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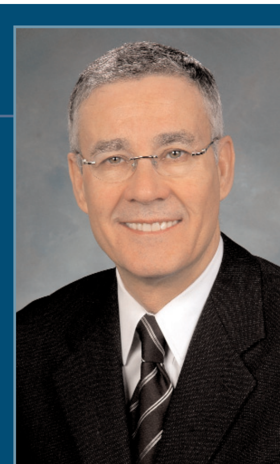
Q&A



Larry McLaughlin: Structure tax incentives to benefit all parties

For corporations looking to locate or relocate facilities, business and tax incentives play a pivotal role in an often daunting site-selection process. Given the myriad local, state and federal incentives available, corporations need help sorting out their options and understanding the details of these programs. Hearing the call, Detroit-based law firm Honigman Miller Schwartz and Cohn LLP has launched the Investment Incentives and Tax Savings Group with Larry McLaughlin, who chairs the law firm's real estate department. The real estate practice includes 45 lawyers, 15 devoted specifically to this group.

Long before the launch of the Investment Incentives group, Honigman Miller had built a strong reputation for real estate expertise in complicated development projects. For example, the firm represented Compuware Corp. in connection with the acquisition, development and construction of its $350 million headquarters facility in the heart of Detroit. NREI spoke with McLaughlin about the art of structuring tax incentives.

NREI: Why have you opted to target this specific practice area?
McLaughlin: If you take out the General Motors of the world — which are fairly few and far between — most companies that are either locating or relocating headquarters facilities are going to do that very infrequently. It's not the kind of thing they do on a day-in and day-out basis. We do, so we understand these programs. We work with the legislative and the administrative bodies that make the allocations or process the applications.

NREI: In the case of Compuware, the land was owned by the City of Detroit. As part of the incentives package, Compuware acquired the site for $1. Personally, what did you learn from that project as it applies to tax incentives?
McLaughlin: In almost any project that has government entitlements, incentives, or tax breaks associated with it, there is usually some give-and-take. Governmental agencies that are providing these benefits are looking for something in return, whether it's a commitment to employ a certain number of people, or a commitment to create construction jobs for minorities or city-based residents. The challenge is to find a way to create a win-win situation, and to satisfy those very legitimate objectives of governmental agencies in a way that doesn't impair the company's future ability to operate and be flexible.

NREI: Does your relationship with key business and political leaders give you the edge?
McLaughlin: Knowing the players helps, but it doesn't get you across the finish line. There are always issues associated with negotiating development agreements — timing, design and construction issues. Many incentive programs are very complicated in their structure — tax credits in particular. If one is not completely conversant with the technical or procedural requirements that are associated with these programs, one could easily structure the transaction so that the client doesn't get the full benefit.

NREI: Some critics argue rather vociferously that tax incentives are a form of corporate welfare. Are there more tax incentives available here than elsewhere?
McLaughlin: In Michigan, there are more. The cry of corporate welfare has certainly diminished in this state as the economy has been reeling, and people understand that we have to do something to create jobs. The governor just signed into law in November a very significant package of legislation called the 21st Century Jobs Fund. The state is taking $400 million, which will be raised through the securitization of proceeds from a tobacco lawsuit settlement, and putting that money into a series of funds that are designed to promote economic development and create jobs within the state.
— Matt Valley

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