

# Santa Clarita Enterprise Zone Workshop June 23, 2010



**Presented by:**

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# What is an Enterprise Zone?

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- A geographic area designated by the State of California to stimulate business and industrial growth
- Businesses located in the Santa Clarita Enterprise Zone can receive significant tax savings on their State Income Tax

# What's in it for me and my business?

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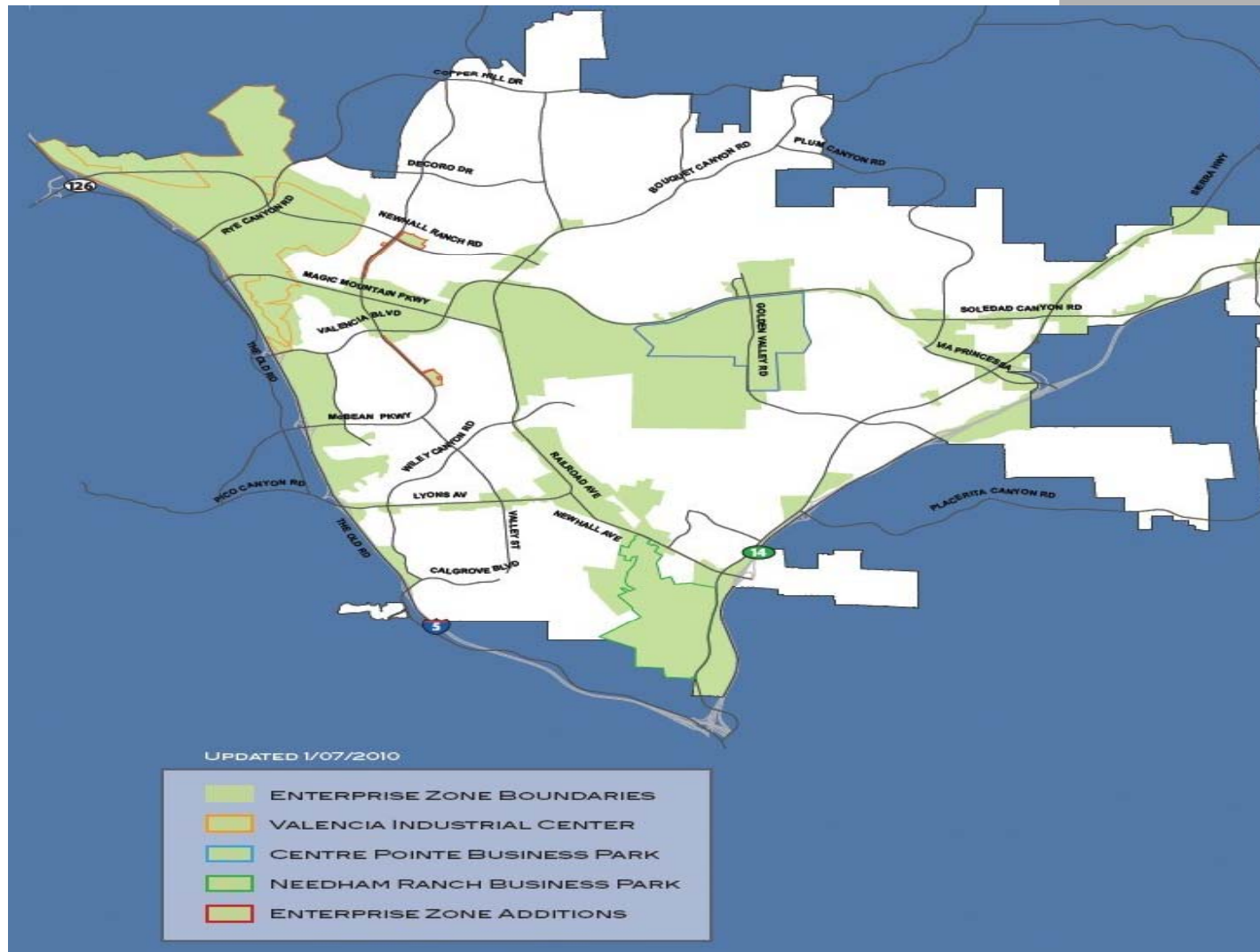
- Potentially eliminate 100% of your State Income Tax!
- Allow you to keep more of what you earn

# Santa Clarita Enterprise Zone Map

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- 97% of the industrial, commercial and retail zoned land in Santa Clarita is in the Enterprise Zone
- Effective January 7, 2010 the Enterprise Zone was expanded to include the local shopping centers of Bridgeport Marketplace, Baywood at Bridgeport, and Granary Square

# Enterprise Zone Map



# So my business is in the Zone, how can I start saving on my taxes today?

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- By hiring qualified employees (Hiring Tax Credit)
- By making qualified purchases (Sales and Use Tax or Business Expense Deduction)
- By providing loans to businesses in the Enterprise Zone
- By doing all of these things during the time period July 1, 2007 through June 30, 2022

# What are the Enterprise Zone Benefits?

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- Hiring Tax Credit
- Sales and Use Tax Credit
- Business Expense Deduction
- Net Interest Deduction for Lenders

# Entity Types

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- Available to all types of California taxpayers:  
C-Corp, S-Corp, LLC's, Partnerships
- To claim any deduction or credit, the taxpayer must attach Form FTB 3805Z to the California tax return

# Enterprise Zone Incentive Benefits

## *Hiring Credit*

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- Over \$37,000 in tax credits for just one qualified employee during their first 5 years of employment!
- Hiring Credits are also retroactive - tax returns must be amended to claim the credits
- Unused credits can be carried forward indefinitely as long as the business does not leave the Enterprise Zone

# Enterprise Zone Incentive Benefits

## *Hiring Credit (continued)*

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- Employees can be full time, part time, white/blue collar, seasonal, entry level or management
- There are 11 targeted groups of eligibility but 6 are the most popular

# Enterprise Zone Incentive Benefits

## *Hiring Credit (continued)*

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Prior to being hired, the employee must qualify under just one of the following:

- Resident of a Targeted Employment Area (TEA)
- Economically disadvantaged
- A qualified Military Veteran
- An ex-offender (misdemeanor or felony)

# Enterprise Zone Incentive Benefits

## *Hiring Credit (continued)*

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- A qualified displaced worker (laid off)
- An individual receiving public assistance (food stamps, welfare, etc.)
- WIA (Workforce Investment Act)
- Calworks
- WOTC (Work Opportunity Tax Credit)
- Disabled
- Native American Indian, Hawaiian, Samoan

# Enterprise Zone Incentive Benefits

## *Hiring Credit Misconceptions*

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- “We don’t hire anyone who qualifies”
- “We don’t hire entry level employees”
- “We’re not a manufacturer”
- “The employees don’t live in the Zone”

# Enterprise Zone Incentive Benefits

## *Hiring Credit (continued)*

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The credit is equal to a percentage of qualified wages paid to a qualified employee during a specified time period as shown below:

<u>Period of Employment</u>	<u>Credit on Wages Paid (%)</u>
First 12 months	50%
Second 12 months	40%
Third 12 months	30%
Fourth 12 months	20%
Fifth 12 months	10%
After 60 months	None

# Enterprise Zone Incentive Benefits

## *Hiring Credit* (example)

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The hiring of a full-time “qualified” employee at the cap of 150% of minimum wage (\$12.00/hr and assuming 2,080 hours in a year) would generate the following hiring credit amounts:

<u>Year</u>	<u>Credit Amount</u>
2009	\$12,480*
2010	\$ 9,984
2011	\$ 7,488
2012	\$ 4,992
2013	<u>\$ 2,496</u>
<b>Total</b>	<b>\$37,440</b>

$$*\$12.00 \times 2,080 \text{ hrs} = \$24,960 \times .50 = \$12,480$$

# Example of Hiring Tax Credit

## *Hiring Credit Example*

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### **C-Corporation with 50 employees**

- Company net income is \$285,000
- California corporate taxes on income at 8.84% = \$25,000
- Hires 5 employees and 2 qualify for the EZ program
- Estimated Hiring Tax Credits =  $\$12.00 \times 12 \text{ months} = \$25,000 \times 2 \text{ employees} = \$50,000 \times 50\% = \$25,000$
- **100% of taxes eliminated!**

# Enterprise Zone Incentive Benefits

## *Hiring Credit Example*

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### **S-Corp with 1 Shareholder and 30 employees**

- Shareholder salary \$100,000
- Shareholder taxes on salary at 9.3% = \$9,300
- Hires 4 employees and 1 qualifies for the EZ program
- Estimated Hiring Tax Credits = \$12.00 x 12 months = \$25,000 x 50% = \$12,500
  
- **100% of personal taxes eliminated and \$3,200 in credits carried forward!**

# What is the Enterprise Zone Sales and Use Tax Credit?

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- Taxpayers that purchase equipment placed in service exclusively in the Zone after July 1, 2007 may qualify for a CA sales tax credit
- Examples of property include machinery used to:
  - Manufacture, process, combine or otherwise fabricate a product
  - Produce renewable energy resources
  - Control air or water pollution

# What is the Enterprise Zone Sales and Use Tax Credit? *(continued)*

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- Additional examples of machinery include data handling or communications equipment:
  - Computers
  - Telephones
  - Fax machines
  - Software

# What is the Enterprise Zone Sales and Use Tax Credit? *(continued)*

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- Leased property may qualify if it's a “capital” lease (lease to own)

# What is the Enterprise Zone Business Expense Deduction?

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- Businesses within the Zone may elect to treat 40% of the cost of qualified property as a business expense (i.e., similar to payroll, materials, etc.) in the first year it is placed in service:
  - Qualified property is personal property acquired for exclusive use within the Zone

# Enterprise Zone Incentive Benefits

## *Net Interest Deduction for Lenders*

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- A deduction from income is allowed for the amount of net interest received from loans made to a business located in the Zone
- Applies to banks or individuals who lend money to an Enterprise Zone business as long as they have no equity or ownership interest in the entity

# Enterprise Zone Contacts

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# Enterprise Zone Resources

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- Useful California EZ Franchise Tax Board publications:
  - FTB 3805Z – Enterprise Zone deduction & Credits Summary
  - FTB 1126 - Frequently asked questions about Enterprise Zones
- For more information:
  - Franchise Tax Board @ [www.ftb.ca.gov](http://www.ftb.ca.gov)
  - Franchise Tax Board hot line @ 916-845-3464
  - California Association of Enterprise Zones @ [www.caez.org](http://www.caez.org)

# Santa Clarita Enterprise Zone

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Q & A?