



## **MLSC Tax Incentive Program Acquisition Policy (Revised January 2016)**

### **About the Tax Incentive Program**

The Life Sciences Tax Incentive Program, established as part of the Massachusetts Life Sciences Center's ("MLSC" or "Center") enabling legislation, authorizes up to \$25 million in tax incentives each year for companies engaged in life sciences research and development, commercialization and manufacturing. The MLSC takes its obligation to be good stewards of the Commonwealth's tax dollars very seriously.

The primary goal of the Tax Incentive Program is to incentivize life sciences companies to create new long-term jobs in Massachusetts. The primary criterion that the MLSC uses to make tax incentive awards to companies is the ability to create and retain jobs, or to transfer out-of-state jobs into Massachusetts. It therefore is imperative that companies provide accurate information regarding actual full-time permanent Massachusetts employees (over 35 hours per week) and meet projected employment targets.

### **Compliance with Tax Incentives**

The MLSC monitors tax incentives for compliance purposes by determining whether a company has achieved its projected net increase in headcount above its "baseline" employee headcount. A company's "baseline" employee headcount is determined on the "measurement date", defined as the last day of the calendar year preceding the first year in which the company has committed to achieve its projected net increase in headcount. Baseline and projected headcounts are summed to create a "total projected headcount" metric that is used for MLSC agreement and compliance purposes.

### **Acquisition Policy**

Increases in a company's baseline headcount or projected headcount growth as a result of an acquisition of another company, as opposed to the creation by the company of new jobs, have implications for the agreement governing the tax incentive award and the amount of the award.

The Center has developed a straightforward, transparent, and highly replicable approach for dealing with acquisitions to ensure that the citizens of the Commonwealth can rely on companies being held accountable for complying with their agreed-upon job creation and retention targets. Following are six potential acquisition scenarios and the Center's approach for addressing each of these scenarios. Illustrative examples of the scenarios are provided in

Appendix A. Please note that the first five scenarios apply to acquisitions that occur *after* a tax incentive has been awarded; whereas the sixth scenario applies to acquisitions that occur within six (6) months *prior* to the measurement date of a tax incentive.

**Scenario 1: A Massachusetts company that *has received* an MLSC tax incentive acquires (either a stock purchase or asset purchase) another Massachusetts life sciences company<sup>1</sup> that *has not received* a tax incentive from the Center.**

A tax incentive awardee will *not* be allowed to count acquired jobs towards the “new job creation” target on which its tax incentive is based. The Center will amend its agreement with the awardee to include the newly acquired jobs in an “adjusted baseline headcount” and net job creation will be determined against this new baseline.

This includes employees of an acquired company, in the case of an asset purchase, whose employment was terminated (voluntarily or involuntarily) within 90 days prior to the acquisition who are hired by the tax incentive awardee/acquirer within one year following the acquisition.

**Scenario 2: A Massachusetts company that *has received* an MLSC tax incentive acquires (either a stock purchase or asset purchase) another Massachusetts company that also *has received* an MLSC tax incentive award.**

A tax incentive awardee will *not* be allowed to count acquired jobs towards the “new job creation” target on which its tax incentive is based. The Center will amend its agreement with the acquiring company to include the newly acquired jobs in an “adjusted baseline headcount”. In addition, the acquirer will assume responsibility for the terms and conditions of the MLSC tax incentive agreement of the acquired company. The Center will revise its agreement with the acquirer to reflect the increased job target.

**Scenario 3: A company operating in Massachusetts (either foreign or domestic) that *has not received* an MLSC tax incentive acquires, through a stock purchase, a Massachusetts company that is a tax incentive awardee.<sup>2</sup>**

The Center will hold the acquiring company responsible for compliance with the terms and conditions of the MLSC tax agreement. The acquiring company may either: 1) terminate the tax incentive agreement between the acquired company and the MLSC and return to the Commonwealth all benefits/incentives that were received by the acquired company, or 2) assume responsibility for an amended MLSC Tax Incentive agreement. In the event of the latter, a revised tax agreement will be executed for the remaining term of the initial tax agreement which would take into account the acquiring and acquired companies’ baseline Massachusetts FTE headcount as of the day of acquisition. The new hire commitment that was the basis for the

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<sup>1</sup> The term “Massachusetts company” as used in this policy shall mean either a life sciences company that is incorporated in Massachusetts or a life sciences company that has operations in Massachusetts and is registered to do business in Massachusetts.

<sup>2</sup> In the case of an asset purchase by the acquiring company, the acquiring company may not have acquired the liabilities of the purchased company and therefore will not be held responsible for the awardee’s commitments under its tax incentive agreement with the MLSC if it did not assume the MLSC agreement. Upon notice from the purchased company of such asset sale, the MLSC will notify the Massachusetts Department of Revenue to initiate its “clawback” authority in order to recover the benefits/incentives received by the purchased company/awardee.

original tax agreement would still need to be honored. In addition, the Board of Directors would need to certify the acquiring company as a life sciences company in accordance with the Center's statutory authority.

Please refer to the MLSC's Annual Report and Multiple Awards Policy regarding headcount reporting. The policy can be found on our website at [www.masslifesciences.com](http://www.masslifesciences.com).

**Scenario 4: A company that is not operating in Massachusetts (i.e., is not a tax filer in Massachusetts) acquires a Massachusetts company that is a tax incentive awardee. The acquired company is allowed to operate as an independent operating company.**

The Center will hold the acquiring company accountable for the MLSC tax agreement. The acquiring company will have two (2) options: 1) the tax incentive awardee will amend its tax incentive agreement with the MLSC to acknowledge the purchase, re-affirm its accountability to the Center under the terms of its tax incentive agreement, and the acquiring company will assent, or 2) the Center will execute an amended agreement assigning accountability for the tax incentive to the acquiring company. The Board of Directors will need to certify the acquiring company as a life sciences company in accordance with the Center's statutory authority.

**Scenario 5: A Massachusetts company that *has received* an MLSC tax incentive acquires an out-of-state life sciences company (either a stock purchase or asset purchase) and transfers out-of-state jobs from the acquired company into Massachusetts.**

A tax incentive awardee will be allowed to count acquired jobs that are moved to Massachusetts from another state towards the "new job creation" target on which its tax incentive is based. The agreement with the Center will not need to be amended and the awardee will be measured against its projected headcount per the agreement.

**Scenario 6: A Massachusetts company acquires a company within six (6) months *prior* to the measurement date of an MLSC tax incentive**

A tax incentive awardee that acquires another life sciences company with Massachusetts operations, either through a stock or asset purchase, within six (6) months *prior* to the measurement date of an MLSC tax incentive will **not** be allowed to count towards the "new job creation" target any employee that was employed by the acquired company whose employment was terminated (voluntarily or involuntarily) prior to the "measurement date" (defined as the last day of the calendar year preceding the first year in which the company has committed to achieve its projected net increase in headcount) and subsequently hired by the acquiring company **until** years 2 through 5 of awardee's annual reporting obligations. Since employees of the acquired company that are retained by the awardee would be included in the awardee's baseline employee headcount, this policy is intended to prevent an awardee from circumventing the purpose of the Tax Incentive Program to create net new jobs in the Commonwealth.

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*NOTE: The Center reserves the right to modify any portion of this Policy at its sole discretion. It is the responsibility of companies to check the Center's website for any modifications to this Policy. The Center, the Commonwealth, and its subdivisions accept no liability for a company's reliance on an out-of-date policy.*

## Appendix A: Illustrative Examples of Scenarios

Please refer to the MLSC's Annual Report and Multiple Awards Policy regarding headcount reporting. The policy can be found on our website at [www.masslifesciences.com](http://www.masslifesciences.com).

**Scenario 1:** A Massachusetts company that *has received* an MLSC tax incentive acquires (either a stock or asset purchase) another Massachusetts life sciences company that *has not received* a tax incentive from the Center.

	Awardee Acquirer	Acquired	Revised Agreement
Base headcount	100	20	120
New FTE Hires	20	N.A.	20
Total Projected	120	20	140

Note: In the case of a stock purchase, the base headcount will be adjusted as soon as the acquisition is complete. In the case of an asset purchase, the base headcount will be adjusted at any time throughout the first year following the acquisition if an employee(s) of an acquired company whose employment was terminated (voluntarily or involuntarily) prior to the acquisition is hired by the tax incentive awardee/acquirer.

**Scenario 2:** A Massachusetts company that *has received* an MLSC tax incentive acquires (either a stock or asset purchase) another Massachusetts company that also *has received* an MLSC tax incentive award.

	Awardee 1 Acquirer	Awardee 2 Acquired	Revised Agreement
Base headcount	100	20	120
New FTE Hires	20	10	30
Total Projected	120	30	150

**Scenario 3:** A company operating in Massachusetts (either foreign or domestic) that *has not received* an MLSC tax incentive acquires, through a stock purchase, a Massachusetts company that is a tax incentive awardee.

	Acquirer	Awardee Acquired	Revised Agreement
Base headcount on date of acquisition	100	20	120
New FTE Hires	N.A.	10	10
Total Projected	100	30	130

**Scenario 4:** A company that is not operating in Massachusetts (i.e., is not a tax filer in Massachusetts) acquires a Massachusetts company that is a tax incentive awardee. The acquired company is allowed to operate as an independent operating company.

	Acquirer	Awardee Acquired	Revised Agreement
Base headcount on date of acquisition	N.A.	20	20
New FTE Hires	N.A.	10	10
Total Projected	N.A.	30	30

**Scenario 5:** A Massachusetts company that *has received* an MLSC tax incentive acquires an out-of-state life sciences company and transfers jobs from the acquired company into Massachusetts.

No revised agreement is needed.

**Scenario 6:** A Massachusetts company acquires a company within six (6) months *prior* to the measurement date of an MLSC tax incentive.

No revised agreement is needed. For compliance purposes, employees of the acquired company that were terminated and re-hired will not be included in the new FTE hires during the first year in which the company has committed to achieve its projected net increase in headcount.