms. In some instances, local school board approval may be required.	Substantial real municipal property tax reduction for new real property.	Real property investment incentives are available for residential, commercial, and/or industrial projects involving remodeling or new construction. Commercial and industrial projects must have an agreement in place prior to investment. Programme Tax Credit Authority establishes project eligibility.