

# CITY OF SANTA CLARITA

## California Enterprise Zone Credits, Work Opportunity/ Welfare-To-Work Tax Credits and Cost Segregation Workshop



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A Tax Credit and Incentives Company

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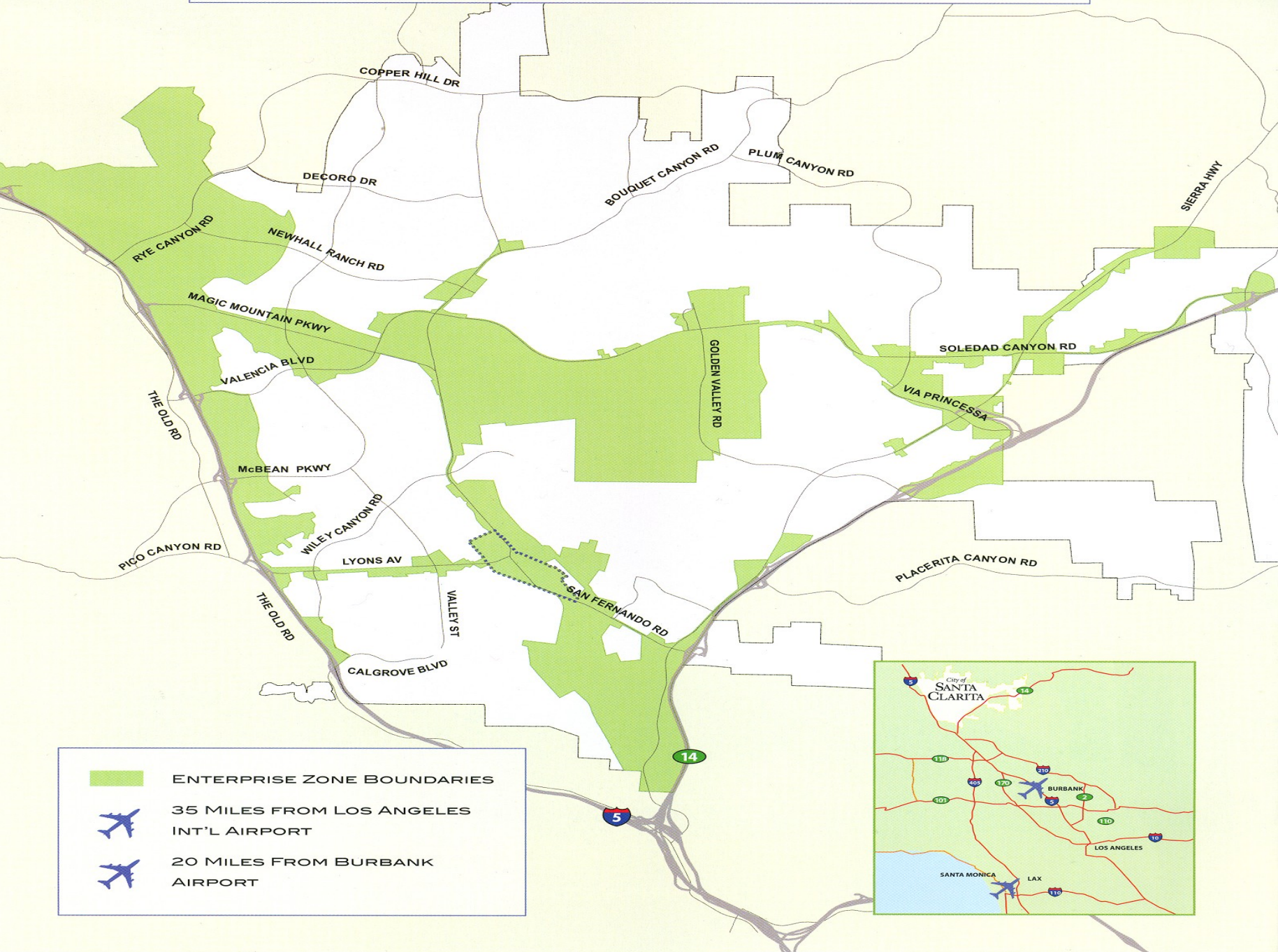
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# SANTA CLARITA ENTERPRISE ZONE BOUNDARIES



	ENTERPRISE ZONE BOUNDARIES
	35 MILES FROM LOS ANGELES INT'L AIRPORT
	20 MILES FROM BURBANK AIRPORT

# What is an Enterprise Zone?

- Enterprise Zones were created by the State of California to stimulate growth and economic development for businesses by providing them with tax credits and incentives
- There are 42 designated Enterprise Zones in the State of California

# Santa Clarita Enterprise Zone

- Enterprise Zone Designation Date is 7/1/2007
- Enterprise Zone Expiration Date is 6/30/2022 (15 years later)

# CA Enterprise Zone Credits/Incentives

- State income tax credits for hiring qualified employees
- State income tax credits for sales/use tax paid or incurred on qualifying property
- Business expense deduction for the cost of certain property
- Longer period for net operating loss carryovers
- Net interest deduction for lenders

# Enterprise Zone Credit For Hiring Qualified Employees

- Available to all businesses located in a California Enterprise Zone
- Allows a qualified business to reduce tax by a percentage of wages paid to one or more qualified employees over a 5 year period
- To qualify for the credit, the employee must work in the Enterprise Zone at least 50% of the time

# Enterprise Zone Credit For Hiring Qualified Employees

Over a 5-year period beginning July 1, 2007, up to \$37,050 can be claimed by an Enterprise Zone business as a tax credit per qualified individual hired

# Enterprise Zone Credit For Hiring Qualified Employees - Example

## Illustration of Maximum Credit Per Employee

Assumptions: employee works the entire year in an enterprise zone as a full-time employee and is paid at least minimum wage

Year 1 Credit (2007): \$ 5,850 ( $\$7.50 * 150\% * 1040 \text{ hours} * 50\%$ )

Year 2 Credit (2008): \$ 6,240 ( $\$8.00 * 150\% * 1040 \text{ hours} * 50\%$ )

\$ 4,992 ( $\$8.00 * 150\% * 1040 \text{ hours} * 40\%$ )

\$11,232

Year 3 Credit (2009): \$ 4,992 ( $\$8.00 * 150\% * 1040 \text{ hours} * 40\%$ )

\$ 3,744 ( $\$8.00 * 150\% * 1040 \text{ hours} * 30\%$ )

\$ 8,736

# Continued...

Year 4 Credit (2010): \$ 3,744 ( $\$8.00 * 150\% * 1040 \text{ hours} * 30\%$ )  
    \$ 2,496 ( $\$8.00 * 150\% * 1040 \text{ hours} * 20\%$ )  
    \$ 6,240

Year 5 Credit (2011): \$ 2,496 ( $\$8.00 * 150\% * 1040 \text{ hours} * 20\%$ )  
    \$ 1,248 ( $\$8.00 * 150\% * 1040 \text{ hours} * 10\%$ )  
    \$ 3,744

Year 6 Credit (2012): \$ 1,248 ( $\$8.00 * 150\% * 1040 \text{ hours} * 10\%$ )

Total Credit Years 1 - 6 = \$37,050

# Enterprise Zone Credit For Hiring Qualified Employees

*A qualified employee* is anyone who immediately, before starting work for an employer, qualified or was eligible for any of the following:

- A resident of a Targeted Employment Area (TEA), which is an area comprised of HUD eligible census tracts

# Continued...

- Enrolled or Eligible for CalWorks or Workforce Investment Act (WIA); other qualifications include individuals with disabilities, basic skill deficient, homeless, ex-offenders, on cash public assistance, dislocated workers, etc.
- A member of a targeted group as defined in the federal Work Opportunity Tax Credit (WOTC) or Native American Indian, Hawaiian/Samoan.
- Employees eligible for Federal Supplemental Security Income (SSI) benefits; aid to Families with Dependent Children (AFDC); food stamps; or state and local general assistance

# Some of Our Clients' Results:

- Large CA window/ door manufacturer - We generated approximately 3.7 million of additional Enterprise Zone Credits over a 6 year period.
- Large CA waste recycling Company - We generated approximately 2.6 million of Enterprise Zone Credits over a 5 year period.

# Continued...:

- CA correction/furlough facility - We generated approximately 1.2 million of Enterprise Zone Credits over a 4 year period.
- CA lumber company - We generated approximately 1 million of Enterprise Zone Credits over a 5 year period.

# Enterprise Zone Sales/Use Tax Credit

- Credit for 100% of the sales or use tax paid on the purchase of qualifying machinery, parts, and equipment, which is purchased for exclusive use in an Enterprise Zone
- Corporations are limited to the tax paid or incurred on the first \$20 million of purchases

# Enterprise Zone Sales/Use Tax Credit – Qualifying Property

- Manufacturing/Processing Equipment
- Equipment that produces Renewal Energy Resources or controls Air or Water Pollution
- Data processing and Communication Equipment, such as computers, computer-automated drafting systems, copy machines, telephone systems and fax machines
- Motion Picture Manufacturing Equipment central to production and postproduction

# Enterprise Zone Business Expense Deduction

- Depreciable tangible personal property may be deducted as a business expense in the first year it is placed in service for exclusive use in an Enterprise Zone
- Does not include office supplies, inventory, and other property not eligible for depreciation
- The maximum business expense deduction for all qualified property is 40% of the cost of the qualified property placed in service
- The deduction ranges \$20,000 - \$40,000 and is determined based on the tax year in retrospect to the designation date of the Enterprise Zone.

# Enterprise Zone Net Operating Loss Carryover

- May carry forward 100% of the net operating loss (NOL) generated from business activities in an Enterprise Zone
- The NOL may be carried forward 15 years

# Enterprise Zone Net Interest Deduction for Lenders

- A deduction from income is allowed on the amount of “net interest” earned on loans made to a trade or business located in an Enterprise Zone

# Federal Work Opportunity Tax Credit / Welfare-To-Work Credit

The Work Opportunity Tax Credit (WOTC) provides businesses with an incentive to hire individuals from groups that have a particularly high unemployment rate or other special employment needs.

The welfare-to-work credit provides businesses with an incentive to hire long-term family assistance recipients.

# Federal Work Opportunity Tax Credit / Welfare-To-Work Credit

To qualify for either of these Federal credits the qualifying documentation needs to be submitted to a state agency by the 28<sup>th</sup> calendar day after the individual begins work.

# Work Opportunity Tax Credit

This credit is used to claim the WOTC for qualified 1st-year wages paid by the business to or incurred for targeted-group employees during the tax year. The maximum credit is \$2,400 per qualified employee.

# Work Opportunity Tax Credit

- Qualified recipient of assistance under Temporary Assistance for Needy Families (TANF)
- Qualified veteran
- Qualified ex-felon
- High-risk youth
- Vocational rehabilitation referral
- Qualified summer youth employee
- Food stamp recipient
- Supplemental Security Income

# Welfare-To-Work Credit

This credit is 35% of qualified first-year wages and 50% of qualified second-year wages paid or incurred during the tax year.

The maximum credit for the 1<sup>st</sup> and 2<sup>nd</sup> year is \$3,500 and \$5,000 respectively.

# Welfare-To-Work Credit

A long-term family assistance recipient is an individual who has been certified by SESA as a member of a family that:

- has received assistance payments from Temporary Assistance for Needy Families (TANF) for at least 18 consecutive months ending on the hire date,
- receives assistance payments from TANF for any 18 months (whether or not consecutive) beginning after August 5, 1997, and is hired not more than 2 years after the end of the earliest 18-month period, or
- stops being eligible after August 5, 1997 for assistance payments because federal or state law limits the maximum period that assistance is payable, and is hired not more than 2 years after that eligibility for assistance ends.

# Cost Segregation Studies (CSS)

## What are they?

- Comprehensive analysis of hidden personal or tangible property for commercial/manufacturing-use buildings
- Analyze cost data including the contractor's application of payments (AIA), change orders, owner incurred costs, and indirect disbursements
- CSS is not a component study
- Analyze purchase price of property to segregate assets from the building cost
- Generally 15 – 50% of costs can be segregated to shorter lived assets
- Allows indirect costs to be allocated to various depreciable lives

# Why Have a Cost Segregation Study?

A Cost Segregation Study is important because the tax life of most commercial buildings is 39 years. The tax life on equipment and land improvements can vary from 5 to 15 years. With this large difference between the categories, it is important to classify each type of property to take advantage of the shortest tax life because as a taxpayer you pay less income tax during the early stages of property life.

# Cost Segregation Studies (CSS) Applies to What?

- New buildings under construction
- Existing buildings undergoing renovation or expansion
- Office leasehold improvements and “fit-outs”
- Purchase of existing properties
- All post – 1986 real estate construction, building acquisitions or improvements

# Questions and Answers